

INSIGHTS

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Green Finance in Bangladesh

Bangladesh, as a low-lying country located in the Ganges–Brahmaputra–Meghna Delta, is highly susceptible to climate change disasters, such as floods, drought, cyclones, salinity intrusion, sea-level rises, and other climate change related impacts. More than three-quarters of the country's land area are less than 10 meters above the sea level which, along with more than 700 rivers running throughout the country, make Bangladesh highly vulnerable to climate change related disasters and risks.

Moreover, in view of the large size of the population (more than 175 million in 2025) and very high population density (around 1,300 per square kilometer), the adverse consequences of climate change related disasters are enormous and are likely to steeply rise in future. Thus, several specific features including the country's geographical location, high climate change vulnerability, dense and rising population, and riverine landscape make a strong case for green finance in Bangladesh to support the country's transition to higher growth trajectory and promote inclusive and sustainable development.

In this context, an important development challenge for the country is to mainstream green finance in climate-resilient and adaptation programmes/projects including the renewable energy (RE) sector.



As such, in practice, green finance in Bangladesh involves financial mechanisms and innovative initiatives that promote climate-resilient and environment-friendly inclusive and sustainable programmes/projects, industries, infrastructures and other socioeconomic transformations. At present, it includes, for example, tools like the Green Transformation Fund (GTF) and green refinancing schemes, encouraging banks and financial institutions to support projects/programmes in areas like renewable energy, energy efficiency, and waste management and other climate change adaptation measures.

Status of Green Finance

Bangladesh Bank (the central bank) has undertaken several initiatives to promote green finance in Bangladesh. The Bank has launched a USD 200 million refinancing scheme known as the Green Transformation Fund (GTF) to support environmentally friendly initiatives in manufacturing industries covering all sectors. It also encourages green financing through concessional refinancing schemes, credit quotas for financial institutions, and guidelines for green banking, including the Green Bank Refinance Scheme. Banks and nonbank financial institutions (NBFIs) in Bangladesh are assessed by Bangladesh Bank on their sustainability practices, including green refinance, through a sustainability rating methodology.

The green banking policy of the Bank encourages banks to establish branches with renewable energy sources, such as solar power. Bangladesh Bank is also actively involved in promoting the development of a domestic green bond market, which could attract international and institutional investors. Furthermore, financing for the circular economy in Bangladesh is carried out under the broader category of sustainable finance. Bangladesh Bank supports sector-specific projects, such as the Technology Development Fund (TDF), to promote green technologies. Moreover, a significant portion of green finance is directed towards renewable energy and energy efficiency initiatives. Green finance also supports projects in solid and liquid waste management.

The expectation has been that such financing would help reduce climate change footprint by encouraging industries to adopt sustainable practices and reduce their environmental footprint. Further, such green projects can stimulate economic growth by creating new jobs and opportunities in the green sector. Green finance can also play a vital role in mitigating the impacts of climate change by promoting renewable energy and energy efficiency. Moreover, exporters in Bangladesh are incentivised to adopt green practices to attract international buyers (e.g. in RMGs) who prioritise sustainability.

However, despite having great potential of green finance in promoting climate resilient and environmentally sustainable economic growth and development, the progress so far has been slow and remains yet to be mainstreamed. For example, renewable energy sector still consists of a meager (around 1 per cent) share of the total energy portfolio.

The poor performance of the renewable energy and other sectors can be attributed to several factors, such as lack of adaptable and required technology, absence of well-performing regulatory and institutional framework, and absence of proper policies and incentives. Although the Bangladesh Bank has formulated green banking guidelines, the lack of capacities of banks and financial institutions, inadequate understanding of risks and returns

of green projects, and the underdeveloped equity and bond markets hamper the expected growth of green projects in Bangladesh. For instance, the Solar Home System (SHS) Programme of the Infrastructure Development Company Limited (IDCOL) had installed nearly 5 million SHS across the country and had been a good example of public-private partnership in green financing. But the Programme has run into huge loan default problem with the customers. Several reasons have been identified for the problem, such as uncoordinated grid electricity expansion, lack of coordination among respective agencies, failure of the Programme's successful commercialisation efforts, poor financial governance, and absence of a national level policy oversight body. The above indicates that successful efforts to green financing requires the creation of a facilitating environment covering a host of policy, institutional and related factors, such as capacity building of banks and financial institutions, development of bond and equity markets, creation of a well-coordinated policy oversight body, and mainstreaming of green finance into the relevant policy agenda.

It is now well-recognised that the transition to a green economy is closely linked to the development of sustainable green finance. In order to maintain sustainable growth and development, it is necessary to develop the principles of sustainable and green financing and mobilise necessary financing.

As such, the green finance market may also be termed as sustainable finance market. It is clear that green finance focuses on environmental issues, such as decarbonisation, and biodiversity loss. Essentially green finance includes activities that are grouped within socio-environmental financing, which directs financing towards social and environmental issues. It also includes an array of financing vehicles that channel capital into green-label projects as well as climate change mitigation or adaptation efforts. Furthermore, green finance gives services in increasing the long-term investment and usually provides higher returns to investors. In recent decades, green finance has been widely used in utility, logistic and transport, food and beverage, chemicals industries and many other sectors across many countries. The innovations in sustainable financial products, such as green bonds, sustainability-linked loans, and impact investment vehicles have played a key role in the rapid expansion of green finance. Furthermore, banks and financial institutions have developed novel instruments to attract new investors and expand the green finance market.

According to available projections, the global green finance market size is expected to reach USD 28.71 trillion by 2033, showing a compound annual growth rate of 21.25 per cent during the period 2023 to 2033. Bangladesh needs to work consistently to expand and deepen green financing and access the fast rising green finance market to ensure climate resilient and inclusive development of the country.

Presentation of Draft Report on 'Comprehensive Rural Finance Study'

InM is currently at the completion phase of a 3-year study on 'Comprehensive Rural Finance' which is supported by the Bangladesh Bank (central bank). The study has undertaken a comprehensive national household level field studies/surveys on the country's rural financial system (RFS) and collected representative sample data (both quantitative and qualitative) on both demand and supply side aspects of different financial products and services, such as savings, credit, payments, insurance, microfinance etc. from both formal and informal sectors of the rural economy. Specifically, the study collected primary data/information on cottage, micro, small and medium enterprises (CMSMEs), separately for rural micro entrepreneurs, women entrepreneurs and cluster based enterprises. Based on the survey outcomes, separate background reports and policy papers have been prepared by InM for Bangladesh Bank and other policy makers to guide future inclusive rural transformation to facilitate inclusive and sustainable development of the country. It may be mentioned that a total of 7,033 nationally representative sample data was collected under this study.

Bangladesh Bank recently hosted a workshop where the Institute for Inclusive Finance and Development (InM) presented the draft summary findings of the three-year study. This collaborative initiative aims to provide evidence-based insights and policy recommendations to strengthen the country's rural financial systems, towards supporting Bangladesh's goal of becoming a high-income country. The programme was held on 30 April 2025 at Bangladesh Bank, Head Office, Motijheel, Dhaka. Dr. Md. Habibur Rahman, Deputy Governor of Bangladesh Bank chaired the session while Dr. Md. Ezazul Islam, Executive Director (Research) of Bangladesh Bank facilitated the session. Panelists from MRA, BKB, PRI were also present in the session. Directors and representatives from relevant departments of Bangladesh Bank participated in the discussion meeting. Dr. Mustafa K. Mujeri, Executive Director of InM and Team Leader of the study, provided a brief summary of the policy issues identified in the draft report.



Coordination Meeting and ToT Session Held to Enhance Social Impact

On 6 February 2025, the Institute for Inclusive Finance and Development (InM), in collaboration with Water.org, successfully organised a Partner Coordination Meeting and high-impact Training of Trainers (ToT) session as part of the WaterCredit Adoption (WCAD) Scale-Up Programme. The event brought together key representatives from eight partner Microfinance Institutions (MFIs) at a daylong session held in Dhaka. The event marked a strategic milestone in the Programme's third year, focusing on intensifying impact and strengthening partner capacity to scale up access to improved sanitation and safe drinking water across Bangladesh.

A central highlight of the day was the ToT session, where approximately 40 senior and mid-level professionals from eight partner MFIs participated in an intensive, hands-on training. The session aimed to enhance institutional capacity and equip the key stakeholders with practical tools and strategies to effectively implement and scale up WaterCredit initiatives at the field level. By empowering these professionals, the Programme seeks to cascade knowledge across organisations and communities, ensuring a sustainable impact from WCAD.

Along with the ToT session, the coordination meeting offered an open platform for partner MFIs to present the current status of WCAD implementation, identify factors influencing performance and exchange actionable insights. Partners also outlined their long-term strategies for ensuring the sustainability and scalability of WaterCredit within their operations, reinforcing a shared commitment to inclusive and lasting impact.



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