



CASE STUDY

May 2020

Bangladesh Bank's fund for a green garment sector

Key findings

- The garment sector is one of the largest industries in Bangladesh, as well as one of the most polluting.
- Bangladesh Bank's Green Transformation Fund (GTF) provides finance for environment-friendly machinery. The Fund has shown potential to introduce sustainability into this sector and shrink its carbon and water footprint.
- Bangladesh Bank's well-structured framework for green finance and success in solar-home microfinance demonstrates the important role central banks can play in promoting low-carbon climate-resilient development.
- Challenges related to the Fund have included the lengthy process for obtaining project approval. This is a major hurdle for private sector players, who also prefer more simplified funding for a wide range of sustainability measures, beyond just the import of capital machinery.

Summary

In Bangladesh, the manufacturing of ready-made garments plays a major role in the country's economy and it is the country's largest industry. From 2017-2018, the sector contributed 12.26 percent to the national gross domestic product.¹ The rapidly developing country is heavily dependent on the export of textiles and garments for foreign exchange earnings. Bangladesh is the world's second-largest exporter of western fast-fashion brands.²

The manufacture of ready-made garments is pollution-intensive. In Dhaka alone, 50 garment and textile industries were responsible for emitting 58,177 tonnes of carbon dioxide in 2015.³ It is estimated that the industry also uses a total of 1,500 million cubic meters of water, most of it being groundwater.⁴ As one of the world's most climate-vulnerable and disaster-prone nations, effectively adapting to climate change and using natural resources efficiently is critical.

In 2016, Bangladesh Bank, the central bank of Bangladesh, launched a \$200 million Green Transformation Fund (GTF) to make finance accessible to export-oriented and leather manufacturing industries to purchase environment-friendly capital machinery.⁵ Bangladesh Bank is recognised as the first central bank to promote sustainable development.⁶

Approach

Bangladesh Bank set up the GTF using its own capital. GTF can provide a loan for a term of five to ten years, with a one-year grace period. Loans are offered in US dollars through scheduled banks (called "authorised dealers"). While Bangladesh Bank's Sustainable Finance Department looks after project approvals, the Forex Reserve and Treasury Management Department makes the disbursement and ensures subsequent supervision.

The funds can be used for purposes such as water-use efficiency in wet processing; water conservation and management; waste management; resource efficiency and recycling; renewable energy; energy efficiency; heat and temperature management; air ventilation and circulation efficiency; and work environment improvement initiatives.⁷



Women labourers work in a garment factory in Bangladesh.

Results

As of 2018, two ready-made garment industries - Goodrich Sweater Ltd and Skyline Apparels - had accessed \$130,000 from the GTF through the South East Bank (one of the authorised dealers of the Fund). Additionally, \$1.35 million worth of projects falling under GTF are in the pipeline.⁸

Learning

Bangladesh Bank, as the monetary and financial sector regulator in Bangladesh, has shown great progress in mainstreaming sustainability into the financial sector. Before the GTF, the bank had made loans accessible to financial institutions for green projects. This had led to the uptake of solar systems in poor Bangladeshi households.⁹

One challenge is that private sector players find the lengthy approval process for obtaining GTF funding a barrier. Moreover, as the Fund is specifically earmarked for the purchase of machinery, banks have not disbursed the expected amount of funds, since entrepreneurs prefer a composite fund that provides finance for a range of sustainability measures.¹⁰

Way forward

In 2017, the Fund's scope was extended to the jute sector, and in 2019, it was opened up to all manufacturing and export-oriented industries.

Some experts believe that the scope of GTF should be expanded to include domestic industries and entrepreneurs looking to buy environment-friendly machinery from local sources in order to create a more sustainable industry sector in Bangladesh.¹¹

Endnotes

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Garments drying in the sun at Narayanganj, near Dhaka, Bangladesh.