



Sustainable finance strategies for OUR ECONOMIC FUTURE



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Bangladesh has grown consistently over a decade to reach close to half a trillion dollars in GDP and is expected to graduate to middle-income status by the end of the decade. However, despite improvements in GDP per capita, Bangladesh is experiencing increased inequality, climate change risks, a shaky financial sector riddled with non-performing assets, and inadequate infrastructure, whether in logistics, affordable housing, education, or health.

Unfortunately, traditional financing models have resulted in these critical sectors being underfunded, impeding sustainable and economic growth. To solve these problems, we all need to come together (read: more public-private partnerships) as an ecosystem. This is where innovative and sustainable finance (ISF) can expedite inclusive economic growth. When used correctly, ISF can unlock new sources of capital while aligning incentives with social and environmental impact. So, what are the ways ISF can actually work?

One way ISF can be leveraged is by providing catalytic capital to initiatives that do not have enough funding to take off. Essentially, this instrument creates a blend of different types of financing to de-risk investments for commercial capital. Let us now look at concrete examples of how this works.

CREDIT GUARANTEE AND/OR FIRST-LOSS CAPITAL

Investors and businesses may back out of initiatives that generate significant public good, such as those in education or health, due to higher risk profiles and longer payback periods. By providing a partial or full credit guarantee or covering first loss (i.e., if the project is unsuccessful, the principal invested will be covered), the riskiness of the venture

is reduced. Typically used by development banks, this instrument, when applied effectively, can unlock much-needed funding for healthcare services, clean energy, and climate infrastructure.

PERFORMANCE PAYMENTS AND OUTCOME-BASED FINANCING

Mission driven businesses generate measurable positive impact. Properly managed impact metrics can be utilised to access development capital. In this model, the investor—be it a development organisation, a corporate foundation, or an impact investor—and the investee (the mission driven business) agree on a set of target KPIs that demonstrate positive outcomes for a specific population. Based on achieving these KPIs, the business receives payments. This de-risks

- » Bangladesh's economic growth faces challenges like inequality and inadequate infrastructure, making innovative and sustainable finance (ISF) crucial for inclusive development.
- » ISF tools like credit guarantees, performance payments, and sustainability bonds can unlock capital and de-risk investments in critical sectors such as health, education, and clean energy.
- » To effectively leverage ISF, Bangladesh needs to implement multi-stakeholder collaborations, establish clear data transparency frameworks, and incentivise businesses with targeted mechanisms.
- » Despite its potential, ISF faces challenges related to complex design, governance, and measuring impact, requiring careful implementation and monitoring.
- » By using ISF strategically, Bangladesh can transition to a middle-income economy while ensuring that growth is sustainable and inclusive for all citizens.

investments for the business and ensures that payments from the development organisation are contingent on actual results—no cure, no money.



VISUAL: SHAIKH SULTANA JAHAN BADHON

in farmer income and productivity. This approach can be applied across various sectors, including agriculture, education, health, financial inclusion, and affordable housing. It can also be used to incentivise innovative solutions from startups by providing them with seed capital and de-risking investments for their investors to some extent.

SUSTAINABILITY BONDS

Sustainability bonds (SBs) come in many forms, such as orange bonds (popularised by IIJ, Singapore), green and climate bonds (linked to greening, circularity, and decarbonisation), and blue bonds (linked to ocean and biodiversity sustainability). These bonds attract capital from investors with the promise of impact (often tied to ESG and/or SDG goals) and a fixed return over a specified period. Unlike outcome-based financing, where the investor takes a risk on an individual venture, sustainability bonds benefit from diversification at the portfolio level.

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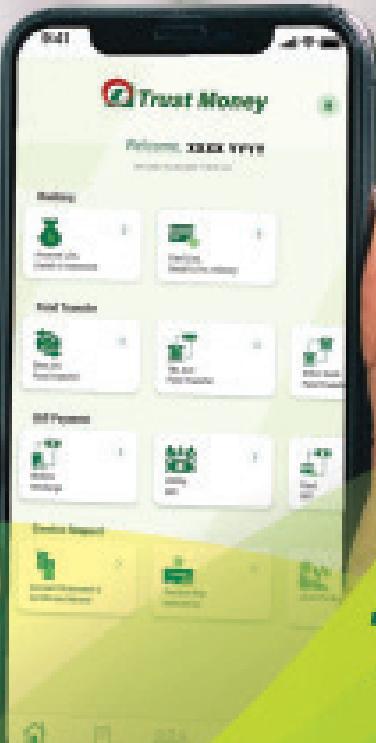
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