Basic Principle:
Growth depends on financial sector development and sustainable development depends on growth. Development of financial sector & resource mobilization from them could be a catalyst to achieve the SDGs in Bangladesh.
This paper is a production of Research and Innovation Lab (RIL) at Royal Capital Limited.

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Acronyms

ESG  Environmental, Social and Corporate Governance
MFI  Micro Finance Institution
ICB  Investment Corporation
HBFC House Building Finance Corporation
PKSF Palli Karma Sahayak Foundation
ICB Investment Corporation of Bangladesh
FCB Foreign Commercial Banks
PCB Private Commercial Banks
DSE Dhaka Stock Exchange
FYP Five Year Plan
NSD National Savings Directorate
BB Bangladesh Bank
BBS Bangladesh Bureau of Statistics
MRA Microcredit Regulatory Authority
NGO Non-Government Organizations
SEC Securities Exchange Commission
CDBL Central Depository Bangladesh Limited
CSE Chittagong Stock Exchange
DSE Dhaka Stock Exchange
CDS Central Depository System
MDG Millennium Development Goals
TSE Tokyo Stock Exchange
SSE Sustainable Stock Exchange
DSESi Dhaka Stock Exchange Sustainability Index
AGM Annual General Meeting
BB Bangladesh Bank
CSR Corporate Social Responsibility
SCB State-owned Commercial Bank
PCB Private Commercial Bank
FCB Foreign Commercial Bank
DFI Development Financial Bank
MSE Micro & Small Enterprise
DIMBOM Dhaka Inter-MFI Borrowing Market
DIMBOR Dhaka Inter-MFI Borrowing Rate
This paper seeks to innovate financial models that drive investment towards sustainable activities. And also seeks to provide financing for development process with a perspective on the role of financial sector. Our banks, non-bank financial institutions, capital market and other semi-formal & informal financial sector can play a vital role to design and implement the goals of sustainable development. They can act as bridge to implement the terminology and investment approaches of sustainable development.

In this paper, we shall highlight some proposal from financial sector to drive out the goals of sustainable developments in the light of reality. And we want to inject fresh thinking, bringing in new ideas and players from outside the financial sector.
Progress of MDGs in Bangladesh, A tale of Triumph

Bangladesh has attained notable success in the Millennium development goals into its long term and mid-term development Plans and now reaping the benefits of it in different socio-economic arena. Remarkable progresses has achieved in the areas of poverty alleviation, ensuring food security, primary school enrolment, gender parity in primary and secondary level education, lowering the infant and under-five mortality rate and maternal mortality ratio, improving immunization coverage and reducing the incidence of communicable diseases.

Bangladesh being a densely populated country in the world have achieved this success by virtue of the keenness and championships of the political authority shown for MDGs, particularly from the highest level of the present Government. The international organizations have bestowed their special recognition by offering Awards to the Hon'ble Prime Minister of Bangladesh in fulfilling the targets of different goals of the MDGs. However, there are some areas which need greater attention are employment generation, increase in the presence of skilled health professionals at delivery, increase in forest coverage, coverage of Information and Communication Technology, increases in primary school completion and adult literacy rates, creation of decent wage employment for women, improved management of water & sanitation, ensuring sustainable modern energy for all, building sustainable industrialization & fostering innovation, action to combat with deforestation, ensuring sustainable use of marine resources, providing access to justice for all and strengthening global partnership for sustainable development. To turn all the targeted area in the light of success, financial assistance is must. Here, our financial sector can be a great contributor to make their development at sustainable level.
Goodbye MDGs, Hello SDGs

Global cast of development actors has set the development agenda for the next fifteen years. Rehearsals are already well under way and from what we can see of the Sustainable Development Goals, ambitions are immense. Eradicating poverty everywhere and building environmental sustainability into the fabric of development are the loftiest goals, but there will likely be a shift across the board away from narrow targets (say, for primary school enrolment) towards the bigger picture (delivering a quality education and life-long learning opportunities for all).

The Millennium Development Goals were accompanied by a consensus around development finance, much of which still resonates today. Domestic resource mobilization and international private capital flows were given starring roles. The traditional foreign aid also received top billing. But this time, material increase in traditional development assistance has given less importance. Everybody agrees the SDGs will require a major escalation of investment and this time main source of funding is expected to be the private sector.

Bangladesh as lower middle income country, keen to assert himself on the global stage and has many successful development programs of his own. Therefore, Bangladesh is much more confident and ambitious about SDGs. The experience of implementation of MDGs and lessons learnt from them will be helpful for the implementation of the Sustainable Development Goals.

Sustainable Development Goals

**Goal 1.** End poverty in all its forms everywhere
**Goal 2.** End hunger, achieve food security and improved nutrition and promote sustainable agriculture
**Goal 3.** Ensure healthy lives and promote well-being for all at all ages
**Goal 4.** Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
**Goal 5.** Achieve gender equality and empower all women and girls
**Goal 6.** Ensure availability and sustainable management of water and sanitation for all
**Goal 7.** Ensure access to affordable, reliable, sustainable and modern energy for all
**Goal 8.** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
**Goal 9.** Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
**Goal 10.** Reduce inequality within and among countries
**Goal 11.** Make cities and human settlements inclusive, safe, resilient and sustainable
**Goal 12.** Ensure sustainable consumption and production patterns
**Goal 13.** Take urgent action to combat climate change and its impacts*
**Goal 14.** Conserve and sustainably use the oceans, seas and marine resources for sustainable development
**Goal 15.** Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
**Goal 16.** Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
**Goal 17.** Strengthen the means of implementation and revitalize the global partnership for sustainable development
Role of Financial Sector for Sustainable Development Goals in Bangladesh

Financial sector is an effective instrument for the advancements of the goals of sustainable developments in Bangladesh. Accelerated financial growth has been suggested as a key development strategy for ensuring higher quality of life, improved quality of education and skills, faster poverty reduction & employment generation, transforming the economy into middle income status. Examples of such beliefs include the idea that aid and financial supports are important and necessary for the developing country Bangladesh that using public development finance to catalyse private finance is the key to achieve the SDGs. The key challenges of Bangladesh financial sector to support SDGs are lower investment and saving rates, lower quality of human resource, lower total factor productivity and emerging land constraint.

Growth depends on financial sector development and sustainable development depends on growth. Development of financial sector & resource mobilization from them could be a catalyst to achieve the SDGs such that the increased resource mobilization from bank, non-bank financial institution, semi-formal and informal sector are something that might precede development growth. In this study, we will make a relationship between financial sector and the goals of sustainable development.

Overview of Financial system of Bangladesh

The financial system of Bangladesh is comprised of three broad fragmented sectors:

1. Formal Sector
2. Semi-Formal Sector
3. Informal Sector

The sectors have been categorized in accordance with their degree of regulation.

The formal sector includes all regulated institutions like Banks, Non-Bank Financial Institutions (FIs), Insurance Companies, Capital Market Intermediaries like Brokerage Houses, Merchant Banks etc.; Micro Finance Institutions (MFIs).

The semi formal sector includes those institutions which are regulated otherwise but do not fall under the jurisdiction of Central Bank, Insurance Authority, Securities and Exchange Commission or any other enacted financial regulator. This sector is mainly represented by Specialized Financial Institutions like House Building Finance Corporation (HBFC), Palli Karma Sahayak Foundation (PKSF), Samabay Bank, Grameen Bank etc., Non Governmental Organizations (NGOs and discrete government programs.)

The informal sector includes private intermediaries which are completely unregulated.
Capital Market in the real economy are a major driver of growth. In last two decades, capital market of Bangladesh witnessed a number of institutional and regulatory advancements which have resulted diversified capital market intermediaries. At present, capital market institutions and intermediaries are of following types: Stock Exchanges, Stock Dealer/Sock Brokers, Merchant Bankers and Portfolio Managers, Asset Management Companies, Credit Rating Companies, Trustees/Custodians and the Investment Corporation of Bangladesh (ICB). The primary segment of capital market is operated through private and public offering of equity and bond instruments. The secondary segment of capital market is institutionalized by two stock exchanges—Dhaka Stock Exchange and Chittagong Stock Exchange. The instruments in these exchanges are equity securities (shares), debentures, corporate bonds and treasury bonds.

Sustainable development offers many exciting opportunities for private, public and philanthropic sectors to work together to reach mutually beneficial solutions. The capital market of Bangladesh could be an effective source to drive the steady state path of financing for sustainable development goals. Well governed and regulated capital market with effective policy measures would help to bring light of success in this respect.

Development of Capital Market

Although Bangladesh capital market came into existence in early 1950, for the next 40 years it failed to generate much activity. Market regulations and its governing structure were not up-to-date and the regulatory environment was very weak. This weak governance and institutional structure contributed to the formation of first speculative bubble and subsequent burst in 1996. The speculative bubble and burst episode hurt the stock market activity for a long time but led to some operational improvements such as: the Dhaka Stock Exchange (DSE) started trading on computers in August 1998; the Central Depository Bangladesh Limited (CDBL) was incorporated as a public limited company in August 2000 to operate and maintain the Central Depository System (CDS); the CDS was incorporated as an independent company in January 2004.

It has been observed that in recent years the capital market in Bangladesh has grown much faster than the other segments of the financial market. This growth in the capital market was initially (during 2007-2009) fueled by stronger economic fundamentals compared to valuation of stocks. Afterwards, speculative forces had taken various key market indicators like the market capitalization, price earnings ratio and market turnover to unprecedented levels. Table shows some selected indicators of capital
market developments referring to three choice of years, year 2007 representing the pre-bubble era, year 2010 representing the peak bubble year and finally 2014 showing the current year scenario. It can be observed that market capitalization and the DSE General price index increased dramatically in the peak year.

### Indicators of Capital Market Developments (DSE)

<table>
<thead>
<tr>
<th></th>
<th>FY 2007 (Pre-bubble year)</th>
<th>FY 2010 (Peak of the bubble)</th>
<th>FY 2014* (as of June 2014)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of listed securities</td>
<td>281</td>
<td>279</td>
<td>315</td>
</tr>
<tr>
<td>Issued equity and debt (BDT bn)</td>
<td>83.7</td>
<td>213.1</td>
<td>482.7</td>
</tr>
<tr>
<td>Market capitalization (bn Tk)</td>
<td>412.2</td>
<td>2277</td>
<td>2386.8</td>
</tr>
<tr>
<td>Turnover (bn Tk)</td>
<td>164.7</td>
<td>2714.3</td>
<td>1125.4</td>
</tr>
<tr>
<td>General Price Index</td>
<td>2149.3</td>
<td>6153.7</td>
<td>n/a</td>
</tr>
<tr>
<td>DSE Broad Index</td>
<td>n/a</td>
<td>n/a</td>
<td>4480</td>
</tr>
<tr>
<td>DSE -30 Index</td>
<td>n/a</td>
<td>n/a</td>
<td>1644.8</td>
</tr>
</tbody>
</table>

Source: Bangladesh Bank.

This development also negatively impacted on investments in other segments of the financial market i.e. money market and investment in NSD (National Savings Directorate) saving instruments by diverting funds from those markets. During the periods of boom in the stock market, the rates of interest on bank deposits and NSD (National Savings Directorate) saving instruments were fixed at levels below market expectations, which played an important role in diverting investment funds to the stock market. Diversion of investment funds to the capital market led to over-valuation of stocks and excessive growth in the market capitalization of the securities listed in both Dhaka and Chittagong stock exchanges. As expected, the stock price indices tumbled in 2011 with the bursting of the stock price bubble as the flow of funds to the stock market eventually dried up.

### Equity Markets & Sustainable Development Challenge

Stock exchanges have the opportunity to play an important role in the broader objective of refocusing the working of financial markets towards supporting sustainable development. Much of what needs to be done is beyond the purview of any individual actor within the capital markets, be it stock exchanges, capital market regulators, investors or companies. Concerted action and public policy coordination on many levels will be required.

In 2015, the United Nations member states are expected to adopt a set of Sustainable Development Goals (SDGs) intended to galvanise action worldwide to reduce poverty, promote food security, human health, education and climate change mitigation, and meet a range of other objectives across the economic, social and environmental pillars. The SDGs will have significant resource implications across the developed and developing world. UNCTAD, in World Investment Report 2014, estimates global investment needs for realisation of the SDGs on the order of $5 trillion to $7 trillion per year; estimates for developing countries alone range from $3.3 trillion to $4.5 trillion per year.

Private sector contributions to investment in sustainable development will be an indispensable part of the financing challenge and must be scaled up. But the structure and operation of Bangladesh economic and financial system does not adequately serve the needs of sustainable development. A range of price signals,
incentives, regulations, market failures and information asymmetries act as constraints to investment in sustainable development and systematically work against projects that could contribute positively to the SDGs. These constraints can be found both at the systemic level and at the level of individual actors in the system and their interactions. Achievement of the SDGs will thus require a fundamental reorientation of markets and policy at many levels, as well as changes in the behaviour and investment strategies of a wide range of institutions.

**Directing investment to the SDGs through investment chain**

Mobilisation of capital for sustainable business and development can occur in the context of the flow of funds through our financial system. Its participants allocate capital between ultimate sources (broadly, governments, household savings, and corporate earnings) and the end-users of capital which invest directly in projects in SDG sectors.

**Table : Directing investment to the SDGs (The investment chain and key actors involved)**

<table>
<thead>
<tr>
<th>Principal Institutions</th>
<th>Sources of Capital</th>
<th>Assets pools (or primary intermediaries)</th>
<th>Markets</th>
<th>Users of capital for SDG investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>-- Governments</td>
<td>-- Households/individuals, e.g.:</td>
<td>-- Banks</td>
<td>-- Equity</td>
<td>Governments</td>
</tr>
<tr>
<td>-- Retail investors</td>
<td>-- High-net-worth individuals</td>
<td>-- Pension funds</td>
<td>-- Corporate debt</td>
<td>National &amp; International Organizations/Development Banks...</td>
</tr>
<tr>
<td>-- Pensions</td>
<td>-- Insurance premia</td>
<td>-- Insurance companies</td>
<td>-- Sovereign debt</td>
<td>- Public and semi-public institutions</td>
</tr>
<tr>
<td>-- Firms</td>
<td>(e.g. reserves/retained earnings)</td>
<td>-- Mutual funds</td>
<td>-- Other markets/financial instruments</td>
<td>- Multinational and local firms/entrepreneurs</td>
</tr>
<tr>
<td>-- Philanthropic institutions or foundations</td>
<td>-- Sovereign wealth funds</td>
<td>-- Hedge funds</td>
<td>-- NGOs</td>
<td>-- Impact investors</td>
</tr>
<tr>
<td>-- Other institutions with capital reserves (e.g. universities)</td>
<td>-- Endowment funds</td>
<td>-- Private equity</td>
<td>-- Impact investors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-- Private equity</td>
<td>-- Venture capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-- Impact investors</td>
<td>-- Impact investors</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Intermediaries        | -- banks and brokerage firms | -- Institutional asset managers |         |                                   |
| Advisors              | -- Financial advisors       | -- Rating agencies                |         |                                   |
|                       | -- Wealth managers          |                                         |         |                                   |
|                       | -- Investment consultants   |                                         |         |                                   |
The salient feature of this chain is that each link involves institutions and individuals who face regulations and incentives that shape investment decisions and in the context of sustainable development, determine whether their choices contribute to or hinder attainment of improved ESG performance, sustainable business and ultimately, the attainment of the SDGs. Policy interventions can thus target specific links in the chain and/or specific types of institutions to ensure that financial markets are better geared towards sustainable outcomes than is currently the case.

Most household, corporate and government savings are channelled to end-users via financial intermediaries, such as banks, asset managers, pension funds, insurance companies and sovereign wealth funds. The role of these institutions in the allocation of capital to end-users is therefore of paramount importance. Institutional asset managers play a critical role because they offer an intermediary function (as well as advice) not only directly to households, firms and governments, but also to other financial intermediaries, notably pension funds and insurance companies. Sources of capital and financial intermediaries rely on guidance from a variety of external advisors in determining investment decisions and how capital is allocated. Stock exchanges play a crucial role in this investment chain. They offer a means for companies to access the widest possible pool of investors. They provide transparent, regulated and liquid markets for those investors to buy and sell shares in tens of thousands of the world’s largest companies. As organisations, stock exchanges are sensitive to the needs of both the companies who typically pay to list on their bourses and to the investors who pay to trade on them. They also fulfil (to varying degrees in different jurisdictions) a vital regulatory and supervisory role. In order to list on an exchange, companies are required (either by the exchange, securities commission or other government body) to meet certain levels of disclosure and standards of governance. These listing requirements offer an opportunity to scale up practices that are in the interest of investors as well as public policy more generally.

Criteria of Capital market: Strategies to Achieve Sustainable Development Goals

One of the key questions arising as Bangladesh’s government embark on sustainable development goals is how to finance these 17 goals & 170 targets. Stock exchanges have an important role to play to enable innovative financing mechanisms and promote a reorientation of financial markets.

Support sustainability-related indices, bonds and other products
Different financial products can mobilize capital for various thematic areas that fall under the SDGs. For example, by creating a green bond listing, exchanges not only mobilize finance, they also provide opportunity for the growth of the sustainable bond market by setting the regulations and standards for these products in the markets they serve.

Gender Equality
SEC can make a collaborative initiative with DSE and CSE to support the empowerment of women in the workplace, marketplace and community. They can promote gender diversity on the boards and management of listed companies by incorporating gender equality and the empowerment of women into your guidance, training and events. It to be noted that DSE & CSE have already introduced the accessibility of capital market services for female entrepreneurs.

Tax Concession to Promote Sustainability
Taxes for financial and non-bank financial institutions should be structured in such way that it could increase the activities which has a direct link to the generation of natural, social and human capital. Govt. can introduce tax concession package for those listed company in the secondary market who are in the
category of infant industry and could **promote inclusive & sustainable economic growth**. This would improve the financial reporting quality of the listed company along with decrement of the bad practice of tax avoidance.

**Carbon Markets and Community Development**

Although not directly related to sustainable listing requirements, Dhaka & Chittagong Stock exchange can take a supportive initiative for the development of carbon trading markets and can see the sign of their commitment to sustainability issues. Even though not yet enacted in law, stock exchanges can prepare for possible emissions trading schemes. For example, the Tokyo Stock Exchange (TSE) set up the TSE Carbon Market Study Group with to examine practical issues required to establish a carbon market exchange. As previously noted, together with the Tokyo Commodity Exchange, it created a joint company to prepare for the establishment of an emissions trading exchange. Similarly, several stock exchanges engage in community outreach activities or public-private partnerships to foster greater development. Another example is ‘**Contribution to National Education Project**’ adopted and financed by the Istanbul Stock Exchange (ISE). The initial fund, which reached US$1 billion, was managed by the ISE and used to construct 376 schools, offering over 200,000 students modern, high quality educational facilities.

**Introduction of Green Investment**

Green investments are those that derive all or most of their revenues and profits from green activities. Green investments can also be made in companies that have other lines of business but are focusing on green-based initiatives or product lines. Green investing can be accomplished through individual securities or through pooled investment vehicles such as mutual funds or exchange-traded funds. This style of investing is an offshoot of socially conscious investing, but neither type of investing implies investments that are safer than a market index.

**Green Bonds – The investor perspective**

Green bonds are an accessible and relatively low-risk way that investors can invest in environmental themes. Investments in green bonds are attractive to institutional investors because they have similar characteristics to other bonds while guaranteeing that the use of proceeds contributes to environmental projects. Green bonds allow the investors to have a positive impact at a return that fully compensates for the risk. Green bonds would also help the market to grow and become more liquid.

**Encourage long-term, sustainable investments**

Providing resources and enhancing listing rules to strengthen corporate sustainability reporting could help promote long term responsible investment in sustainable business practices.

**Climate Change: Institutional Capacity Building on climate change mitigation, adaptation, impact reduction and early warning**

Dhaka Stock Exchange can play a leading role in creating climate resilient markets. Numerous exchanges in the world are already offering related financial products as well as encouraging or requiring disclosure in this area. **DSE can create and promote financial products** that stimulate awareness or mobilize finance towards ‘green growth’ sectors. **Provide guidance and training** to both companies and investors on climate-related disclosure initiatives. Our Govt. should support national and international policies to maximize benefits and minimize risks related to low-carbon investment.
Global Partnerships
Exchanges have always played a key role in bringing stakeholders together and now more than ever they will be pivotal players in achieving global efforts. DSE & CSE can involve with work of the Sustainable Stock Exchange (SSE) Initiative to make a global partnership. They can enhance the dialogue by joining the SSE as a Partner Exchange participating in the SSE global & regional dialogues and engaging in relevant SSE work streams.

Co-investment by the public sector shares risk.
Capital market is a place of risk diversification. Here, the public and private sector can contribute to meet the targets of SDGs in appropriate ways. Government-backed investment vehicles are existing in Bangladesh can support the early stage deployment of new technologies and to promote investment in riskier markets where activities might reduce poverty. Private-sector investors can actively engage with and invest alongside these vehicles. Development banks could serve to share downside risk with the private sector. Public financial institutions should also be designed to share in the upside when investments earn strong returns.

Example: Green Bonds – The corporate perspective
In March 2014, Unilever issued a green sustainability bond to support its efforts to reduce waste, improve water use and to reduce greenhouse-gas emissions. Unilever developed a Green Sustainability Bond framework, providing clarity and transparency regarding the use of proceeds with clearly defined criteria on greenhouse-gas emissions, water use and waste disposal for the projects selected and a yearly reporting structure. By providing a transparent framework and full traceability of the funds, Unilever was able to generate growing demand for sustainability investment options and finance projects that deliver a positive environmental benefit while advancing the group’s long-term business goals.

Tax incentives for investments aligned with the vision or a sustainable economy
Govt. should offer tax incentives if the available investments in capital market are aligned with the vision for a sustainable economy. This approach was initiated in the UK in 2013, when the £22 billion spent on fiscal incentives for pensions became dependent on investments meeting sustainability criteria.

Proper Valuation of Natural, human and social capital
In Bangladesh, Companies encountered many early difficulties in reporting relevant data on the ways they are dependent on human, social and natural capital and their impacts on these. But this reporting has become increasingly sophisticated in the past 30 years. There needs to build a strong relationship between company reporting, scientific evidence and government incentive structures so that this information feeds quickly through to proper financial valuations of natural, human and social capital.

Companies report strategically on long-term sustainability challenges
For many years now, investors have required companies to report on their long-term strategies and how these address sustainability issues. This would help to improve companies’ governance of corporate sustainability, making them more stable and less exposed to external shocks. This would result in better risk management with more detailed consideration of exogenous risks in the system via scenario planning – particularly around how sustainability issues impact companies.
This thinking by companies would also help long term investors to integrate sustainability into their portfolio investment decisions. Investor integration of the data into valuation would help to drive down the cost of capital of more sustainable companies and drive up the cost of capital of unsustainable companies.

**Financial products are in place to support sustainable business models**

Businesses find it easy to obtain finance for activities where the business model relates to the sale of a service rather than a product. This reflects the firm establishment of an economy where this type of business model is a big part of many sectors. Banks & non-bank financial institutions can focus on knowing their customers. They can offer specialist advice to them on how their businesses can grow and develop in line with the sustainable economy.

**Sustainable financial institutions should be clearly defined and customers actively benchmark performance**

Individuals identify closely with the institutions that provide them with financial services and want to be associated with brands that enhance their image. Customers’ selection of financial service providers can be helped by a clear and widely agreed vision of what sustainable financial institutions of various kinds should look like and by a high level of transparency. After that, people’s expectations of returns would be at a level that can be reasonably sustained over the long term.

**Investments in ecosystems services are a part of portfolios**

Financial institutions, banks and insurance companies are investing in long-term assets, with a much greater focus on long-term, stable instruments such as treasury bonds, corporate bonds. Investments in ecosystem services can be an important element of all institutional investor portfolios. This can be developed as a way of reducing risk to the rest of the portfolios. In addition, investments in ecosystem services can take place through the balance sheets of companies that are dependent on those services and are investing to reduce their risk or liabilities.

**Financial institutions ‘stress test’ their portfolios & use shadow pricing to show true values**

Financial institutions should have internal processes to ensure that their activities are aligned with a sustainable future. Valuation of investments can take full account of impacts on society and the environment and scenario planning can be used to create and test ‘living wills’. Although, the monetary value of a company’s assets and liabilities does not reflect its real value (e.g. because social or environmental impacts are undervalued), investors highlight this through a provision in their accounts. This **shadow pricing** technique first came into mainstream use in 2012. A collaborative group of investors used data from the Carbon Disclosure Project to indicate how their portfolios would be affected if the companies they invested in were accounting for carbon at a price that reflected its environmental cost.

**Fund manager mandates should be awarded on the strength of expertise in social and environmental issues**

Capital allocation by banks and insurance companies is aligned with long-term sustainability. A part of investment mandates provided by banks & insurance companies to fund managers require that social and environmental issues (Such as: Action to achieve food security, end of poverty, to reduce inequality, to combat climate etc.) should be managed as part of fiduciary duty. There should be an independent
process for ranking fund managers on their performance in taking social and environmental issues into account in their investment decisions.

**Practice to promote corporate sustainability reporting**

Stock exchanges provide a central point for the interaction between investors, companies, policymakers and regulators. Exchanges have traditionally played a crucial role in building transparent, regulated markets and promoting best practices in financial and corporate governance disclosure among listed companies. Today, exchanges are also well suited to help with the 21st century sustainable development challenge. They are uniquely placed to facilitate action as regards sustainable business, with a variety of measures at their disposal. These include listing requirements related to sustainability reporting, voluntary initiatives, guidance documents and training for both companies and investors, and sustainable investment products such as indexes that focus on ESG issues.

In virtually all markets, however, exchanges maintain significant ‘soft-power’ in terms of their ability to influence market participants through voluntary schemes. Exchanges have a number of motivating factors for the promotion of sustainability reporting initiatives.

That key motivations included:

- To improve the environmental, social and corporate governance (ESG) performance of companies listed on stock exchange.
- To encourage and to help investors engage with companies on sustainability issues.
- To identify themselves in the marketplace as committed to sustainability.
- To foster improved company performance, with the aim of promoting the sustainable long-term viability of companies and the market and stock exchanges themselves and to that end an interest in the latest research that explores links between long-term financial performance and ESG issues.

**The reporting loop: connecting reporting, ratings, integration and capacity building**

- **Reporting**
  - Standards development and harmonization (regulators)
  - Requirements and incentives (policymakers)

- **Ratings**
  - Methodology development
  - Compilation and dissemination
  - Trends analysis

- **Integration**
  - Portfolio investors: asset allocation and proxy voting
  - Governments: incentives and sanctions
  - Companies: pay incentives and management systems
  - Media: name and shame
  - Civil society: engagement and dialogue

- **Capacity Building**
  - Implement best practices in sustainability reporting
  - Adopt sustainable development management systems
SUSTAINABLE STOCK EXCHANGES:

Stock exchanges provide transparent and regulated securities markets and are important institutions for promoting economic stability and for channeling domestic and foreign capital towards productive enterprises. The Sustainable Stock Exchanges (SSE) initiative is a peer-to-peer learning platform for exploring how exchanges can work together with investors, regulators and companies to enhance corporate transparency, to accelerate performance in terms of environmental, social and corporate governance issues and to encourage responsible, long-term approaches to investment. Our stock exchange authorities and regulators could introduce initiatives to help the listed companies to meet the evolving information needs of investors, to navigate the increasingly complex disclosure requirements and expectations, to manage sustainability performance and to understand and address social and environmental risks and opportunities.

EXTERNAL ISSUES AND INITIATIVES

Stock exchanges should not just work directly with listed companies to improve sustainability practices. They should influence other stakeholders to raise Environmental, Social And Governance (ESG) awareness, as depicted in Figure below.

Figure: The Potential Role of Stock Exchanges with Different Stakeholders
Together, these stakeholders impact whether and how an exchange can influence enhanced ESG corporate practices. Governments can pass financial legislation, the public can demand greater consumer protection and so on. However, one of an exchange’s most pressing needs is to understand the business case for adopting long-term sustainability practices. To do so, it must consider the behavior of the market itself in communicating the value of long-term ESG initiatives.

**Dhaka Stock Exchange Sustainability Index (DSESI)**

More than 30 high-level leaders of business and government of the world vocally asserted that from sustainability reporting and mobilizing finance to gender equality and global partnerships, stock exchanges have an important role to play in promoting corporate practices and facilitating investment that will advance the SDGs.

Currently the stock market of Bangladesh comprises of two stock exchange companies—Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). These two stock exchanges are regulated by the Securities and Exchange Commission (SEC). The capital market of Bangladesh is gradually improving due to stronger economic fundamentals of the listed companies, various measures by its regulator SEC and opportunity of gaining more returns from holding stocks. Both market capitalization of all shares listed in DSE and its share in total assets of the financial sector are also increasing remarkably after the massive market crash of 2011.

If stock exchanges in Bangladesh can provide transparent and regulated securities markets, then it would promote economic stability and could channel domestic and foreign capital towards productive enterprises. Through listing rules, indices and a range of voluntary and mandatory mechanisms, stock exchanges can play an important role in promoting improved sustainability reporting and performance among listed companies. In that perspective, **Dhaka Stock Exchange could launch a sustainability index (DSESI) to promote sustainable business practices amongst our listed companies.** DSESI can help to mobilize sustainability finance by supporting the development of indices based on the sustainability performance of companies, as well as other financial products that direct investment to companies that are contributing to sustainable development. DSESI could be a platform to explore how we can help to mobilize finance in order to support the SDGs in the coming years. Undoubtedly, sustainable development is very important to our country’s economic growth and initiative of DSESI as a partnerships with capital market actors will definitely encourage the implementation of the SDGs. By setting up DSESI, the DSE can also take a leading role in creating a more sustainable capital market.

**Criteria**

-DSESI should have an integrated approach and take four key pillars of sustainability (economic, environmental, social and corporate governance) into consideration.

What we do today will shape our future; if we mean survival then we must plan sustainably and collectively, hopefully with no excuses from anyone. DSESI could be an initiative to drive the dynamism on sustainability planning and could be a platform to explore how we can help to mobilize finance for promoting and supporting SDGs in the coming years.
The DSESI criteria of eligibility should be aligned with international ESG (environmental, social and corporate governance) and related sustainability issues, while also taking local imperatives into account.

- The criteria should be intended to be up-to-date and developed over time, with the aim of encouraging constant improvement in sustainability performance.

Creating value for investors

- Helping investors make better informed investment decisions.
- DSESI constituents should be screened against established ESG criteria.
- There should be a potential share price premium for companies meeting the minimum criteria to be included in DSESI.
- DSESI comprises diversity in sectors of activity and market capitalisation.
- DSESI provides an incentive for higher quality reporting and disclosure.
- DSESI may be used to develop new investment products.

Creating value for listed companies

- Incentivising investors.
- Reputational benefits.
- Promoting stakeholder engagement and inclusiveness.
- Expanding their business horizons and working towards long-term viability and resilience.
- Benchmarking against international standards and peers.
- The assessment methodology of DSESI will provide guidelines for companies on what to measure and where to improve. This can help companies understand and manage their social and environmental risks and opportunities.

The Social Impact Bond Model

The social impact bond model could be a new approach for Bangladesh’s bond market on the way of achieving sustainable goals. It would provide new sources of financing in to achieve improved social outcomes such as: effort for reducing gender inequality, empowering women, ensuring healthy life, sustainable management of water and sanitation etc. Here, investors would provide external financing and only receive a return if pre-agreed outcomes are achieved. Funds to remunerate investors come from donors, the budget of the host country, or a combination of the two. Financial returns to investors are intended to be commensurate with the level of success.

This approach combines performance-based payments and market discipline. It would have the potential to improve results, overcome barriers to social innovation and encourage investments in cost-saving preventative services. It can be done by ensuring that public funding goes only to those interventions that are clearly demonstrating their impact through rigorous outcome-based performance measures, transferring the risk of program failure to the private sector and providing an effective springboard from which state and local governments can determine which interventions work and then scale up successful innovations.

Under social impact bond model, the government contracts with a private sector intermediary to obtain social services. The government pays the intermediary entirely or almost entirely based upon achievement of performance targets. Performance should be rigorously measured by comparing the outcomes of individuals referred to the service provider relative to the outcomes of a comparison or control group that is not offered the services.
If the intermediary fails to achieve the minimum target, the government does not pay. Payments typically rise for performance that exceeds the minimum target, up to an agreed-upon maximum payment level. The intermediary obtains operating funds by raising capital from private commercial or philanthropic investors who provide upfront capital in exchange for a share of the government payments that become available if the performance targets are met. The intermediary uses these operating funds to contract with one or more service providers to deliver the interventions necessary to meet the performance targets.

Social Impact Bond Structure

This would be an attractive approach for Bangladesh Government because it shifts the risk of innovation from taxpayers to private investors, provides resources for preventive investments and offers a way to make more rapid progress in achieving social policy goals. From the government’s perspective, this would simply be a performance-based contract. If the project succeeds, the government will pay the full cost of services, though in some cases achievement of performance goals may produce budgetary savings that partly or fully offset the cost of the services.

Service providers would be attracted to this approach because it will provide stable multi-year funding and begin a relationship with the government that can enable operations to scale rapidly if the provider is able to demonstrate program effectiveness. Philanthropic investors would be attracted to this model as it provides rigorous performance assessments of the initiatives they are funding and offers a way to massively scale these initiatives through government funding if they are proven successful. Commercial investors would also be attracted to the model because they see the opportunity to get involved in a promising new market, providing growth capital to social service providers.
Suggestions for Integrating Sustainability in Capital Market

There are many real obstacles and real opportunities facing stock exchanges in requiring companies to develop long-term sustainability practices. Current guidelines, reporting standards, market behavior and relationships with investors, regulators, advocacy groups and other exchanges, all affect how an exchange approaches enhanced environmental, social and corporate governance (ESG) practices. What follows are some practical suggestions for stock exchanges to achieve this goal.

1. Create a Sustainability Committee in collaboration with Bangladesh Bank, Dhaka stock exchange, Chittagong stock exchange & Security Exchange Commission, reporting to the Board of Directors, in order to pursue the following actions:

A. Listing Requirements

a) Define the minimum expectations for sustainability reporting by sector for new listings
b) Provide training for the listing committee on understanding the submitted data
c) Enhance the ESG due diligence capacity in the pre-IPO ecosystem

B. ESG Data and Reporting Standards

a) Educate companies on the difference between qualitative and quantitative sectorally material ESG reporting and CSR
b) Keep current on global best practices of sustainability reporting by sector and disseminate the information throughout the stock exchange’s management and boards
d) Assist in the development of integrated financial reporting and comparable financial statements.
e) Comment on the quality of the sustainability data reported by listed companies
f) Introduce a watch list for companies not reporting or lacking clarity in their reporting
g) Support the efforts of external data providers of sustainability information

C. Stakeholder Engagement

a). Listed companies

- Encourage better internal corporate governance within companies, such as improving structure, independence and quality of boards of directors
- Consult with companies on how they should be integrating sustainability into long-term strategic decision-making – e.g. highlighting risks and opportunities within the existing business model on their website.
- Consider mandating a non-binding shareholder vote on the sustainability report or sustainability strategy to be put to the AGM
- Educate listed companies on material sustainability issues, global initiatives and Opportunities

b) Policymakers and regulators

- Improve dialogue with policymakers and regulators to work in partnership to achieve improved corporate ESG practices
- Work with regulators to create stronger local Institutes of Directors with a focus on training future board leaders who can integrate sustainability into the business model
- Work with regulators on aligning board and management incentives with long term, sustainable growth of listed companies

**c) Investors**
- Provide a framework for communication on ESG issues to stakeholders – e.g. a possible annual ESG call (in addition to four quarterly earnings calls) between company management and investment analysts and portfolio managers, until a standard for integrated reporting on the issues has been established
- Support collaborative initiatives which work towards eradicating market short termism
- Develop and subsidize financial education training programs for investors wishing to adopt more sustainable investment practices
- Report on their impacts and dependencies with regard to natural and social capital, whether positive or negative. This should include assessments of future risks and opportunities and should start with mandatory carbon reporting
- Research and develop better ways of valuing natural and social capital and better metrics to measure long-term business success
- Commit to a significant reduction in greenhouse gas emissions and the resource intensity of products and services
- Encourage suppliers to report on their own sustainability impacts (including supply-chain impacts)
- Communicate effectively about what underpins any investment in terms of vision, business model, long-term strategy and approach to risk
- Introduce greater diversity at the board level, and take steps to ensure that non-executive directors are better able to challenge ‘business as usual’ mindsets and behaviors. Invest in research and innovation to optimize sustainability performance
- Invest in the development of ‘green’ skills amongst the workforce
- Support the public-policy positions needed to deliver sustainability
- State in remuneration reports whether the remuneration committee is able to consider corporate performance on environmental, social and corporate governance (ESG) issues when setting the remuneration of executive directors
- Publish corporate sustainability strategies – or explain why they are not able to do so – and put these reports or the associated explanation to the vote at a company’s AGM.
- Communicate the key impacts – both positive and negative – of their products/services transparently and clearly to consumers.

**d) Advocacy groups**
- SEC can work with strategic partners such as UNCTAD, UN Global Compact, UNEPFI, GRI and PRI to develop sustainability standards and foster improved corporate ESG practices

**e) Other stock exchanges**
- Collaborate with the sustainability committees at other global stock exchanges to share best practices, highlight areas of concern, and potential for partnership for projects.
o Increase dialogue with social stock exchanges to learn from their efforts with listed companies, investors and sustainability

f). Provide finance to support research and educational priorities
o Communicate to the general public about the financial risks associated with sustainability issues.
o Develop ‘green’ awareness and skills among the investors in key sectors.

h). Lobby governments for
o New definitions of economic success that take account of natural and social capital. The introduction of suitable models for risk sharing in investment, particularly early-stage investment
o Strong international carbon mitigation targets and adaptation policies/plans that help our country in particular, with a fair approach to sharing responsibility for action
o Policies that deliver a meaningful carbon price and mandatory carbon reporting by companies.
o Use of policy and other incentives to encourage the spread of proven new sustainable technologies and ways of working
o Public investment in infrastructure that enables waste reuse and recycling.
o The development of ‘green’ skilling to enhance people’s stewardship of land, biodiversity and ecosystem services
o A zero-tolerance approach to corruption where more efficient tax collection would generate big wins for core public services
o Financial incentives for clean energy generation
o Investment in providing universal energy access

2. Create/enhance an additional and separate Corporate Responsibility Committee at the stock exchange that focuses on operational issues.
Whereas the Sustainability Committee provides strategic guidance on the planning and macro initiatives of the exchange’s sustainability agenda, the Corporate Responsibility committee will be responsible for exchange operational issues such as the following:
o Employment and human resources issues
o Health and safety practices
o Energy and natural resources usage
o Board of Directors and Committee issues (e.g. independence, alignment of incentives, number of directorships)
The Corporate Responsibility Committee should report separately into the board in order to demarcate the functions between sustainability strategy and socially responsible operations. If possible, reporting of this committee should be integrated into the Stock Exchange annual report, to highlight the importance of the data. It should be this Committee which is responsible for creating a culture of sustainability by conducting education sessions for exchange employees on the importance of sustainability in the exchange’s business practices and, lastly, by Implementing targeted community outreach projects.
The banking sector of Bangladesh demonstrated considerable progress in reinforcing the resilience during CY’15 amid political turbulence. Bangladesh Bank (BB) continued to focus on strengthening the financial system of the country. A number of policy measures continued during the year emphasizing risk management, corporate governance, stress testing, enhanced CSR and Green Banking activities in the banks as well as monitoring of fraud-forgeries through self-assessment of Anti-Fraud Internal Controls.

The key priorities of Bangladesh for sustainable development are agriculture and food security, water, energy, climate change and disaster risk reduction and disaster management. Among the other major issues that Bangladesh needs to plan for and initiate activities on a priority basis during the 7th FYP are increasing creation of jobs including green jobs, sustainable cities, urban transport and infrastructure, and harnessing the resources of the Bay of Bengal. Here, banking sector will be a catalyst to implement the work plan of SDGs by supporting through credit and other financial assistance.

The banking sector of Bangladesh comprises four categories of scheduled banks. These are State-owned Commercial Banks (SCBs), State-owned Development Financial Institutions (DFIs), Private Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs). Nine (9) newly licensed private commercial banks have started functioning in this year. So the number of banks increased from 47 in 2012 to 56 in 2013. These banks had a total number of 8685 branches as of December 2013. The number of bank branches increased from 8322 of 2012 to 8685 due to opening of new branches mainly by the PCBs, DFIs and SCBs during the year. At the end of June 2014, the total number of bank branches increased further to 8794, with total number of banks remained unchanged at 56. Structure of the banking sector with breakdown by type of banks is shown in table below:

<table>
<thead>
<tr>
<th>Banking systems structure</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Bank types</strong></td>
<td><strong>Number of Banks</strong></td>
<td><strong>Number of Branches</strong></td>
</tr>
<tr>
<td>SCBs</td>
<td>4</td>
<td>3478</td>
</tr>
<tr>
<td>DFIs</td>
<td>4</td>
<td>1440</td>
</tr>
<tr>
<td>PCBs</td>
<td>30</td>
<td>3339</td>
</tr>
<tr>
<td>FCBs</td>
<td>9</td>
<td>65</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>47</td>
<td>8322</td>
</tr>
</tbody>
</table>

**Note:** Banks prepare their balance sheet on calendar year basis, and are obliged to submit their audited balance sheet at the end of every calendar year. That is why banks’ performance-related figures are stated in calendar year basis.

**Source:** Bangladesh Bank
Role of Banks to Support SDGs

A well-regulated and transparent banking system can provide the debt finance that is a critical element to implementing the SDGs. Banks can provide “green” or “sustainable” lending – not just in the context of large infrastructure projects but across the spectrum of economic activity, which is instrumental in the pursuit of energy efficiency goals, for instance. An increasing number of banks in Bangladesh are now seeking to get a better understanding of how to increase their net positive impact on society and the environment, precisely by providing financing solutions for greening” activities and processes across all sectors of the economy. More work needs to be done to mainstream best practices in this sector.

The adoption of sector-specific sustainability standards (e.g. the Equator Principles : framework by which banks can manage environmental and social issue ) can help banks to better assess and manage the environmental and social risk of projects they finance and encourage banks to avoid financing projects that have significant detrimental social and environmental impacts.

Banks should work collaboratively to establish guidelines and minimum standards of environmental risk management at the national level. Although, these efforts are often voluntary, banking supervisors and regulators of Bangladesh should start to engage directly to issue clear requirements to assess system environmental risks and adopt practices to mitigate the banking sector’s exposure and contribution to environmentally unsustainable activity.

Banks and similar financial institutions can also play an important role in promoting access to finance by providing financial services to micro entrepreneurs and small enterprises, who often find access to finance as a major barrier for growth. Our prudent monetary policy and regulatory support are designed to foster a sustainable development of capital markets. Banks are also working on issuing green investment to nudge our financial system to serve our environment. Bangladesh Bank will provide a US $200 million "Green Transformation Fund" to support green transitions in the export-oriented textiles and leather industries, supplemented by another $300 million from the World Bank.

Distinct policy Suggestion: Environmental Risk in Banking Regulation

The Central Bank should implement a regulation which establishes guidelines for financial institutions in connection with the Pillar 2 Supervisory Review and Evaluation Process (SREP) to consider the bank’s “degree of exposure to the social and environmental risk of the activities and transactions of the institution”. This regulation also requires the bank to publicly disclose its environmental and social risks (with penalties if disregarded) as part of the market discipline disclosure rules of Pillar 3 of Basel III.
Achieving SDGs : A Promise of Microfinance

MFIs in Bangladesh provide a wider spectrum of financial services, which are created through a demand driven innovative process in meeting the poor’s complex livelihood and heterogeneous needs. The industry provides different types of savings products so that the poor can save even for a day with very little amount. Although some of the products appear to be similar to those of formal banking sector, their inherent characteristics such as terms and conditions, collateral requirements, size of instalment and period of repayment are in line with the economic life of the poor. Furthermore, living and working in the marginal economy often expose the poor to different types of household-specific and environmental risks such as loss of earnings due to sickness, urgent medical expense, theft, insecure condition of employment, natural hazards, and harvest failure. In dealing with those emergencies, MFIs provide different types of insurance services. Since September, 2011 they have initiated mobile financial services as agents/partners of local banks. These mobile financial services include disbursement of inward foreign remittances; person to business payments such as utility bill payments and merchant payments; business to person payments such as salary disbursement, dividend and refund warrant payments, vendor payments etc.; government to person payments such as elderly allowances, freedom-fighter allowances, subsidies etc.; person to government payments such as tax, levy payments; person to person payments (one registered mobile account to another registered mobile account) while other payments include microfinance, overdrawn facility, insurance premium, DPS etc. By February 2013, 14 MFIs have been given permission by MRA (Microcredit Regulatory Authority) to start mobile financial services under Bank-led Agent Model where they have to sign an agreement with commercial banks for subsequent approval from Central Bank. In a further move, BB is going to expand mobile financial services by allowing loan disbursement and repayment activities under agent/partnership agreement. And all these paves the way of achieving sustainable development goals in Bangladesh.

Products and Services of MFIs

<table>
<thead>
<tr>
<th>Savings</th>
<th>Credit</th>
<th>Insurance</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Regular/Compulsory savings</td>
<td>1. Term loan</td>
<td>1. Health</td>
<td>1. Inward foreign remittance</td>
</tr>
<tr>
<td>3. Flexible</td>
<td>3. Housing Loan</td>
<td>3. Credit</td>
<td></td>
</tr>
<tr>
<td>5. Time deposit/DPS</td>
<td>5. Seasonal</td>
<td>5. Crop</td>
<td></td>
</tr>
<tr>
<td>7 Risk fund</td>
<td>7. Disaster</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
8. Special
9. Consumption

Allocation of microcredit by economic activities

From supply-side, microcredit in Bangladesh is mainly used to finance non-farm activities (See Table). However, there exists strong demand of microcredit for agricultural activities, as food security is a major concern for the poor. Due to the landless character of the poor, only a small part of them is engaged in agriculture sector as sharecroppers/tenant farmers. A survey conducted by BIDS (Bangladesh Institute of Development Studies) shows that roughly, 18 percent of credit disbursed by MFIs are employed in agriculture and agriculture related activities.

Allocation of microcredit by economic activities

<table>
<thead>
<tr>
<th>No.</th>
<th>Purpose of microcredit taken by poor households</th>
<th>Percentage of total loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agriculture</td>
<td>15.20</td>
</tr>
<tr>
<td>2</td>
<td>Cattle and poultry rearing</td>
<td>20.87</td>
</tr>
<tr>
<td>3</td>
<td>Fishing</td>
<td>2.20</td>
</tr>
<tr>
<td>4</td>
<td>Nursey</td>
<td>0.19</td>
</tr>
<tr>
<td>5</td>
<td>Tubewell installment</td>
<td>0.29</td>
</tr>
<tr>
<td>6</td>
<td>Irrigation</td>
<td>0.19</td>
</tr>
<tr>
<td>7</td>
<td>Business of raw materials</td>
<td>0.80</td>
</tr>
<tr>
<td>8</td>
<td>House repairing and building</td>
<td>4.29</td>
</tr>
<tr>
<td>9</td>
<td>Rickshaw/van3</td>
<td>3.23</td>
</tr>
<tr>
<td>10</td>
<td>Street vendor</td>
<td>1.40</td>
</tr>
<tr>
<td>11</td>
<td>Processing activities</td>
<td>2.03</td>
</tr>
<tr>
<td>12</td>
<td>Land leasing</td>
<td>2.03</td>
</tr>
<tr>
<td>13</td>
<td>Marriage</td>
<td>0.17</td>
</tr>
<tr>
<td>14</td>
<td>Food and other consumer goods</td>
<td>0.08</td>
</tr>
<tr>
<td>15</td>
<td>Petty trade</td>
<td>36.69</td>
</tr>
<tr>
<td>16</td>
<td>Small and medium business</td>
<td>4.49</td>
</tr>
<tr>
<td>17</td>
<td>Others</td>
<td>4.85</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>


Microfinance: A practical tool for Achieving SDGs

Microfinance has the potentiality to bring together the communities of the unorganized poor, building their social capital and networks. Building and sustaining social capital requires faith and affirmative action within the alternative paradigm of microfinance, whereby building the capacity of communities to direct their economic and social development should be given primary importance and focus. This social capital should be set as a stage for interventions in primary education and health including child mortality, maternal health, HIV/AIDS, malaria and other communicable diseases. Promoting awareness, literacy and leadership among women from poor communities, microfinance paves the way for the empowerment of women, thereby combating gender inequality. So microfinance in Bangladesh has the potentiality to achieve sustainable development goals as like it’s the contribution for achieving millennium development goals.
<table>
<thead>
<tr>
<th>Sustainable Development Goals</th>
<th>Scope of Microfinance</th>
</tr>
</thead>
</table>
| **End poverty to all forms everywhere** | Access to microfinance institutions can  
- Diversify the livelihood opportunities of poor people making them more resilient to adverse negative shocks  
- Allow the poor to plan for unanticipated and future expenses  
- Enhance equitable distribution of national economic growth  
- Provide an alternative mechanism for poverty reduction |
| **End hunger and achieve food Security** | Food security in Bangladesh through microcredit can be attained by providing financial assistance to poor for increased agricultural productivity, for employment and self-employment, for allowing to buy food. Microfinance has prospect in social programs—including food-for-work or cash-for-work programs, other forms of productive activities within households or communities. |
| **Ensuring healthy life of all ages** | Good health is directly connected to individual’s capability and his/her functioning in society. It is impossible for someone to function well with ill health. Grameen provides its female member a platform, a network where they are organized into groups and joined into seminars. They learn about hygiene and how to take care of the health of their family. Moreover, some studies found that infant mortality among Grameen families has reduced by 34% and the implementation of family planning among them is double the national average for Bangladesh. |
| **Education for all** | Microfinance lead to an increment of family income and therefore enhance opportunities for children to participate in full-time education. It increases household budget to cover out-of-pocket school fees such as books, uniforms and transportation. Microfinance reduces the economic need to keep children out of school and in income generating activities. And also decreases the likelihood that enrolled children will drop out of school. |
| **Promote gender equality and empowering women** | Microfinance contributes for enhancing of women's access, control and ownership of resources. Increases women's participation in income generating activities and decision-making at the household and community levels. Strengthens the social and political leadership and livelihood opportunities of women. |
| **Sustainable management of water and sanitation** | Microfinance is a potential be driver of sustainable management of water and sanitation. It helps poor people of urban by providing them short term loan for buying sanitation and water management materials. Also provides access to health care insurance and protection & improves availability of potable water. |
| **Reduce child mortality, improve maternal health and combat HIV/AIDS, malaria and other diseases** | - Reducing household income constraints can enable the marginalized and disadvantaged population to address other health issues exacerbated by poverty. In Bangladesh, microfinance provides financial access to education, prevention and treatment measures for HIV/AIDS, malaria and other infectious diseases. Enhances child and maternal health by providing access to health care services and resources. |
| **Action to combat climate** | - Microfinance can help to improve environmental sustainability when it includes education in rural resource management which can enhance the sustainability of income-generating activities and natural resources. Provides access to alternative agricultural inputs which are environmentally friendly. |
| **Global partnership** | - Some prominent microfinance institutions like BRAC providing a new channel for global collaboration for poverty reduction. |
| **Reducing Inequality** | - Bangladesh needs to focus more on the equalizing effect of microfinance. The high inequality in Bangladesh largely due to credit constraints on the poor or to financial market failure, which solely besieges wealthy people.  
- Microfinance can effectively provide loans to the poor with a high repayment rate using its unique technique; it is expected to ease the credit constraints on the poor and hence lower inequality.  
- Microfinance allows the poor not only to obtain loans but also to increase their productivity through borrowing activity with training, which leads to the development of a social system in poor countries. Thus, microfinance copes with market failure in order to prompt well-balanced financial development, leading to economic growth and improvement of social welfare. |
| **Water** | - Beyond solidarity loans Grameen Bank has strategy of providing group loans for traditional micro-finance activities in the water sector. As businesses grow for some elements of the group, individual financing needs change. And once loans are repaid, the individual builds a credit history, so there may be no further need for collective guarantees.  
- Microfinance can help households to access water services is in peri-urban areas where the high lump sum costs of household connections normally have to be paid upfront to the water utility.  
- Micro Credit Regulatory Authority of Bangladesh can apply modeling expertise to help develop financially sustainable models for water projects which would reflect future costs and manage usage for the poor. |
| **Affordable & Clean Energy** | - There exist ways to effectively combine microfinance with renewable energies, especially in rural areas where access to energy remains limited.  
- Though adapted financial services, microfinance can have access to energy and to renewable energies for micro & small enterprises (MSEs) and low-income households. |
- Through energy-efficient solutions, MFI can enhance the productivity and the business opportunities of MSEs.
- MFI’s in Bangladesh are raising awareness among MSEs and low-income populations, especially in rural areas, on the opportunities offered by renewable energies.

<table>
<thead>
<tr>
<th>Decent Work &amp; Economic Growth</th>
</tr>
</thead>
</table>
| - Microfinance (more accurately microcredit, but in practice the terms are interchangeable) is the provision of tiny loans to the poor to help them establish or expand an income-generating activity and thereby promotes economic growth.
| - Expansion of microfinance (savings, credit and insurance) for small business owners can contribute to expand our economic growth.
| - Expansion of finance for ‘the missing middle’ i.e. small enterprises graduating from microfinance which are not yet able to access credit from the formal banking system.
| - Microfinance institution can fill a needed gap within the financial services industry by offering small loans, or micro-loans, to people unable to access conventional loan services.
| - People living in under-developed areas such as Latin America, Kosovo and countries within the Sub-Saharan region can access needed financial resources through the services provided by microfinance institutions which can be adopt by Bangladesh. |

The Way Forward

Development of a liquidity market
Some MFIs such as Grameen Bank has voluminous surplus fund and has become one of the major sources of institutional borrowings for the commercial banks in Bangladesh. Since main purpose of these MFIs is to provide credit facilities for the poor rather than investing in commercial banks, they can supply their surplus fund to other MFIs through a market mechanism. In particular, Dhaka Inter-MFI Borrowing Market (DIMBOM) can be developed under the initiative of MRA. An electronic board managed by MRA will work as a market maker where MFIs will declare their bid-ask prices at the beginning of each working day. Fund manager of each MFI will have access to this platform maintaining some protocols designed by the Authority. After the end of each working day, MRA will calculate the weighted average borrowing rate, which can be called as DIMBOR (Dhaka Inter-MFI Borrowing Rate) and will work as a benchmark for the next working day. In this way, a massive amount of fund can be developed to through MFI to implement sustainable development goals.

Financial Literacy
Development of understanding the benefits and risk associated with innovative financial products, development of numerical skills, financial management of microenterprise, rights and responsibilities of a borrower has not only beneficial effects on the poor but also financial system as a whole. However, very soon, Central Bank of Bangladesh is going to initiate a financial literacy program using radio, television and internet aiming to reduce this knowledge gap. This program may be generic in nature while such
literacy program needs to be customised for microfinance users, as their economic activities are considerably different from usual ones.

**Linkage Banking For Deposit Intermediation**

MFIs in Bangladesh are legally prohibited to accept deposits from the public except the Grameen Bank. On the other hand, rural specialized banks substantially rely on Central Bank’s cheap credit for their rural financing activities. In this situation, a win-win strategy can be adopted by gradually allowing MFIs to mobilise public deposit on the behalf of rural banks. The benefit for the MFIs is that they will earn commission against their deposit services to the rural banks. On the other hand, interaction between commercial banks and MFIs will help to develop mutual understanding and building of institutional relationship. These deposits can be re-lend to rural economy through the MFIs. In this way, rural deposits may recycle as microcredit from rural commercial banks to the rural poor through the MFIs. The central bank can also give clear guidelines or advice to the rural formal financial intermediaries to employ a certain percentage of rural deposits in microcredit. This policy can address funding problem of MFIs and can be a potential source of earnings for them. On the other hand, default rate in rural banks can be reduced substantially. Before large-scale implementation of the idea, this can be tried on experimental basis in a limited geographical space.

**Credit Guarantee scheme**

In the question of reaching out the rest of the poor and sustainability of the MFIs, strengthening the Bank-MFI lending channels seems to be highly warranted in Bangladesh. Although recently some efforts such as regional meetings between banks and MFIs and Governor’s call for MFIs’ fund from banks under Corporate Social Responsibility are made. A Credit Guarantee Scheme under either Central Bank or PKSF may be initiated to support the goals of sustainable development.

**Insurance**

Insurance companies can provide risk transfer services and insurance solutions at the macro, meso and micro level, protecting governments, companies, and individuals from unforeseen adverse events. In addition to providing protection, pricing risk also allows for more effective investment. And by reaching to micro entrepreneurs and small companies through micro insurance products, the sector can also help drive growth and resilience for vulnerable populations. Currently, Bangladesh government renewed focus on developing agriculture and crop insurance will fill an important segment of financial inclusion - i.e., insurance, which can unlock credit and reduce vulnerabilities.

*Example: Recognizing the particular financial needs of women, Green Delta Insurance Company in Bangladesh launched comprehensive insurance policy specifically for women.*

The policy, the first of its kind in Bangladesh, has separate clauses to cover critical life events or tragedies that specifically impact women (i.e. childbirth, rape, violence against women, divorce, etc.). The policy is offered at a lower cost, making it affordable for women of all income levels.
Concluding Remarks

A truly sustainable economy is one in which people can develop their full potential and lead productive, creative lives in accordance with their needs and interests and within environmental limits. This paper offers a broad vision for adopting 17 new Sustainable Development Goals (‘SDGs’) to make our country more prosperous, inclusive, sustainable and resilient.

The SDGs are an ambitious plan of action for people, planet and prosperity. They are universal, applying to all nations and people, seeking to tackle inequality and leave nobody behind. They are wide ranging including ending poverty and hunger, ensuring sustainable consumption and production, and promoting peaceful and inclusive societies. The agreement on a new sustainable development agenda expresses a consensus that the SDGs can only be achieved with involvement of our financial sector working alongside Governments, Parliaments, local authorities, civil society, the scientific and academic community – and all the people of Bangladesh.

The evidence from detailed research into these key financial sectors of the economy shows us that, in principle, it is possible to achieve our core vision – a resilient, truly sustainable economy that delivers the best possible quality of life. In practice, of course, we will only achieve the vision outlined if we make some fundamental and urgent changes. Perhaps few of us really have an appetite for change. We need more and more consciousness of environmental degradation, poverty and good governance and we have the experience of achieving millennium development goals. We take comfort from the fact that in the past we have often found ways to address social and environmental challenges before they have become disastrous or irreversible.

Our sector visions show that with the financial assistance of our financial sector in collaboration with govt. and all the people of Bangladesh, there can be a future in 2030 where food, healthcare, energy and mobility are accessible to all, within environmental limits. But none of this will be possible unless capital is increasingly allocated to activities aligned with a sustainable economy and drawn away from unsustainable ones.

In this context, the way in which financial sector operation over the next 15 years will be a key factor in the progress we can make towards a sustainable economy. Many changes are needed. We will need to actively seek investments aligned with a sustainable future and lobby for government intervention where there are barriers. This paper is a call to action for the authority of financial sector of Bangladesh to provide focused support to key sectors – as well as with investments more broadly – in order to help deliver a sustainable future.
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