



**Bangladesh still suffers from inadequate infrastructure, whether in logistics or other areas.**

PHOTO: RAJIB RATHAN

## Sustainable finance strategies for our economic future

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benefit from diversification at the portfolio level.

These bonds can be issued by the government, giving them a sovereign-level credit rating, but they have also been used by financial institutions and development organisations. SBIs can fund critical services such as education, finance, health, and agriculture, as well as support the greening and decarbonisation of major manufacturing industries. In Bangladesh, the most immediate target would be the garments and textiles sector. Properly designed, SBIs can generate significant

social, environmental, and community  
benefits

However, ISF is not without its challenges. One major issue is the design complexity of such instruments and the resources required for compliance, reporting, and governance. For example, first-loss capital or credit guarantees require excellent forecasting models to predict default rates, and setting up governance systems can be costly. Similarly, while outcome-based financing ties funding to success, it also requires robust data collection and impact measurement, which can be expensive and difficult to implement. Sustainability

bonds have often faced scepticism due to “impact washing” and, in some cases, have not matched market returns given their risk profile.

## THE WAY FORWARD FOR ISF IN BANGLADESH

To fully leverage the benefits of innovative and sustainable finance in the short run, Bangladesh can take three key steps:

1) Develop incentive mechanisms such as tax breaks for businesses in specific sectors and/or risk-sharing mechanisms for sustainability bonds and catalytic capital.

2) Conduct pilot ISF projects in

critical sectors using a multi-stakeholder approach, involving investors, banks, financial institutions, startups, and both the private and public sectors.

3) Establish strong data transparency and measurement frameworks to attract the right innovators and investors, particularly for performance and outcome-based financing models.

When implemented correctly, ISF can help Bangladesh not only transition to a middle-income economy but, more importantly, become an inclusive middle-income country.

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