

Provide incentives for sustainable practices ACROSS ALL INDUSTRIES

In conversation with Rizwan Dawood Shams, Managing Director, IPDC Finance



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TDS: IPDC has been recognised as a top performer in the 'Sustainability Rating 2023' by Bangladesh Bank. What are the most innovative and impactful sustainable financing products or strategies that contributed to this achievement?

Rizwan Dawood Shams (RDS): Being recognised as one of the top performers in the 'Sustainability Rating 2023' by Bangladesh Bank is undoubtedly an immense honour for IPDC Finance. While sustainability is at the heart of our core strategy, we took our efforts to the next level in 2023.

IPDC has invested heavily in building the capacity of its employees to become sustainability ambassadors, with relationship managers trained on green and other sustainable finance products and effective communication with customers. In sustainable financing, we focused particularly on green financing, including renewable energy, energy efficiency, and factory safety initiatives. In addition to bolstering our CMSME lending portfolio, IPDC has also supported women entrepreneurs with its specialised product 'Joyee,' offering loans at lower rates than the market average and holding workshops and training sessions on entrepreneurship.

We also enhanced our core banking resilience. Our focus has been on integrating

sustainable practices into everything we do—not as additional tasks but as a core part of our strategy. For the past ten years, we have maintained IPDC's NPL ratio below 5%, an achievement we take great pride in. In 2023, our capital adequacy ratio was over 18%, well above the regulatory requirement, which highlights our strong financial health.

Our commitment to diversity and gender equality is reflected not just in our business, but also in our workforce, with around one-fourth of our management and broader team comprising female colleagues.

IPDC has also undertaken several in-house green initiatives, such as transitioning to a digital credit approval system and memo management system. As a result, we managed to cut utility expenses by over 15% and printing expenses by over 20%, demonstrating our commitment to making sustainability a central part of everything we do.

TDS: What future plans does IPDC have to further enhance sustainability within the financial sector?

RDS: Sustainable financing is essential for nation-building and securing the future for the next generation. At IPDC Finance, we are committed to realigning our strategies to support national development and

empower the youth. One of our key objectives moving forward is to continue raising awareness among our customers, with a particular focus on CMSMEs. By helping them adopt more sustainable practices, we aim to contribute to economic growth and enhance economic resilience.

IPDC will continue to bolster its green financing portfolio. We are exploring new opportunities, including financing energy-efficient projects, green transportation, and green construction. We also intend to leverage digital technology for sustainable financial solutions, especially for underrepresented markets. IPDC remains supportive of women entrepreneurs as well. With our specialised product for women entrepreneurs, 'Joyee,' we not only provide financing options but also offer upskilling and business support to help them grow their ventures.

Our CSR initiatives will also continue to play an instrumental role. As a responsible corporate citizen, IPDC remains committed to undertaking projects with special attention to those addressing climate change. CSR has been a key element of our overall strategy, contributing significantly to the recognition we have achieved. For example,

in collaboration with a leading NGO, IPDC executed a rainwater harvesting project for climate-vulnerable communities, benefiting over a hundred people in 2023. These efforts have been immensely rewarding and have allowed us to make a meaningful impact in promoting sustainability.

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TDS: What forms of government support would be most effective in advancing the efforts in sustainable finance?

RDS: The government has already made significant strides in supporting sustainability, and we have seen its impact in the financial sector. In particular, Bangladesh Bank's commitment to sustainable finance has inspired IPDC to scale up its efforts and create meaningful change. To enhance our initiatives further, there are a few key areas where additional support would be invaluable.

Expanding the regulatory framework to provide incentives for sustainable practices across all industries could increase the drive for sustainable

projects throughout the economy, further accelerating our efforts. Introducing additional refinancing schemes and enhancing funding options would be extremely beneficial not just to financial intermediaries but also to end borrowers. Simplifying and optimizing approval processes would also expedite our overall progress, attract more investment, and open doors to partnerships, providing us with the resources needed to scale our efforts.

Moreover, increasing awareness and education around sustainable finance is critical. Government-led campaigns and educational programmes that promote the importance of sustainability in the financial sector would not only benefit institutions like ours but also empower the broader population to make informed financial decisions that support sustainable development. Educating the public and future leaders about the importance of sustainability can drive broader adoption.

Driving Green Growth

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According to Bangladesh Bank guidelines, annual targets are set and must be achieved quarterly. MTB has consistently surpassed these targets each quarter, demonstrating impressive performance in the Green Transformation Fund (GTF). Since 2014, the bank's portfolio in green refinancing has been substantial, covering projects like environmentally friendly brick manufacturing and LEED-certified buildings.

According to Bangladesh Bank, every bank must allocate 5 percent of its total financing to sustainable finance. "However, not all banks currently have the capacity to meet this 5 percent target, though all are making efforts. Some banks are capable of reaching 2 to 3 percent, while others can achieve 3 to 4 percent. Despite this, some banks are performing exceptionally well in this area," noted Mynul Hossain of Bank Asia.

The Sustainable Finance Program provides a sustainability rating for banks and has annually announced the ten best-performing banks and NBFs since 2020. The introduction of the green rating system four years ago has generated significant interest among banks to be included on this list. "While the percentage of green finance can be increased in the future, it is crucial that all banks become adequately equipped to meet these requirements. If the percentage is raised prematurely, without sufficient capacity, the funds may not be utilized effectively," mentioned Fakhru Abidin Milon of Dhaka Bank.

Bangladesh Bank offers several refinancing schemes, with the most popular being the Green Transformation Fund (GTF), available in three currencies: Euro, USD, and BDT. Other notable schemes include the Credit Guarantee Scheme (CGS) and a BDT 1,000 crore refinancing scheme for green projects or initiatives.

As per the Bangladesh Bank report, disbursements from the GTF totaled USD 140.94 million across 47 projects and Euro 71.21 million across 30 projects by FY22. By June 30, 2023, BDT 1,778 million had been disbursed to five clients of four banks from the local currency GTF fund.

"Following the Rana Plaza incident, we secured \$3 million from the World Bank and \$300 million from Bangladesh Bank for the GTF, plus an additional \$200 million

from our resources. This has led to impressive results, with over 200 LEED-certified platinum and gold-rated green factories established and another 500 in progress. Out of the world's top 20 platinum-rated green factories, 18 are now in Bangladesh," said Atiur Rahman.

"BRAC Bank is a Participating Financial Institution (PFI) in major refinancing schemes of Bangladesh Bank. These include refinancing schemes for green projects as well as schemes for SMEs and other marginalized communities. We have also secured various soft loans from Development Finance Institutions (DFIs). A significant portion of these funds supports green entrepreneurs, particularly those who are climate-vulnerable and marginalized. For example, we recently received grants from the Bill and Melinda Gates Foundation for women entrepreneurship and reducing gender gaps," said Md. Sabbir Hossain, Deputy Managing Director & Chief



Sustainability Officer at BRAC Bank.

In addition to the central bank, DFIs can play a pivotal role in providing low-cost green funds to commercial banks for financing green projects. At the end of FY23, Bangladesh Bank was running six refinance schemes from its own funds and six projects with assistance from JICA, AIB, and European development partners in the CMSME sector.

"There is significant potential if green refinancing provided by Bangladesh Bank or DFIs is increased. This would encourage other banks to invest more in these initiatives, as they can benefit from higher spreads compared to other types of financing. For example, under the Bangladesh Bank Green Refinancing Scheme, a bank might achieve a spread of around 4.5 percent, whereas it is challenging to achieve 2 to 3 percent with other forms of financing," said Fakhru

Abedin of Dhaka Bank. Increasing such financing, along with incentives like tax rebates, could further enhance these efforts.

Bank Asia has a credit line with IFC. "The BDT 1,000 crore Green Refinance Scheme by Bangladesh Bank has around 24 signatory banks, making them eligible to utilize these funds. While the fund is sufficient considering the current setup, the challenges lie in the rigorous processes and extensive paperwork required. To access this fund, potential borrowers must submit numerous documents, which need to be simplified," said Mynul Hossain of Bank Asia.

"Refinancing can be somewhat complex, requiring specific documentation that SMEs often find challenging to provide. However, within the SME sector, environmentally friendly initiatives like brick production, biogas, and solar mini grids are quite popular," said Sudip Saha of United Finance.

There is immense importance in ensuring the effective utilization of refinancing schemes. Narrowing down the categories of green products for the green refinance scheme could be beneficial; broader categories may include subcategories that would enhance the effectiveness of green finance, he further adds.

"When we finance a green project, the opportunity for refinancing is currently very limited if the project fails. We need to provide more support for these initiatives through refinancing," said Fakhru Abidin Milon of Dhaka Bank.

"Green products will not become profitable instantly; rather, they will yield returns in the long run. Since the banking sector typically invests in areas that appear more immediately profitable, all stakeholders must work together," said Lutfor Rahman, Founder & Executive Director of GreenTech Foundation Bangladesh.

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