

A Sustainable Banking Network (SBN)  
Task Force Report

Addendum to the SBN Report  
*Necessary Ambition: How Low-Income  
Countries Are Adopting Sustainable Finance  
to Address Poverty, Climate Change, and  
Other Urgent Challenges*

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# Country Profile

## Bangladesh



Sustainable  
Banking  
Network



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# Bangladesh



**SBN Member:** Bangladesh Bank (BB) (member since 2012)

**SBN Working Groups:** Measurement Working Group, IDA\* Task Force, and Green Bond Working Group

## Key policy documents:

- Policy Guidelines for Green Banking (Bangladesh Bank, 2011)
- Guideline on Environmental and Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh (Bangladesh Bank, 2017)
- Guidance on Sustainability Reporting for Listed Companies (Dhaka Stock Exchange, 2019)

**SBN Progression Matrix Stage (2019):** Advancing – the country has adopted national sustainable finance policies, has implementation tools and initiatives in place, and requires reporting by financial institutions.

**SBN and IFC role:** IFC, through the Asia regional Environmental and Social Risk Management (ESRM) Program for financial institutions, has provided technical support and advisory services to BB in relation to policy development, implementation, and capacity building. Through SBN, BB has consistently shared its experience with other SBN members and benefited from the collective knowledge base. IFC estimates the country's climate-smart investment potential in selected sectors is nearly \$138 billion.<sup>1</sup>

## About this Country Profile:

This Country Profile is an addendum to the SBN report: *Necessary Ambition: How Low-Income Countries Are Adopting Sustainable Finance to Address Poverty, Climate Change, and Other Urgent Challenges*. The report and country profiles for the first time capture in a systematic way how sustainable finance is being harnessed by low-income countries to address a range of common environmental and social priorities and drive financial sector innovation despite market constraints.

The report and profiles complement and build on the data collection and analysis for the SBN 2019 Global Progress Report, which covered 39 emerging markets. They delve deeper into the experiences of 8 low-income countries in the SBN network through an online survey, interviews, and desk research.

This country profile has four sections:

- The **Drivers of Action** – factors that spurred the country to develop sustainable finance policies or voluntary principles.
- The country's **Experiences in Developing Sustainable Finance Frameworks** and what was learned in the process.
- **Future Priorities** for the country as it continues to develop its sustainable finance systems.
- How the country views linkages between sustainable finance policies and **Broader Development of its Financial System**.

\* IDA stands for the International Development Association ([ida.worldbank.org](http://ida.worldbank.org)), an international financial institution under the World Bank Group that offers concessional loans and grants to the world's poorest developing countries.

# 1 Drivers of action

## What factors spurred Bangladesh to develop sustainable finance policies?

**In Bangladesh, promotion of sustainable finance has been driven by national policymakers.**

Bangladesh Bank developed both the Policy Guidelines for Green Banking and the Guidelines on Environmental and Social Risk Management. This is reflected in Figure 1, which compares the important drivers of sustainable finance development in Bangladesh to

those of other IDA SBN member countries. As with other SBN banking regulator member countries, the policy environment in Bangladesh was an important driver. This is reflected by the inclusion of social factors into the Environmental Risk Management Guidelines in 2017 in response to national commitments to the Sustainable Development Goals (SDGs). In common with other countries with established sustainable finance systems, this process has been supported by national commitments to sustainable development and concern for environmental and social (E&S) challenges.

**Figure 1 National level policy environment, policymakers, and awareness of its E&S challenges have driven the development of sustainable finance frameworks in Bangladesh**

	High	Medium	Low	N/A
<b>Policy environment:</b> National commitments to the Sustainable Development Goals (SDGs), Paris Agreement on Climate Change, or a National Sustainable Development Policy	● ● ● ● ●		●	●
<b>Policymaker and/or regulator engagement:</b> National guidelines or regulatory requirements to better manage environmental and social (E&S) risks in the financial sector, improving financial stability	● ● ● ● ●	●	● ●	● ●
<b>Coordinated voluntary approach:</b> Initiative taken by local financial institutions to adopt international good practice in sustainable finance and level the playing field	● ● ● ● ●	●		● ● ●
<b>Market incentives:</b> Opportunity to increase competitiveness and resilience of the financial sector through innovation in green and socially inclusive finance	● ● ● ● ●	● ● ●	● ●	●
<b>Environmental and social challenges:</b> E&S risk exposure that foster participation of financial institutions to address the E&S risks at the country level	● ● ● ● ●	●	● ●	●
<b>Peer experience:</b> Demonstration effect of countries that have adopted a sustainable finance roadmap	● ● ● ● ●	● ● ●	●	● ●

Note: Large dots represent Bangladesh's responses; small dots represent those of other countries.

Source: SBN IDA Diagnostic Survey responses

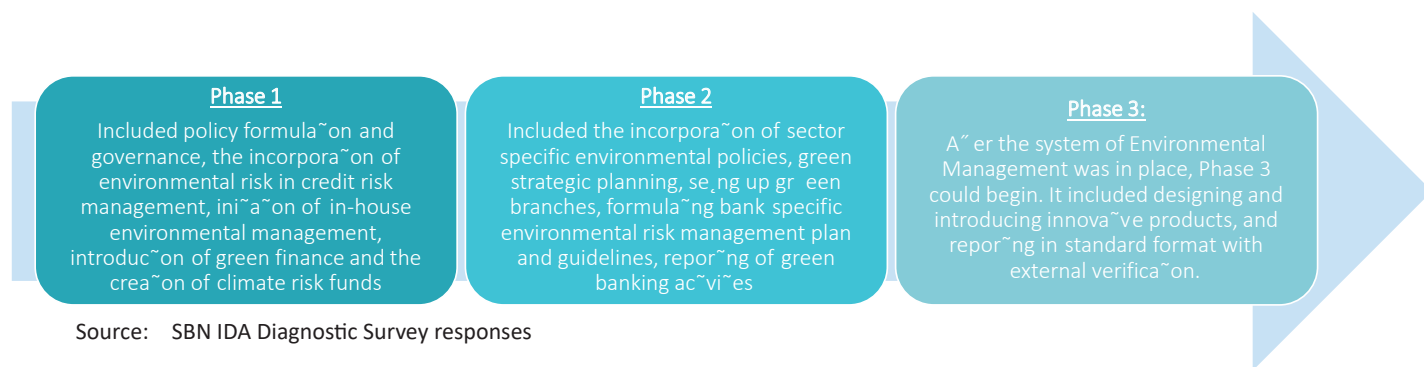
## 2 Developing a sustainable finance framework

### What process did Bangladesh go through to develop frameworks to promote sustainable finance, and what was learned along the way?

**Bangladesh began its journey toward sustainable banking in 2009 due to its vulnerability to climate change.** Bangladesh is densely populated, and sustainable development is critical for the country to continue its growth. Sustainable banking was seen as a pathway to support sustainable business and sustainable agriculture.

**Bangladesh Bank started by developing green banking guidelines for banks and financial institutions – with “green banking” at the time seen as focusing initially on management of environmental risks in financial sector transactions.** Policy Guidelines for Green Banking were published in 2011 and establish three phases of implementation, described in the figure below. These guidelines also set out a framework for banks to report their initiatives and/or activities on a quarterly basis to the central bank. Additionally, they set out the benefits of compliance for banks, such as points to be gained to improve the overall rating of the bank. In 2013, these guidelines were extended to all other financial institutions in Bangladesh, beyond banking.

**Figure 2 Summary of implementation phases of the Policy Guidelines for Green Banking**



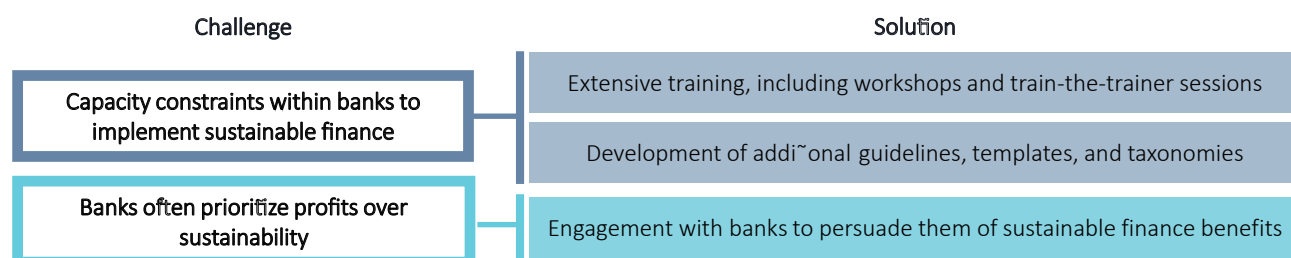
**Bangladesh Bank published the Environmental Risk Management (ERM) Guidelines in 2012, and these were upgraded and replaced in February 2017 to include social risk.** Directed at banks and financial institutions, the guidelines set out how to include ERM policies in existing credit risk management procedures, with the goal of improving the sustainability of the banking system. In 2017, new guidelines were written to include social risk and reflect the SDG commitments made by Bangladesh.

**In 2014, Bangladesh Bank set a minimum annual target for 5 percent of total loan disbursements and investments by banks and FIs to go to green businesses, projects, and sectors.** To assist allocations, Bangladesh Bank developed a list of green products and initiatives eligible for financing and provided clear parameters for financing green innovations. The result was a list of 52 products and initiatives across eight categories and a product innovation/development methodology to assess green finance initiatives.

**In 2018, Bangladesh Bank launched the Environmental and Social Due Diligence Risk Assessment Tool and the Green Banking Reporting template** to help FIs effectively implement and report their sustainable finance activities. Banks are required to report data using the template to Bangladesh Bank quarterly and disclose their green activities on their websites annually.

**Initially, Bangladesh Bank's challenge was a lack of understanding from the banks and a need for capacity building.** There was low awareness among banks about the links between environmental vulnerability and the credit risk of their portfolios. At the time, banks only used traditional metrics for credit risk. Climate change was also a new topic for most banks. Bangladesh Bank gradually built awareness by first focusing on discussions about environmental vulnerabilities, particularly in terms of the physical contexts for specific projects. Numerous trainings were conducted to get middle and higher-level management excited about the benefits of sustainable banking. Banks at the time also lacked environmental specialists, but training was offered to remedy this.

**Figure 3 The solutions Bangladesh found to address challenges in sustainable finance implementation**



Source: SBN IDA Diagnostic Survey responses

**The current challenge is making sustainability issues a priority.** The banking system in Bangladesh has faced difficulties in recent years, and this has led to sustainability taking a back seat to other issues. Bangladesh Bank is currently working to make sure sustainability is always important.

**Nevertheless, Bangladesh Bank has seen tangible improvements in banks' attitudes toward sustainability.** An estimated seven banks have developed their own Environmental and Social Risk Management (ESRM) guidelines, which sometimes go beyond the standards set by the central bank. Bangladesh Bank has also found that banks are starting to take the initiative in requesting support from them on this topic, which is a significant shift.

### 3 Future priorities

**What are Bangladesh's priorities as it continues to develop a sustainable financial system?**

**The next step is to create an overarching sustainable finance framework.** As described above,

Bangladesh has separate policies to cover multiple areas of sustainable finance – both risk management and business opportunity. An overarching framework will have a number of benefits, including assisting investors to see what is going on more clearly and identify ways they can participate.

**Bangladesh has also started to assess its potential for green bonds.** Bangladesh Bank, with the support of IFC, is looking into the potential, modalities, and procedures for rolling out green bonds in Bangladesh. In early 2020, IFC and Bangladesh Bank jointly published a report on market solutions and policy tools that could help to overcome current barriers to creating a national green bond market and help realize the country's climate-smart investment potential of \$172 billion by 2030.<sup>2</sup>

**Figure 4 compares Bangladesh's ongoing challenges in developing a sustainable finance system with those faced in other SBN IDA countries.** Similar to peer countries, there is significant focus on a supportive enabling environment and capacity building, as well as developing specific tools to support sustainable finance implementation.

**Figure 4 Ongoing challenges that might hinder the development and implementation of sustainable finance**

		High	Medium	Low	N/A
Enabling environment and capacity building	Build the capacity of regulators and financial institutions	● ● ● ● ●			
	Enhance cooperation among financial institutions	● ● ● ●	● ●		
	Provide clear incentives for sustainable finance	● ● ● ●	● ●		
	Develop and launch a sustainable finance roadmap	● ● ● ●	●		●
	Expand sustainable finance to other financial sectors	●	● ● ● ●	● ●	
Specific regulations or tools	Develop a taxonomy of green/socially inclusive projects	● ● ● ● ●	●		
	Promote public available environmental data	● ● ● ●	● ●		
	Create green asset guidelines, incentives, and awareness	● ● ● ●	● ●	●	

Note: Large dots represent Bangladesh's responses; small dots represent those of other countries.

Source: SBN IDA Diagnostic Survey responses

## 4 Broader financial sector development

### How does a sustainable financing system in Bangladesh connect with broader ambitions?

Stakeholders in Bangladesh are concerned about broad financial sector development, both with regard to cross-cutting and sector-specific issues.

Figure 5 compares Bangladesh's concerns related to financial sector development with other SBN IDA countries. Sustainable financing is the tool to achieve sustainable development. Both agriculture and small and medium enterprises (SMEs) need to become more sustainable, as this would enable banks to choose to finance them and create a virtuous cycle. Resource efficiency is critical in Bangladesh. If the country does not grow sustainably, it will be difficult to sustain its current standard of living.

Figure 5 Key areas of concern related to financial sector development for Bangladesh

		High	Medium	Low	N/A
Cross-cutting issues	Financial inclusion	• • • • •			
	FinTech/digital finance	• • • • •	•		
	Long term financing	• • • • •	• •	•	
	Environmental and social risk management	• • • • •	•		• •
Sectoral financial areas	Agricultural finance	• • • • •			
	SME finance	• • • • •	• •		
	Climate and green finance	• • • • •	• • •	•	
	Disaster risk finance, disaster/weather insurance	• • • • •	• • •	• •	•

Note: Large dots represent Bangladesh's responses, small dots represent those of other countries.

Source: SBN IDA Diagnostic Survey responses

“In the context of a circular economy, resource efficiency is key. Thus, sustainable finance has a larger role to play in poverty reduction.”

- Bangladesh Bank

<sup>1</sup> IFC. 2016. Climate Investment Opportunity Report.

<sup>2</sup> Bangladesh Bank & IFC. 2020. Green Bond Development in Bangladesh: A Market Landscape.

Access SBN knowledge resources at:  
[www.ifc.org/sbn](http://www.ifc.org/sbn)

Access the SBN Necessary Assessment Report  
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[www.ifc.org/sbnnecessaryambition](http://www.ifc.org/sbnnecessaryambition)



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