Transitioning to a green economy

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It is perhaps not the best time to discuss Bangladesh's growth story, which is definitely under severe pressure. The latest World Economic Outlook of the IMF projects that Bangladesh's economy may grow at 3.8 percent, the lowest rate in decades. Adding a green prefix may seem even more challenging. Green growth presupposes a huge investment in technologies that may not be forthcoming at this critical juncture for the economy. However, Bangladesh has a long legacy of green growth due to strong regulatory support for financing it. Budgetary support for adaptation and mitigation measures has also been remarkable, despite Bangladesh's perennial record of a low tax-to-GDP ratio. Following the Paris Climate Agreement, Bangladesh has been aligning its fiscal and monetary policies with the goals of sustainable development despite many resource constraints.

However, the global financial sector has been slow to respond to the downside risks of climate change, though it offers the potential to help bridge the financing gap for the adaptation and mitigation strategies needed by climate-vulnerable countries like Bangladesh. Although the recently concluded Conference of the Parties (COP) in Baku did not see the developed world pledge significant additional finance to developing countries, there was no indication of abandoning the deal—thanks to the diplomatic push by environmental activists.

The developed world promised to maintain the status quo with some marginal additions (not immediate) to the Loss and Damage Fund. Also, at COP29, global leaders agreed to fully operationalise the Fund starting this year. The total pledged fund currently stands at $730 million, which should be increased as climate change continues to create havoc in the developing world. A public policy push is also needed to create a pro-climate environment for private green finance and to attract investment from international financial institutions. In other words, the financial sector must prepare for a green future by enhancing the resilience of banks and financial institutions to both physical and transition risks. Simultaneously, governments must play a significant role in supporting green finance through incentives and adherence to market mechanisms.

Undoubtedly, financing green growth in Bangladesh is crucial, as investing in green growth offers a pathway to sustainable development, environmental preservation, and enhanced resilience against climate-induced adversities. Despite the lower growth prospects in the near future, Bangladesh cannot shy away from its focus on green finance. Green financing supports projects that reduce pollution, promote renewable energy, and encourage sustainable agricultural practices, thereby mitigating environmental degradation. For instance, the adoption of solar irrigation systems reduces reliance on diesel pumps,

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- Bangladesh's economic growth is under pressure, with the IMF projecting only 3.8 percent growth, making green investments even more challenging despite strong regulatory support.
- Global financial institutions have been slow to support climate-vulnerable countries like Bangladesh, though COP29 reaffirmed the Loss and Damage Fund.
- Green finance in Bangladesh has supported projects in renewable energy, sustainable agriculture, and climate-resilient infrastructure, strengthening economic resilience.
- The central bank's green financing initiatives, including refinancing schemes and sustainability guidelines, have facilitated eco-friendly investments but face challenges like low awareness and strict loan conditions.
- A structured roadmap with short-, medium-, and long-term goals is essential to sustain green growth, attract global investments, and integrate climate risk management into Bangladesh's financial system.

decreasing greenhouse gas emissions. Investments in green infrastructure, such as flood defences and climate-resilient housing, strengthen the country's ability to withstand natural disasters. This resilience is vital for protecting lives, livelihoods, and economic assets.

The private sector (both non-profit and for-profit) deserves credit for cultivating this culture of resilience in Bangladesh. Green growth also fosters the development of new industries, such as renewable energy and sustainable agriculture, green apparel industries (with 232 LEED-certified green factories, including 92 platinum-rated), and green housing complexes, creating employment opportunities and diversifying the economy. This diversification also reduces economic vulnerability to climate-related shocks.

Bangladesh has undoubtedly made significant strides in promoting green finance. The central bank's latest report indicates that during FY23, banks disbursed Tk 126.41 billion, and non-bank financial institutions (NBFIs) disbursed Tk 23.58 billion in green finance, accounting for 5.84 percent of total term loan disbursements. Additionally, the establishment of the Green Transformation Fund (GTF) has facilitated sustainable export growth as the nation transitions to a greener economy. Notably, this green financing continued even during a clear tightening of credit growth to address high inflation. Despite these efforts, challenges such as limited awareness, inadequate prioritisation of public investment, and weak inter-ministerial coordination persist. Addressing these challenges requires:

1) Implementing robust policies that incentivise green investments and ensure effective environmental governance.

2) Improving inter-ministerial coordination and fostering productive dialogue between the public and private sectors.

3) Investing in skills development to support new engines for green growth and ensure a just transition.

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