

# Chapter 4

## Green Finance and Sustainable Development: A Case of the Bangladesh Economy

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### **ABSTRACT**

*Green finance is currently gaining importance with the growing global resistance to climate change. However, there is limited empirical evidence supporting green finance and economic development nexus considering environmental issues. Despite the fastest growing economy in Asia, Bangladesh still has ambiguity about the role of green finance on sustainable economic growth, though it is already initiated in Bangladesh. Therefore, applying correlation matrix and Granger causality test, this chapter aims to overview the present scenario and identify the role of green finance on sustainable development in Bangladesh from 2014-2019. Hence, it considers GDP growth and CO<sub>2</sub> emissions for economic development and climate change issues, respectively, and green finance as the proxy of greening. This study finds that renewable energy consumption and power generation from renewable and waste contribute to green growth. Hence, this study suggests green finance for sustainable development not only in Bangladesh but also in other emerging economies.*

### **INTRODUCTION**

The world has undergone an intense rein in natural disasters such as winds, floods, droughts, salinity, cyclones, sea-level rises, and global warming, owing to the accelerated breakdown of glacier ice caused by atmospheric depletion. Environmental degradation creates an ecological imbalance, energy resource deficiency, soil erosion, and ecological contamination that threaten social and economic development and human survival (Darko and Chan, 2016; Liu, Liu, Xia, Ren, Liang, 2020). Therefore, the burning

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question is about the culprits behind these environmental issues. In this case, Hanif (2018) indicts high CO<sub>2</sub> and other greenhouse gas emissions discharged from non-renewable energy uses. Therefore, green finance could be a possible solution through financing in renewable energy sources.

Meanwhile, the United Nations (UN) has introduced 17 Sustainable Development Goals (SDGs) and 169 targets to localize in the countries, based on their economic conditions, detailed in the 2030 Agenda for Sustainable Development focused on sustainable finance for a sustainable economy (United Nations, 2015). As a part of the next eleven emerging countries (N-11),<sup>1</sup> Bangladesh should maintain these SDGs with special care to ensure sustainable development (Nawaz, Seshadri, Kumar, Aqdas, Patwary, and Riaz, 2020). Because of some issues, i.e., the non-renewable energy consumption, dense population, ancient technology uses, and no carbon restriction escalate global warming. Moreover, Bangladesh's geographical position, climate vulnerability, dense population, and riverine landscape contribute to a compelling case for green investments to support the country's sustainable development (Hossain, 2018).

Hence, introducing an efficient green economy via green finance represents an effective alternative and a route for economic growth in developing countries (Lewis, 2012; Liu et al., 2020). Green finance can be a channel to deal with the climate change issue, which is crucial for developing countries like Bangladesh. As the next emerging country, Bangladesh has achieved noteworthy progress in poverty reduction, supported by sustainable economic growth (World Bank, 2021). Besides, it is the fastest-growing country and can become a significant economy in the twenty-first century. Therefore, Bangladesh struggles to cope with the challenges by addressing different policies and strategies to adopt climate change threats and environmental risks (Hossain, 2019). Consistently, Haque and Murtaz (2018) denote that green finance is the major instrument for sustainable economic growth in a country like Bangladesh. Thus, the role of green finance is crucial to managing the climate change facts. Moreover, to achieve SDGs in any country, the economy should be green.

However, many developing countries have tried to access this financial support. Still, due to the lack of proper research and projection in a green economy, they have been facing various problems such as fund scarcity, lack of well-planned projects, lack of knowledge, lack of waste management technology, lack of evidence about the role, and so on (Liu et al., 2020). As a result, there is still ambiguity about the role of green finance in achieving long-term economic growth, even though sustainable finance policies have already been implemented in Bangladesh and other developing countries.

Therefore, to settle these issues with empirical investigation, this chapter aims to

- Overview the present status of green finance (GF) in Bangladesh as a next emerging economy;
- How the government, banks, and non-bank financial institutions (NBFIs), and foreign direct investment (FDI) can motivate green finance for sustainable economic development;
- Identify the empirical evidence of the contributions of GF on Bangladesh's economic development with the least possible environmental degradation;
- Address the strategies to attract green projection, the challenges that the emerging or developing countries like Bangladesh are facing or might face;
- Recommend some policy insights to cope with the present crisis in green finance as well as to well-establish green growth.

The remaining chapter is designed as follows: Section 2 describes the background of green finance and sustainable economic development, reviews the earlier relevant literature, and narrates the emergence of green finance in Bangladesh. Section 3 addresses the primary purposes of this chapter, namely key

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