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THE FUTURE OF BANGLADESH'S RMG- SUSTAINABILITY AND COMPETITIVENESS



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Editor's Note

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Chief Executive Officer (CEO)

Executive Summary

Bangladesh's Ready-Made Garment (RMG) industry remains a cornerstone of the national economy, contributing significantly to export earnings, employment and industrial growth. However, evolving global expectations and increasing competition mean that the industry's future success will depend not only on production capacity and pricing but also on its commitment to sustainable business practices.

This edition highlights five key areas shaping the future of Bangladesh's RMG sector:

1. ECRL Survey Findings

- ECRL's survey indicates growing industry recognition of sustainability, although investment costs and uncertain commercial returns remain significant barriers.
- Greater collaboration among manufacturers, financial institutions, policymakers and international buyers will be necessary to accelerate the transition.

2. Sustainability and Business Performance

- Sustainable practices can reduce operating costs, improve productivity and strengthen long-term business performance.
- Investments in energy efficiency, resource management and workers' welfare can deliver both environmental and commercial benefits.

3. Industry Progress and Challenges

- Bangladesh has made notable progress in green factory development and workplace safety.
- However, renewable energy adoption, water management, workers' welfare and resource efficiency require further improvement.

4. Evolving Global Expectations

- International buyers increasingly emphasize sustainability, transparency and responsible supply chains.
- IFRS S1 and IFRS S2 further highlight the importance of reliable sustainability-related disclosures.

5. Competitiveness and Trade Readiness

- Bangladesh's upcoming LDC graduation in November 2029 makes export competitiveness increasingly important.
- Improving productivity, diversifying capabilities and meeting international expectations will be essential to maintaining the country's position in global markets.

Overall

At Emerging Credit Rating Limited (ECRL), we believe that the future of Bangladesh's RMG industry lies in balancing economic growth with environmental responsibility and social progress. Sustainability should not be viewed merely as a compliance requirement, but as an opportunity to build a more resilient, productive and competitive industry.

Through this publication, we aim to encourage informed discussion and highlight the importance of preparing Bangladesh's RMG sector for a more sustainable and competitive future.

Cover Story

The Future of Bangladesh's RMG- Sustainability & Competitiveness

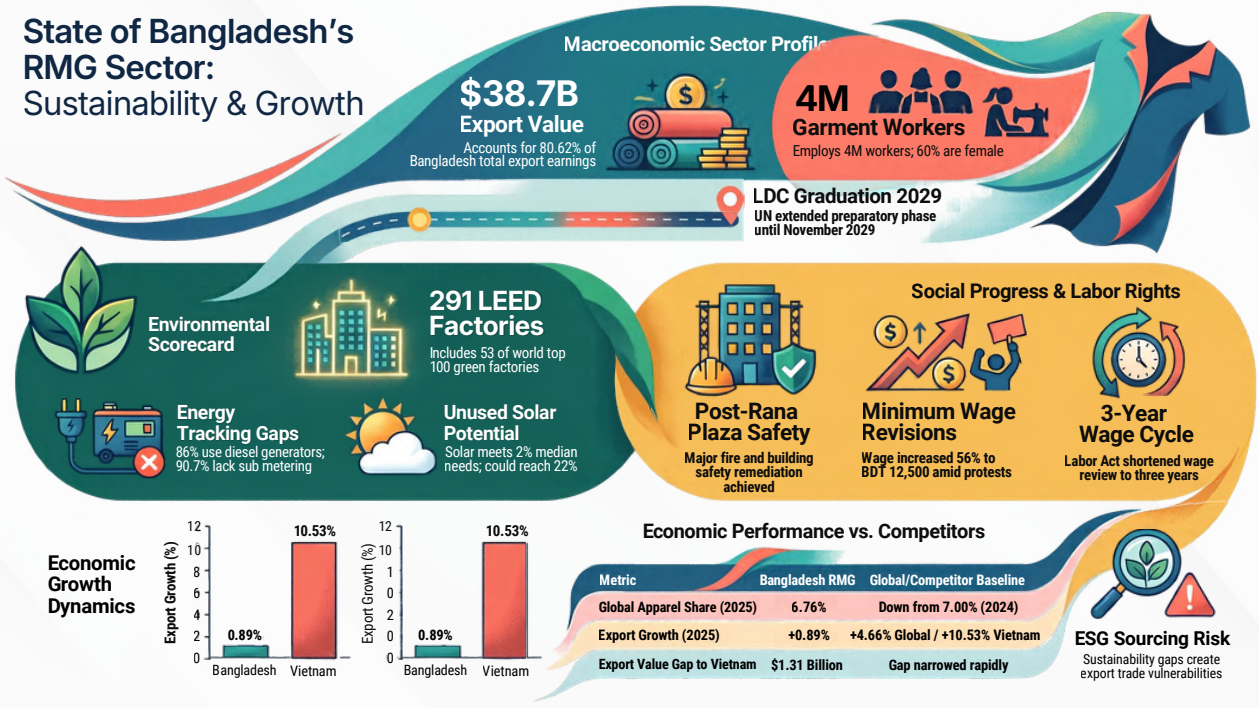


CHAPTER 1: Sustainability: Business Performance, Global Standards & Supply Chains

1.1 Understanding Sustainability and Its Importance

"Sustainability" or "sustainable practices" is a concept that is thrown around today like a buzzword. Investors, lenders and governments are increasingly interested in the extent to which businesses adopt sustainable practices. While shareholders are interested in the eventual appreciation and growth of their wealth, lenders are concerned with protecting their downside risk and governments are interested in the growth and development of the economy as a whole. It is therefore important to understand whether, and to what extent, sustainable practices can help achieve these objectives, and whether the benefits outweigh the associated costs.

It is thus first necessary to establish what sustainability actually means. According to the definition provided in the 1987 report of the UN World Commission on Environment and Development, sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. In other words, it is built upon the foundational idea that people, planet and profit must work together. This concept is commonly examined through three dimensions: environmental, social and economic sustainability. The three are interconnected, as economic growth that comes at the expense of the environment or the welfare of the population may not be sustainable over the long term.



The industrial revolution brought about substantial economic growth and improvements in living standards. However, much of this growth was achieved through production and consumption models that placed relatively little emphasis on the long-term consequences of resource extraction, pollution and waste. Many of these practices have since become deeply embedded in the way economies operate, making the transition towards more sustainable alternatives both costly and difficult.

Bangladesh provides a relevant example of why these considerations matter. Rapid industrialization and urbanization have generated economic opportunities, but environmental degradation has also created substantial costs. According to the World Bank's Bangladesh Country Environmental Analysis 2023, air pollution, unsafe water, inadequate sanitation and hygiene, and lead exposure were associated with more than 272,000 premature deaths and 5.2 billion days of illness annually. The report estimated the associated economic cost at 17.6% of GDP in 2019. These figures illustrate that environmental degradation is not merely an ecological concern; it also has implications for public health, productivity and economic development.

The social dimension presents a similar picture. Although the expansion of the RMG industry has created employment opportunities for millions of people, particularly women, its growth has also exposed shortcomings in workplace safety, labour rights and equal opportunity. The Rana Plaza collapse in April 2013, which killed 1,134 people, brought international attention to the consequences of unsafe working conditions in Bangladesh's garment industry.

While subsequent factory inspections and remediation efforts have contributed to significant improvements in workplace safety, challenges relating to wages and workers' rights remain. Gender inequality is another concern. According to the International Labour Organization, approximately four out of five production-line workers in Bangladesh's garment industry are women, yet only around one in twenty supervisors are women. Women also tend to be concentrated in lower-paid tasks and face barriers to career progression. These examples illustrate that economic growth does not automatically guarantee safe working conditions, fair compensation or equal opportunities. Sustainable development must therefore be assessed not only by the economic opportunities it creates, but also by how its benefits and costs are distributed across society.

1.2 Do sustainable practices actually improve business performance?

The question, however, is whether businesses themselves have a sufficient incentive to adopt sustainable practices. It is reasonable to assume that most businesses are primarily concerned with profitability and long-term value creation. If adopting sustainable practices requires substantial capital expenditure, while the benefits are uncertain or may take years to materialize, businesses may have little incentive to make such investments unless there is a corresponding commercial benefit or regulatory requirement.

Research examining the relationship between sustainability and financial performance provides two key insights:
First, the relationship is generally positive, but the extent of the benefit depends on the economic environment. A meta-analysis, which combines the findings of multiple earlier studies, covering 233,390 observations from research published between 2010 and 2024 found a statistically significant positive relationship between sustainability practices and financial performance. However, the relationship weakened as the level of economic development increased. This suggests that sustainability can be commercially beneficial, but the marginal benefit may be smaller in more developed economies. Although the findings do not establish precisely why this difference exists, it could possibly be because regulatory requirements, market expectations or baseline performance are already higher there.



Second, adopting sustainable practices does not automatically translate into better business performance, although specific sustainability initiatives can generate measurable commercial and environmental benefits. A study examining 4,081 firms across 25 emerging economies found that firms with lower carbon emissions relative to the scale of their operations tended to be more profitable. However, companies with higher ESG disclosure scores, which measure the sustainability-related information they report, did not necessarily achieve superior financial performance (Gabr and ElBannan, 2024).

Evidence from Bangladesh's garment industry provides further insight into this relationship. One study examining 403 garment manufacturers found that green supply-chain practices were positively associated with environmental, economic and operational performance. Green supply-chain practices refer to efforts to reduce the environmental impact of production and delivery, such as reducing water and energy consumption, minimizing fabric waste and improving the efficiency of transportation. However, the study found that these practices did not translate into better performance across every dimension examined (Habib et al., 2022).

A second study, examining 345 export-oriented apparel manufacturers in Bangladesh, found that social sustainability practices had a positive and statistically significant direct relationship with competitive advantage. However, environmental and economic sustainability practices did not demonstrate strong direct relationships. The relationship showed significance when productivity was considered as a mediating factor. This suggests that sustainability practices may strengthen manufacturers' competitiveness through improved productivity, while social sustainability can also contribute more directly (Razzak, 2023[P1A1]). As both studies relied on statistical models examining reported practices and outcomes, their findings indicate relationships rather than conclusively establishing cause and effect.

Evidence from specific sustainability initiatives further demonstrates how these practices can generate commercial benefits. The International Finance Corporation's Partnership for Cleaner Textile (PaCT) program, which helps textile factories identify and implement measures to use resources more efficiently, reported annual cost savings exceeding USD 100 million across participating factories in Bangladesh. The program also reported annual water savings of approximately 30 billion liters and reductions in greenhouse gas emissions exceeding 670,000 tons of carbon-dioxide equivalent (IFC, 2023).

Similar benefits can arise from social sustainability initiatives. The Gender Equality and Returns (GEAR) program helps female garment workers develop the skills required to progress into supervisory positions. An assessment of the program found that more than two-thirds of women completing the training were promoted to supervisory positions, with their salaries increasing by approximately 40%. Production lines managed by trained supervisors were also found to be 2.5–4.3 percentage points more efficient than comparison lines, depending on the comparison used. These findings suggest that improving career opportunities and developing workers' capabilities can benefit both employees and factory productivity (IFC and ILO, 2025).

More recently, Cornell University's Global Labor Institute examined the potential financial returns from investments to reduce heat stress in garment factories in Bangladesh. Based on data from eight factories in the Dhaka region, the researchers estimated that cooling investments could pay for themselves within approximately one to four years, depending on the assumptions used. These returns were modelled estimates rather than guaranteed outcomes, and the findings cannot automatically be applied to every factory. Nevertheless, the study illustrates how investments aimed at protecting workers' health can also help reduce productivity losses and generate financial benefits (Cornell University Global Labor Institute, 2026).

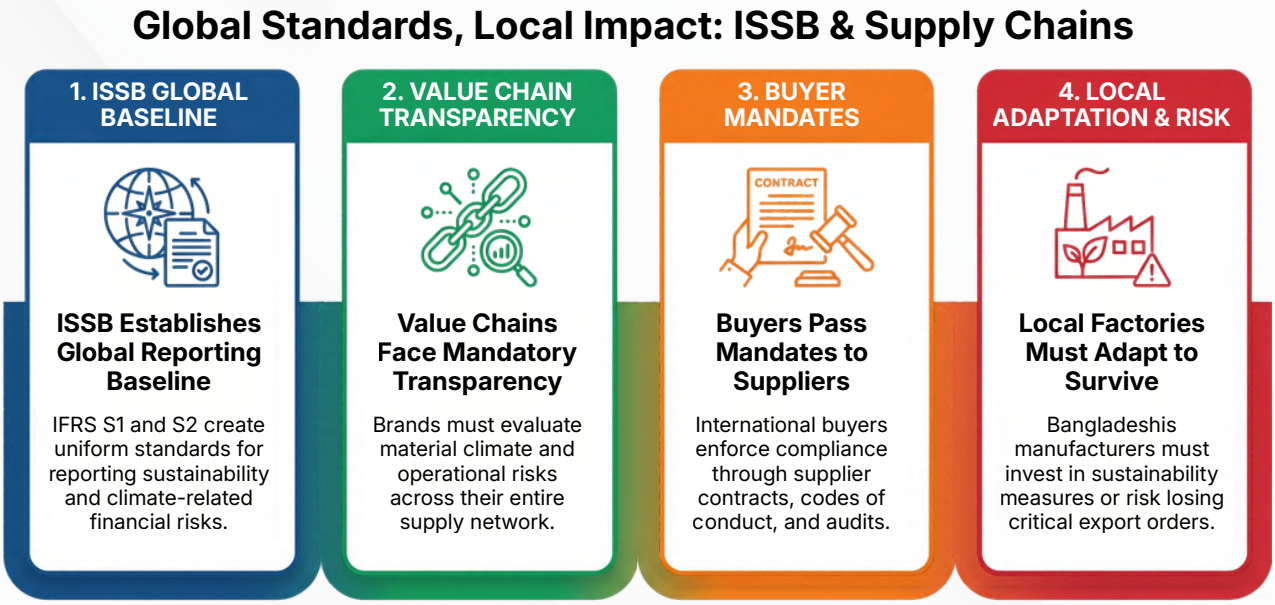
These findings suggest that the commercial benefits of sustainability depend on the nature of the practice, its implementation cost and the extent to which it improves productivity, reduces operating expenditure or mitigates risk. The evidence therefore points to a need to assess sustainability initiatives based on their specific costs and expected benefits, rather than assume that every practice will generate a positive financial return.



1.3 How international standards and supply chains are changing the equation

With the increased importance placed upon sustainable practices, the need for transparency and disclosures by businesses has also grown. Historically, sustainability disclosures have been largely voluntary, with companies using different frameworks and metrics to report their performance. As such, it can be difficult for stakeholders to reliably compare the sustainability practices of different companies, particularly when they operate in different countries and follow different reporting requirements.

To address this issue, the International Sustainability Standards Board (ISSB) issued IFRS S1 and IFRS S2 in 2023. IFRS S1 establishes the general requirements for disclosing sustainability-related risks and opportunities that could affect a company's cash flows, access to finance or cost of capital. IFRS S2 focuses specifically on climate-related risks and opportunities. The objective is to establish a common baseline for sustainability-related financial disclosures, making the information more consistent and comparable across companies and jurisdictions.



The importance of these standards, however, extends beyond the companies that are directly required to adopt them. Businesses today operate through global supply chains, where a company in one country may depend on manufacturers, suppliers and service providers located across several others. Under IFRS S1 and S2, a reporting company may need information about material sustainability-related risks across its value chain, including those associated with its suppliers. For example, an international clothing brand may need to assess whether its suppliers' energy consumption, exposure to water shortages or other sustainability-related risks could affect its operations and financial performance. This can create a need for the brand to collect relevant information from the factories manufacturing its products.

It is important to distinguish between the reporting requirements imposed on a company and the requirements it places on its suppliers. IFRS S1 and S2 do not automatically require every supplier in a global supply chain to adopt these standards. However, companies that are required to report may ask their suppliers for more reliable information about their environmental and social practices to support their disclosures and manage their risks. International buyers may also impose their own sustainability requirements through supplier contracts, audits and codes of conduct, independently of these reporting standards.



These effects can already be observed in Bangladesh's RMG industry. A study by Shumon et al. (2019), based on eight case studies of garment manufacturers in Bangladesh, found that international buyers imposed environmental requirements on their suppliers, with the requirements varying between buyers. The study also identified challenges relating to the complexity of implementation, deadlines and the use of buyer-specific standards. This illustrates the spillover effect of how requirements originating in foreign markets can influence the decisions of manufacturers in Bangladesh, even when those manufacturers are not directly subject to the regulations or reporting standards that prompted the requirements.

For manufacturers, adapting to these changes may require investments in more efficient machinery, wastewater treatment, renewable energy or systems for measuring and reporting sustainability-related information. Some of these investments can reduce operating costs over time, while others may increase costs without generating an immediate financial return. Nevertheless, manufacturers that are unable to meet relevant buyer requirements or provide the necessary information may face difficulties maintaining existing business relationships or securing new orders. The extent of this risk will depend on the requirements of individual buyers and the markets they serve.

The question, therefore, is not simply whether international sustainability standards will apply directly to Bangladeshi manufacturers. It is also whether the manufacturers will be able to adapt to the requirements of the companies they supply, and whether the cost of doing so will affect their competitiveness. This is particularly important for Bangladesh, where the RMG sector plays a significant role in the country's export earnings.

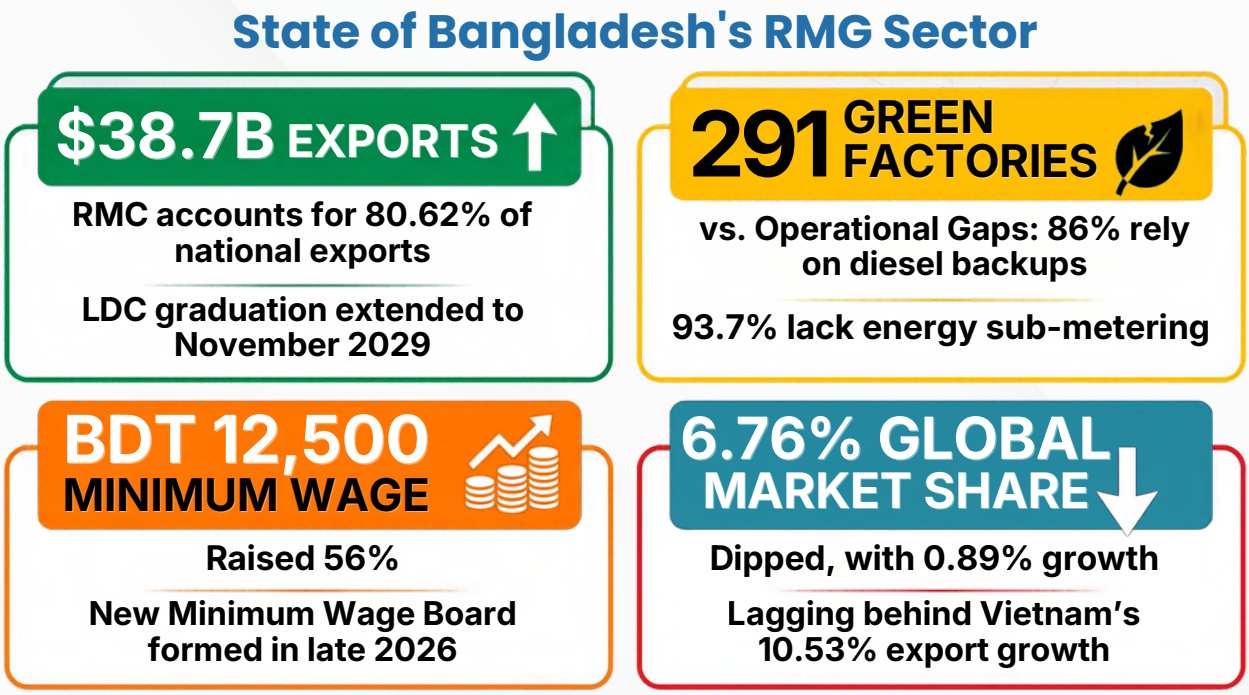


CHAPTER 2: Sustainability and Competitiveness of Bangladesh's RMG Sector

2.1 The Current State of Bangladesh's RMG Sector

With garments as the bread and butter of Bangladesh, it is important for us to assess where this industry actually sits before we can talk about readiness. The sector accounted for USD 38.70 billion in exports in FY2026, representing 80.62% of total export earnings, and employs roughly four million workers, around 60% of whom are women. Bangladesh remains the world's second-largest apparel exporter, making the industry's long-term competitiveness particularly important for the country's economic development.

The original target date for Bangladesh's graduation from least developed country (LDC) status was 24 November 2026. But as per the resolution passed by the United Nations General Assembly on 30 October 2026, Bangladesh received a three-year extension for its pr[P1A1] eparatory phase, resulting in an extended deadline for graduation until 24 November 2029. This provides additional time to strengthen export competitiveness, address structural vulnerabilities and prepare for the eventual loss of LDC-specific trade preferences. As international buyers face evolving reporting requirements and sustainability expectations, it is important to assess whether the industry is prepared to adapt and whether shortcomings in sustainable practices could become an additional risk to its competitiveness.



Let us take the three dimensions in turn.

Environmental

Bangladesh has made considerable progress in green garment manufacturing. BGMEA currently reports 291 LEED-certified green garment factories, including 53 among the world's top 100 (BGMEA, 2026). This is a notable achievement, but the number of certified factories alone does not establish how sustainable the industry is as a whole. Several gaps remain.

A 2026 energy assessment by the BRAC Institute of Governance and Development (BIGD), covering 339 export-oriented factories, illustrates what sits beneath the headline figures. Around 86% of the assessed factories still operate diesel generators as backup, while 93.7% have no sub-metering to identify where energy is being consumed. Although around 29% have installed solar panels, the median solar system supplies only about 2% of the energy needs of the factory using it. The study estimated that rooftop solar could potentially meet 11–22% of the sector's grid electricity requirements, indicating considerable scope for further investment in renewable energy.

Water tells a similar story. Textile dyeing and finishing are water-intensive processes, and the resulting wastewater creates substantial environmental pressure. According to the World Bank, Greater Dhaka generates an estimated 5.3 million cubic meters of wastewater daily, nearly 70% of which comes from water-intensive processing industries. Although this figure is not attributable entirely to the RMG sector, it illustrates the wider industrial pollution challenge facing Bangladesh. Improvements in energy efficiency, renewable energy adoption, water reuse and wastewater treatment remain necessary.

Social

The Rana Plaza catastrophe in April 2013, which killed 1,134 people, was a turning point for workplace safety in Bangladesh's garment industry. Following the disaster, the government-led national initiative, the Bangladesh Accord on Fire and Building Safety and the Alliance for Bangladesh Worker Safety assessed thousands of export-oriented factories and drove substantial remediation of building, fire and electrical safety risks. The ILO has documented significant improvements resulting from these efforts.

Although this is meaningful progress, safety is the floor and not the ceiling. Social sustainability also concerns wages, working conditions, workers' rights and opportunities for career development.

On the wages front, the picture is more complicated. In December 2023, the monthly minimum wage for garment workers was increased by 56%, from BDT 8,000 to BDT 12,500. However, worker organisations continue to argue that the revised rate has not kept pace with inflation and the rising cost of living. Protests in August 2026 called for a minimum monthly wage of around BDT 30,000. In late October, 35 labour federations under four major alliances demanded BDT 37,125, while the IndustriALL Bangladesh Council called for approximately BDT 32,085.

The April 2026 amendment to the Bangladesh Labour Act also reduced the minimum-wage review cycle from five years to three, making the timing of the next revision particularly important. As of 28 October 2026, the government had received nominations from both employers' and workers' representatives and said the gazette establishing the new Minimum Wage Board would be issued within seven days. The government subsequently constituted a new Minimum Wage Board for the RMG sector on 1 November 2026, comprising employer, worker and neutral representatives, to determine the revised minimum wage.

The issue, therefore, is not simply whether the law provides for a minimum wage or a periodic review. It is whether the wage-setting process responds to workers' living costs and whether the resulting requirements translate into actual outcomes on the factory floor. Formal regulations can change, but outcomes do not automatically follow.

Economic

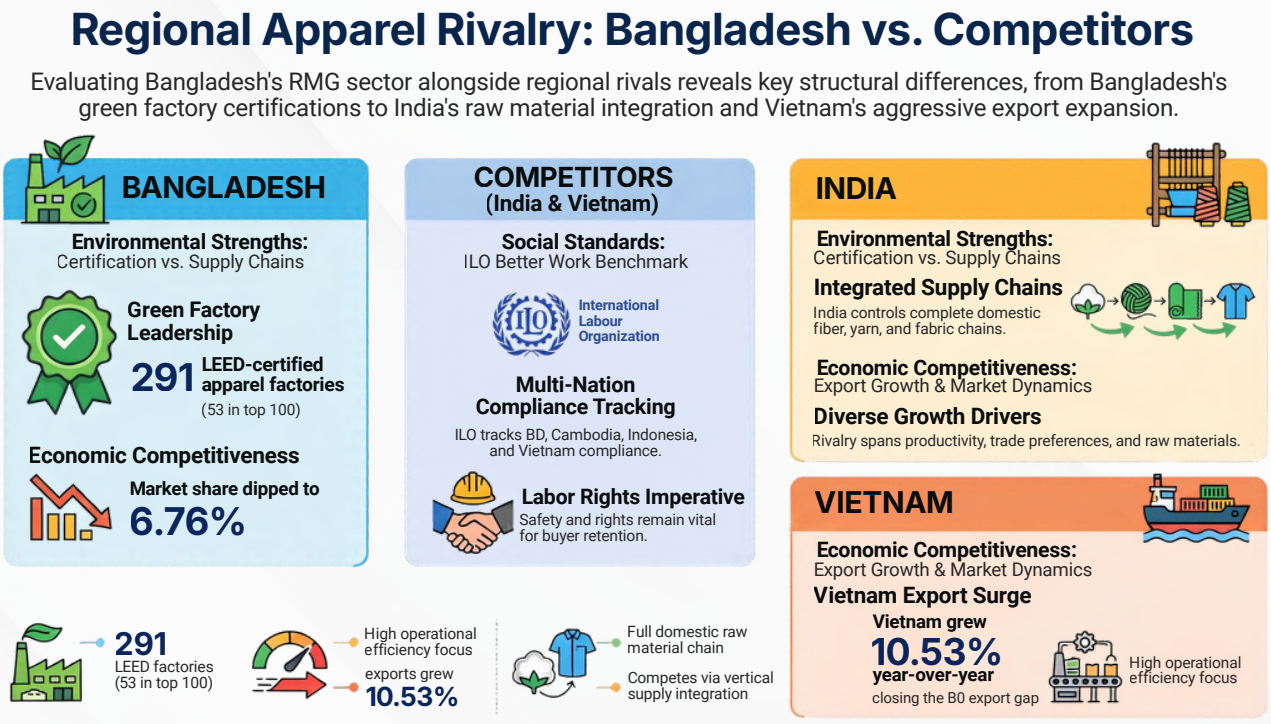
On the economic front, Bangladesh's share of the global apparel market declined from 7.0% in 2024 to 6.76% in 2025, while its apparel export value grew by only 0.89%, against global market growth of 4.46%. Vietnam, meanwhile, recorded export growth of 10.53%, narrowing the gap between the two countries to approximately USD 1.31 billion.
There are other factors behind this performance, including global economic and geopolitical developments, tariff changes, and domestic political and macroeconomic conditions. The figures do not establish that sustainability shortcomings caused Bangladesh's slower export growth. Nevertheless, they highlight the competitive pressure facing the industry. If sustainability becomes a more significant factor in sourcing decisions, shortcomings in environmental performance, worker welfare and the ability to demonstrate compliance with relevant requirements could create an additional vulnerability for Bangladesh's manufacturers.



2.2 How Does Bangladesh Compare with Its Competitors?

Bangladesh's experience shows both the opportunities and limitations of assessing sustainability through individual indicators. Its achievements in green-factory certification are a notable strength, but the energy and water challenges discussed above indicate that certification does not necessarily reflect the performance of the wider manufacturing base. Vietnam and India also have established textile industries, with Vietnam competing strongly in export-oriented garment manufacturing and India benefiting from a broader domestic supply chain spanning fibres, yarn, fabrics and garment production. These differences matter because the cost, availability and environmental impact of raw materials and energy can influence manufacturers' ability to meet buyer requirements. However, the available evidence does not provide a sufficiently consistent set of environmental indicators to establish which country performs better overall.

On the social front, the International Labour Organization's Better Work programme provides a basis for comparing labour conditions in selected factories across Bangladesh, Cambodia, Indonesia and Vietnam. Its country programs examine compliance with labour laws and international labour standards, including working conditions and occupational safety. The findings identify both improvements and persistent challenges across participating countries, but the factories assessed do not necessarily represent each country's entire industry. As such, the evidence does not support a definitive ranking of these countries in terms of social sustainability. What it does demonstrate is that maintaining competitiveness requires continued attention to workers' rights and working conditions, irrespective of a country's position in global apparel exports



Economically, the export figures discussed above indicate that Bangladesh is facing increasing competition from Vietnam and Cambodia, while India's broader textile manufacturing base provides a different model for competing in international markets. Export performance is influenced by several factors, including production costs, productivity, trade preferences, logistics, product diversification and supply-chain integration. Sustainability should therefore be viewed as an additional consideration within this broader competitive environment rather than the sole determinant of export performance. Bangladesh has an established manufacturing base and a strong record in green-factory certification, but the long-term challenge is to extend these achievements across the industry while improving resource efficiency, worker welfare and productivity. This will help ensure that sustainability-related requirements do not become an additional obstacle to maintaining the country's position in global apparel markets.

2.3 Bangladesh's Readiness for the Sustainability Transition

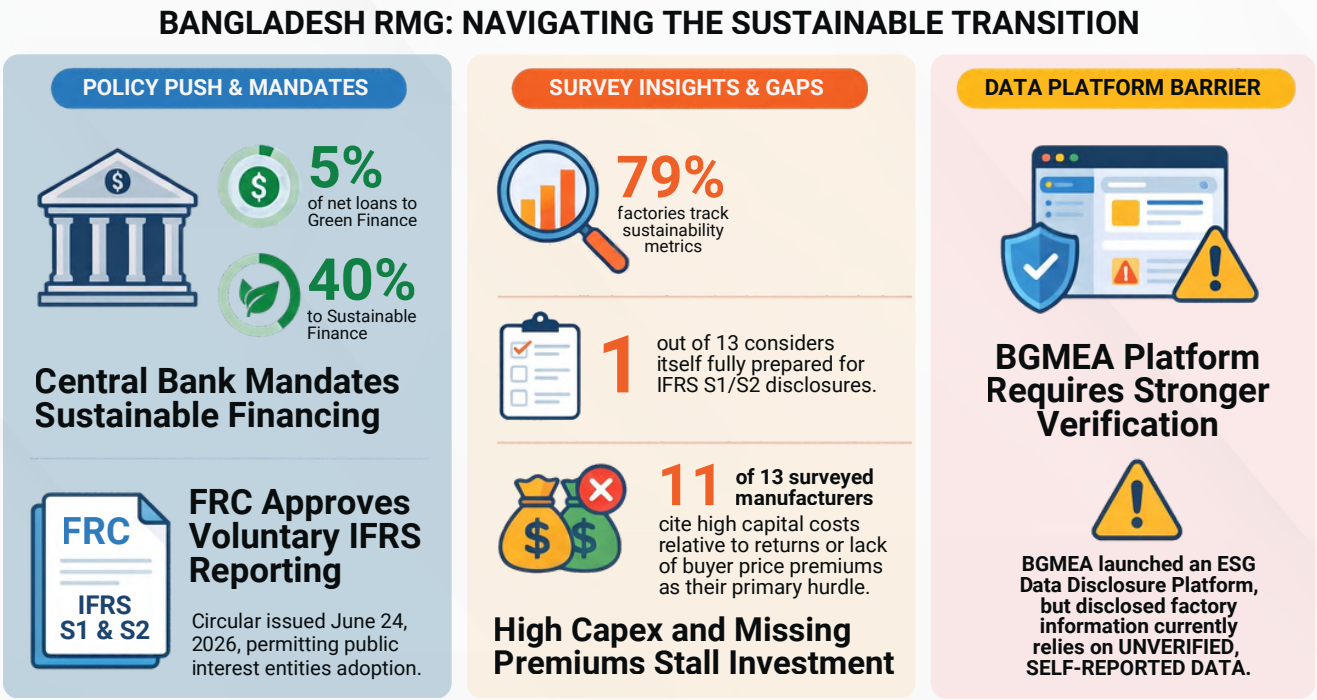
Bangladesh has already taken steps towards incorporating sustainability into its financial reporting and financing frameworks. However, the extent to which these initiatives translate into widespread adoption across businesses remains an important question. The transition requires not only the introduction of reporting standards and regulatory requirements, but also the ability of businesses to collect reliable information, understand the risks they face and finance the investments needed to improve their sustainability performance.

Adoption of IFRS S1 and S2 in Bangladesh

Bangladesh has made progress in adopting international sustainability disclosure standards. In December 2023, Bangladesh Bank issued its Guideline on Sustainability and Climate-related Financial Disclosure for banks and finance companies, based on IFRS S1 and S2. The requirements are being implemented in phases, with full disclosure under the guideline scheduled for 2027.

The Financial Reporting Council (FRC) has also adopted IFRS S1 and S2 for public interest entities through a circular issued in 24 June 2026. However, their use is currently permitted rather than subject to a general mandatory effective date. This represents an important step towards extending sustainability reporting beyond the financial institutions already covered by Bangladesh Bank's framework.

In our interview for this edition, Mr. Raqibul Faiaze Mohammad Ikramah, Head of Financial Accounting & Reporting at Grameenphone, also highlighted Bangladesh's progress in adopting these standards. Drawing on his involvement in policy recommendations to the FRC, he emphasized that the next priority is effective implementation, supported by professional capacity building and coordination between regulators, businesses and professional bodies.



The role of financial institutions in driving adoption

The decision to introduce sustainability disclosure requirements for banks and finance companies as an initial step is particularly relevant. These institutions allocate capital across different sectors of the economy, meaning their lending and investment decisions can influence the practices of the businesses they finance. If environmental and social risks are incorporated into credit assessments, lenders may have greater incentive to consider whether a borrower is exposed to environmental liabilities, climate-related disruptions or other sustainability-related risks.

Bangladesh Bank has also established targets for green and sustainable finance. From 2025 onwards, banks and finance companies are required to set targets equivalent to 5% of their net loans and advances for green finance and 40% for sustainable finance. These requirements provide a mechanism through which sustainability considerations can influence the allocation of capital across the economy.

For the RMG sector, this could help manufacturers finance investments in renewable energy, energy efficiency, wastewater treatment and other qualifying sustainable initiatives. At the same time, incorporating environmental and social considerations into credit assessments can encourage businesses to identify and manage risks that might otherwise affect their operations and financial performance. However, the availability of such financing does not necessarily mean that every manufacturer can access it on suitable terms or that every sustainability investment will generate an adequate return.

The remaining challenge is implementation

Despite these developments, the transition towards sustainable business practices remains constrained by financing, technical capacity and the availability of reliable information. Research by the Centre for Policy Dialogue (CPD) on the decarbonization of Bangladesh's RMG sector has identified high investment costs, limited access to finance and other institutional barriers as challenges to adopting more substantial improvements in energy efficiency and renewable energy.

To better understand how these challenges are perceived by manufacturers themselves, ECRL conducted a survey of RMG factories in Bangladesh. Of the 36 factories invited to participate, 14 responded, representing a response rate of approximately 39%. Although the small sample does not allow the findings to be generalized to the entire industry, it provides a useful indication of the views and practices of the participating factories.



The findings suggest that manufacturers recognize the potential commercial benefits of sustainability. Twelve of the 14 responding factories (86%) agreed or strongly agreed that adopting standards such as IFRS S1, IFRS S2 and the GHG Protocol improves long-term competitiveness, while none disagreed. Energy cost volatility and supply instability were identified as the leading environmental risk over the next five to ten years by 13 of the 14 factories (93%). This concern is reflected in their reported investments, with rooftop solar and energy-efficiency improvements being the most commonly selected measures.

However, a gap remains between measuring sustainability performance and being ready to disclose it under international standards. Eleven of the 14 factories (79%) reported comprehensively tracking indicators such as energy, water, emissions and waste. Yet, among the 13 factories that completed the reporting questions, only five published a standalone sustainability or ESG report, and only one considered itself fully prepared to report under IFRS S1 and S2. At the same time, eight of the 13 factories (62%) reported having full third-party assurance of their ESG data. The findings suggest that some manufacturers already collect and verify sustainability information but have yet to translate it into formal disclosures aligned with international reporting standards.

The survey also provides insight into why this gap persists. Eleven of the 13 factories identified either high capital expenditure relative to the expected return or the lack of a clear price premium for greener products as their main obstacle. Six cited high capital costs and low expected returns, while five cited the absence of a clear price premium from buyers. When asked what would most encourage green investment, eight factories selected long-term buyer contracts accompanied by a price premium, while the remaining five selected government tax exemptions and import duty relief. None selected low-interest green financing or technical training as their single most important incentive.

These findings should be interpreted with caution given the small, self-reported sample. Nevertheless, they highlight a potential disconnect between the incentives facing manufacturers and the expectations placed on them. While buyers may benefit from improved sustainability performance and more reliable supply chains, manufacturers must often bear the initial cost of making these improvements. Without sufficient certainty that the investment will be commercially worthwhile, factories may have limited incentive to move beyond existing practices, even when they recognize the potential long-term benefits.

The availability of reliable sustainability data is another challenge. BGMEA's ESG Data Disclosure Platform has begun collecting information on environmental, social and governance performance across participating factories. However, its methodology states that the data are self-reported and have not been independently audited or verified. While the initiative is an important step towards improving transparency, wider coverage and stronger verification mechanisms will be necessary to provide a more complete and reliable picture of the industry's sustainability performance.

Addressing these constraints will require a coordinated approach. Manufacturers need access to the financing and technical expertise necessary to implement improvements, while banks and finance companies need the capacity to assess sustainability-related risks and evaluate the investments they finance. International buyers can also play a role by providing clearer requirements and supporting longer-term supplier relationships that make sustainability investments more commercially viable. At the same time, common reporting metrics, appropriate internal controls and professional capacity building can help businesses produce reliable disclosures without imposing unnecessarily high compliance costs, particularly on smaller manufacturers. These priorities are also reflected in Mr. Ikramah's recommendations concerning the implementation of IFRS S1 and S2 and the development of a credible sustainability assurance framework in Bangladesh.



ECRL Thought

Impact of ESG on Credit Rating in the Context of Bangladesh



ECRL Thought

ESG (Environmental, Social and Governance) is a fairly new concept in Bangladesh, introduced in early 2020, but rather than adopting it as a buzzword, our regulators have systematically laid the groundwork for the concept since 2011. The key driver, as with many pivotal policies, was Bangladesh Bank, which introduced the Green Banking Policy in 2011, followed by Environmental & Social Risk Management (ESRM) in 2017, which can be considered phase one; following that, it published the Sustainable Finance Policy in 2020, updated ESRM Guidelines in 2022, and finally published the Guideline on Sustainability and Climate-related Financial Disclosure, aligning national reporting with international standards (such as IFRS S1 and S2) in 2023.

This gives the financial sector a clear roadmap for adopting ESG in its business practices. Now comes the most frequently asked question: how does ESG impact credit rating in the context of Bangladesh? In a nutshell, the impact of ESG on credit ratings is likely to be varied, and a nuanced approach needs to be followed here because the factors will produce different results in different situations. In an effort to provide greater clarity, let us analyze a paper published by S&P Global Ratings titled "ESG Credit Factors: A Deeper Dive," dated November 17, 2021. The aforesaid rating agency concludes, "ESG factors may or may not materially influence our credit analysis. ESG credit factors are those that can materially influence the creditworthiness of a rated entity or issue and for which we have sufficient visibility and certainty to include in our credit rating analysis. ESG credit factors can have a negative or positive impact on creditworthiness, depending on whether they represent a risk or an opportunity, for example, regulatory or reputational risks.

The infographic shows the type of ESG factors the paper has identified as ESG Credit Factors.

The question remains: how important are these factors in the context of the Bangladesh Economy? In my opinion, the following factors can be very important.

Environmental

Climate Transition Risk: Can be very important and pivot risk in agribusiness of the country for example Brackish water shrimp farming (gher) has introduced saline water inland. The environmental impact needs to be studied further.

Natural Capital: With increased concerns regarding energy security of the country, investment in solar power can be a game changer; however, long-term cost and benefit analysis needs to be studied.

Social

Human Capital: With increased inflation and other technological challenges, the robustness of the company's talent pool needs to be analyzed with more weightage.

Governance

Risk Management Culture and Oversight: With the introduction of stringent regulations, it needs to be assessed with increased scrutiny on how strong the reporting standards of the rated entity are. Regulators are more vigilant and have increased oversight of public interest entities.

To understand the matter further, let's look at a study done to understand the relationship between Environmental, Social, and Governance (ESG) factors and the long-term credit ratings assigned by major agencies like Moody's, S&P, and Fitch to over one hundred publicly traded European banks between 2019 and 2023. The study is titled "The impact of ESG factors on credit ratings: An empirical study of European Banks" published in International Review of Economics volume 99 published in 2025. The study found the following

- **Environmental Factors Have a Consistently Positive Impact:** This highlights that rating agencies recognize climate-related risks, carbon transition, and resource management as material factors affecting bank creditworthiness.

- **Social Factors Show a Negative or Insignificant Relationship:** This counterintuitive finding suggests that the immediate upfront costs associated with social initiatives (e.g., labor practices, community investment) may negatively impact short-term financial metrics prioritized by rating agencies.

- **Corporate Governance Yields Agency-Specific Results:** This difference stems from methodology: Fitch heavily emphasizes quantitative governance metrics, whereas S&P relies on qualitative evaluations and Moody's prioritizes sovereign governance over corporate governance.

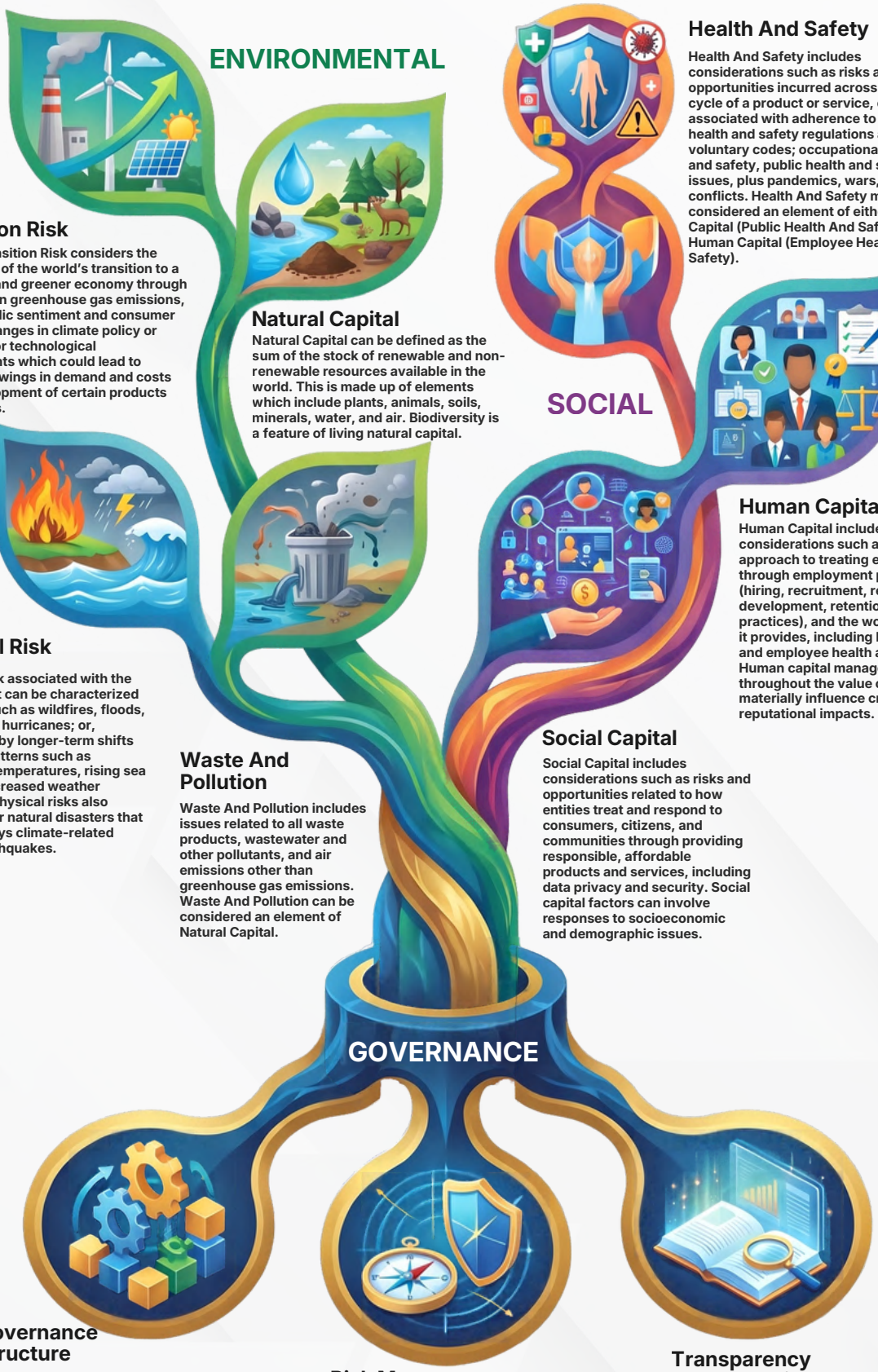
- **ESG Combined Score Benefits Fitch Ratings Only:** The overall ESG Combined Score has a positive and significant effect on credit ratings assigned by Fitch, but lacks statistical significance for Moody's and S&P. Moody's and S&P tend to assess E, S, and G factors as separate risk drivers rather than relying on a single aggregated score.

- **Fewer ESG Controversies Improve S&P Ratings:** A higher ESG Controversies Score (representing fewer controversies) significantly boosts credit ratings assigned by S&P, emphasizing S&P's focus on risk position and transparency. In contrast, Moody's and Fitch do not show a statistically significant relationship with controversies.

- **Financial Fundamentals Remain the Primary Drivers:** Traditional bank metrics continue to strongly dictate credit ratings. Profitability (ROA), capital adequacy, and bank size positively impact ratings across agencies, while the non-performing loan (NPL) ratio consistently exerts a negative effect.

Admittedly the results achieved in Europe will not be translated in Bangladesh but it does provide a good reference point form where farther country specific research can be undertaken. The research also supports S&P Global Ratings' conclusion that ESG factors may or may not materially influence credit analysis.
In conclusion, I would like to use this article as a thought-provoking piece so that all the stakeholders have a basic understanding of how ESG factors may impact credit rating opinion. At the same time, I concur that further research is required to give a more comprehensive picture.





Climate Transition Risk

Climate Transition Risk considers the implications of the world's transition to a low carbon and greener economy through a reduction in greenhouse gas emissions, shifts in public sentiment and consumer demand, changes in climate policy or legislation, or technological advancements which could lead to significant swings in demand and costs for or development of certain products and services.

Natural Capital

Natural Capital can be defined as the sum of the stock of renewable and non-renewable resources available in the world. This is made up of elements which include plants, animals, soils, minerals, water, and air. Biodiversity is a feature of living natural capital.

Health And Safety

Health And Safety includes considerations such as risks and opportunities incurred across the life cycle of a product or service, or those associated with adherence to relevant health and safety regulations and voluntary codes; occupational health and safety, public health and safety issues, plus pandemics, wars, and conflicts. Health And Safety may be considered an element of either Social Capital (Public Health And Safety) or Human Capital (Employee Health And Safety).

Human Capital

Human Capital includes considerations such as an entity's approach to treating employees through employment practices (hiring, recruitment, remuneration, development, retention, and related practices), and the working conditions it provides, including labor relations and employee health and safety. Human capital management throughout the value chain may materially influence credit through reputational impacts.

Physical Risk

Physical Risk associated with the environment can be characterized by events such as wildfires, floods, droughts, or hurricanes; or, exemplified by longer-term shifts in climate patterns such as increasing temperatures, rising sea levels, or increased weather variability. Physical risks also include other natural disasters that are not always climate-related such as earthquakes.

Waste And Pollution

Waste And Pollution includes issues related to all waste products, wastewater and other pollutants, and air emissions other than greenhouse gas emissions. Waste And Pollution can be considered an element of Natural Capital.

Social Capital

Social Capital includes considerations such as risks and opportunities related to how entities treat and respond to consumers, citizens, and communities through providing responsible, affordable products and services, including data privacy and security. Social capital factors can involve responses to socioeconomic and demographic issues.

Governance Structure

Governance Structure refers to how an entity is set up to make decisions that weigh the interests of its stakeholders. The independence, composition, and effectiveness of decision-making bodies and the institutional setups of sovereign and local governments may be key considerations. This also may include turnover, skill sets, and key person risk associated with the management structure.

Risk Management And Oversight

Risk Management, Culture, And Oversight refers to how an entity makes and executes decisions or policies. This may include an entity's effectiveness in identifying, monitoring, selecting, and mitigating the risks it takes, and the extent to which these risks are contained within the entity's risk appetite. This factor may also consider alignment of the entity's culture to strategic vision and the entity's ability to set and achieve strategic goals within its capabilities.

Transparency And Reporting

Transparency And Reporting considers the extent to which stakeholders have ready access to all relevant information about an entity, including its audited financial reports. This may include the quality, reliability, frequency, and timeliness of the entity's information disclosure and the standards of its jurisdiction.

Asking the Expert

Interviewed by Abdul Fattah Saad Bin Zaman on 11 October, 2026



Sustainability should be part of how an organisation does business, not simply a box to tick.

-Mr. Raqibul Faiaze Mohammad Ikramah

RAQIBUL FAIAZE MOHAMMAD IKRAMAH

FCCA, CPA

Head of Financial Accounting & Reporting, Grameenphone Ltd.
Member, Global Forum for Corporate Reporting - ACCA
International Assembly Representative of ACCA Bangladesh
Vice Chair, Members Advisory Committee (MAC) - ACCA Bangladesh
Co-Lead — MAC Sustainability Reporting, AI and Technology Subcommittee



Interview with Mr. Raqibul Faiaze Mohammad Ikramah, FCCA, CPA, Head of Financial Accounting & Reporting at Grameenphone Ltd.

Interviewed by Abdul Fattah Saad Bin Zaman ;
Financial Analyst, Emerging Credit Rating Limited (ECRL)
on 11 October, 2026.

Meet the Expert

Mr. Raqibul Faiaze Mohammad Ikramah, FCCA, CPA, is a seasoned finance leader and passionate advocate for the accountancy profession, with extensive experience in financial reporting, sustainability reporting, governance and professional development. As Head of Financial Accounting & Reporting at Grameenphone Ltd., he leads the company's financial accounting, corporate reporting and sustainability reporting activities. He serves as a Member of the ACCA's Global Forum for Corporate Reporting, Vice Chair of the ACCA Bangladesh Members' Advisory Committee (MAC), and International Assembly Representative for ACCA Bangladesh. He also co-leads the MAC's Sustainability Reporting, AI and Technology Subcommittee, supporting thought leadership, member engagement and capacity building. A committed sustainability advocate, speaker, panelist and mentor, he regularly contributes to professional discussions on future-ready finance, ethics, digital transformation and the adoption of global sustainability standards.

Emerging Credit Rating Ltd.

In your view, why does the adoption of Sustainability Disclosure Standards matter for Bangladesh?

Mr. Faiaze:

The real value of IFRS Sustainability Disclosure Standards will come from worldwide adoption, not adoption by one country alone. A common global approach can improve comparability, accountability and confidence in sustainability reporting. For Bangladesh, adoption is particularly important because, despite contributing relatively little to global emissions, we remain highly exposed to climate risks. As professionals, we should lead by example and inspire organisations in Bangladesh and around the world to embrace sustainability reporting and strengthen accountability for a more resilient future. Wider corporate adoption can also create momentum that influences sustainability practices in the public sector, even though these standards do not directly apply to public entities.

Emerging Credit Rating Ltd.

Beyond regulatory compliance, what practical benefits could these standards bring to companies, investors and the wider financial system?

Mr. Faiaze:

For me, sustainability should be part of how an organisation does business, not simply a box to tick. When companies make sustainable choices, they become better prepared for future risks and more resilient over time. However, the value is not always immediately visible or well understood. IFRS Sustainability Disclosure Standards help organisations identify, assess and communicate sustainability-related risks and opportunities, including relevant metrics and targets where applicable. With investors and financiers increasingly looking for responsible and sustainable businesses, credible reporting can also build trust and support access to investment and financing opportunities.

Emerging Credit Rating Ltd.

How do you see IFRS S1 and IFRS S2 changing the way companies and financial institutions consider and communicate sustainability- and climate-related risks and opportunities?

Mr. Faiaze:

It is encouraging to see companies giving sustainability greater priority and communicating more openly. However, voluntary sustainability reporting practices can vary significantly in scope, methodology and completeness. IFRS S1 and IFRS S2 provide a clear and consistent disclosure framework and will require organisations to build knowledge, strengthen capabilities and allocate appropriate resources. The immediate priority should be to prepare early so that, as the requirements become mandatory, first for banks and eventually more widely, organisations are ready to apply them properly rather than treat them solely as a compliance exercise.

Emerging Credit Rating Ltd.

How would you assess the current level of awareness, preparedness and actual implementation of IFRS S1 and IFRS S2 among Bangladeshi companies and financial institutions?

Mr. Faiaze:

Awareness is growing, but real preparedness requires the wider ecosystem to be fully ready. Renewable energy and other sustainable solutions must be readily accessible and affordable so companies can adopt them without disrupting their businesses. This requires coordinated action from government, regulators and businesses, with sustainable resources given high priority. Professional bodies also have a vital role, working with regulators where needed to upskill professionals and build the capabilities required for effective implementation.

Emerging Credit Rating Ltd.

Given Bangladesh Bank's phased implementation and the Financial Reporting Council (FRC's) ongoing adoption process, where do you see Bangladesh currently standing in the transition toward full IFRS S1 and IFRS S2 compliance?

Mr. Faiaze:

As a professional accountant, I am proud to see Bangladesh among the jurisdictions moving early to adopt IFRS S1 and IFRS S2, with phased implementation already under way. The next priority is effective and sustainable implementation: professional bodies, institutions and regulators must work together to upskill industry and regulatory professionals.

Through my volunteer role on ACCA Bangladesh's Members' Advisory Committee (MAC) and its subcommittees, I have led the development of policy recommendations for Financial Reporting Council (FRC) Bangladesh on the IFRS Sustainability Disclosure Standards and the International Standard on Sustainability Assurance (ISSA) 5000, with contributions from many ACCA members and ACCA's global experts.

Sustainability is a high-priority agenda for ACCA, both globally and in Bangladesh. As an ISSB capacity-building partner under the IFRS Foundation Partnership Framework, ACCA is strongly focused on equipping its members for this journey and stands ready to support regulators and other stakeholders in the sustainable implementation of IFRS S1 and IFRS S2 in Bangladesh.

Emerging Credit Rating Ltd.

ACCA Bangladesh has made a valuable contribution through its policy recommendations on Sustainability Reporting and Assurance. Could you briefly highlight the key areas covered in those recommendations to support the high-quality implementation of the IFRS Sustainability Disclosure Standards and International Standard on Sustainability Assurance (ISSA) 5000 in Bangladesh?

Mr. Faiaze:

Let me share our key recommendations in two parts—first, on the implementation of IFRS Sustainability Disclosure Standards, and second, on sustainability assurance under ISSA 5000.

First—IFRS Sustainability Disclosure Standards: We recommend a phased and coordinated national roadmap, beginning with listed and public-interest entities, supported by proportional and sector-specific guidance, locally relevant emissions data, strong governance, digital readiness, and robust links between sustainability and financial reporting. Capacity can be scaled through accredited trainers, accessible learning and university curricula, while leveraging global professional-body expertise and clarifying the role of finance professionals. Encouraging recognised professional certifications in sustainability reporting would help build a dependable pool of skilled resources and improve the consistency and quality of disclosures. Sustainable practices could also be encouraged through financing and tax incentives, ESG ratings, and consideration of sustainability disclosures in credit-rating assessments. FRC may coordinate regulators, consider voluntary application by suitable public-sector and NGO entities, and use pilots and post-implementation reviews to support consistent, high-quality reporting. Such voluntary adoption could also improve accountability and demonstrate how sustainability considerations can be embedded beyond the corporate sector. Inter-regulatory alignment will be essential to avoid overlapping or conflicting requirements and to give reporting entities a clear and consistent implementation pathway.

Second—ISSA 5000: We recommend a phased assurance roadmap, beginning with limited assurance and progressing towards reasonable assurance as reporting systems, data quality and professional capacity mature. Importantly, ISSA 5000 is profession-agnostic, meaning that sustainability assurance is not limited to professional accountants. Assurance practitioners from other professional backgrounds may also undertake engagements where they possess the necessary assurance competence and subject-matter expertise and meet the same rigorous requirements for ethics, independence and quality management. This can expand Bangladesh's pool of assurance providers, but consistent quality standards and public-interest safeguards must apply to everyone. FRC may therefore establish a transparent accreditation, registration, inspection and oversight framework, supported by access to subject-matter experts where specialised knowledge is needed. Coordinated training, pilot engagements and collaboration among regulators, professional bodies, academia and industry will be essential to building a credible, scalable and trusted sustainability-assurance ecosystem in Bangladesh.

ACCA, as an International Sustainability Standards Board (ISSB) capacity-building partner under the IFRS Foundation Partnership Framework, can collaborate with FRC to support national sustainability reporting and assurance readiness through training, technical guidance, and stakeholder awareness initiatives.

Emerging Credit Rating Ltd.

What are the most important areas that companies should focus on at this stage to build the foundation for IFRS S1 and IFRS S2 compliance?

Mr. Faiaze:

Identifying people who are genuinely passionate about sustainability will be key. Given that IFRS Sustainability Disclosure Standards are closely connected with IFRS Accounting Standards, organisations need the right mix of finance professionals and sustainability subject-matter experts. There is no single ideal structure, but finance skills will become increasingly important as companies connect sustainability information with financial reporting and prepare for assurance. Combining these capabilities with credible sustainability assurance can strengthen confidence in reported information and help mitigate the risk of misleading sustainability claims. This is an evolving global journey, and organisations must continue learning and adapting.

Emerging Credit Rating Ltd.

How should companies identify which sustainability- and climate-related risks and opportunities are material for IFRS S1 and IFRS S2 reporting?

Mr. Faiaze:

Under IFRS S1 and IFRS S2, companies identify sustainability- and climate-related risks and opportunities that could reasonably be expected to affect their cash flows, access to finance or cost of capital over the short, medium or long term. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions of primary users of general purpose financial reports.

This is therefore an investor-focused financial materiality assessment. By comparison, the ESRS double materiality concept is broader: it considers both how sustainability matters affect the company (financial materiality) and how the company affects people and the environment (impact materiality). These perspectives can be considered together to provide a more holistic understanding, while reporting under IFRS S1 and IFRS S2 remains focused on financially material information relevant to primary users.

Emerging Credit Rating Ltd.

How reliable and sufficiently developed is sustainability- and climate-related data currently within Bangladeshi companies, and where do you see the biggest data gaps?

Mr. Faiaze:

It is difficult to assess the reliability of sustainability- and climate-related data at this stage, as no reports are currently available, or at least I am not aware of any comprehensive quality assessments. Independent assurance, surveys and research will help evaluate the quality of reported information and identify key gaps. This is an evolving journey. As many companies have not yet fully implemented these standards or achieved full compliance in their disclosures, it is reasonable to assume that data challenges remain. Progress will depend on prioritising data capture across the ecosystem, establishing a centralised database of estimates and available information, building awareness of information needs, implementing structured processes and controls, and digitalising data collection wherever possible.

Emerging Credit Rating Ltd.

What internal controls, governance structures and processes should companies establish over sustainability- and climate-related information to ensure that it is reliable and consistent with the quality of financial reporting?

Mr. Faiaze:

The materiality definitions in the IFRS Accounting Standards and the IFRS Sustainability Disclosure Standards are closely aligned, as both focus on information that could influence the decisions of primary users. As a matter of good practice, companies should apply to sustainability- and climate-related information a level of governance, discipline and control comparable to that used in financial reporting, while adapting the controls to the nature of the information and the reporting process. Integrating sustainability reporting into existing governance, control and reporting processes, rather than creating entirely separate structures, can improve consistency, accountability and reliability.

Emerging Credit Rating Ltd.

From an auditor's perspective, what are likely to be the most challenging aspects of providing assurance over IFRS S1 and IFRS S2 disclosures?

Mr. Faiaze:

In my view, the biggest challenge will be developing enough skilled assurance practitioners with practical experience and the appropriate subject-matter competence. Practitioners will need time to build a strong understanding of sustainability information, estimates and forward-looking assumptions, as well as hands-on experience in applying sustainability assurance standards. I also believe regulators have an important role in setting clear policies, regulations and assurance requirements so that practitioners can work within a consistent framework. This capability will not develop overnight; it will be a learning journey for everyone.

Emerging Credit Rating Ltd.

How should auditors assess management's materiality judgments when sustainability and climate-related disclosures involve significant assumptions, estimates and forward-looking information?

Mr. Faiaze:

In my view, assurance practitioners should assess management's materiality judgments with professional scepticism, particularly where significant estimates, assumptions and forward-looking information are involved. They should evaluate whether management has appropriately applied the relevant reporting criteria, challenge assumptions that appear inconsistent, unsupported or subject to significant uncertainty, and consider entity- and industry-specific risks rather than relying on a generic checklist.

ISSA 5000 requires practitioners to exercise professional judgment and maintain professional scepticism throughout the engagement, identify and assess areas in which material misstatements may arise, and design and perform procedures responsive to those areas in accordance with the applicable assurance requirements.

Where potential disclosure gaps or inconsistencies are identified, practitioners should communicate them to management and evaluate whether they result in a material misstatement. Management remains responsible for preparing the sustainability disclosures and for the underlying materiality judgments.

Emerging Credit Rating Ltd.

What level of evidence and documentation should companies maintain to support their IFRS S1 and IFRS S2 disclosures and facilitate future assurance?

Mr. Faiaze:

The principle is broadly the same as for financial audits; companies should maintain sufficient, appropriate and traceable evidence to support each material disclosure. This should include source data, methodologies, assumptions, estimates, management judgments, approvals and relevant controls, with a clear audit trail. Under ISSA 5000, the documentation should enable the assurance practitioner to understand how the information was prepared, test its reliability and conclude whether it is free from material misstatement.

Emerging Credit Rating Ltd.

What are the three most important steps that Bangladeshi companies should take now to prepare for full IFRS S1 and IFRS S2 reporting and assurance requirements?

Mr. Faiaze:

Many organisations in Bangladesh are already making good progress in these areas. For companies where there is still scope for improvement, in my view, the top three priorities would be: "First, embed sustainability more deeply into the business strategy" so that it shapes decisions and long-term plans. "Second, invest in people and upskilling" by bringing together expertise in finance, sustainability and assurance. "Third, strengthen data and controls" to support credible reporting and future assurance. These are the areas that deserve the most attention at this stage.

Emerging Credit Rating Ltd.

We are pleased to note that Grameenphone recently received the Gold Award for Excellence in ESG & Sustainability Reporting at the ESG Excellence Awards, jointly organised by the UN Global Compact Network Bangladesh and the ESG Institute Bangladesh. Congratulations to the Grameenphone team. Could you tell us a little more about the company's sustainability reporting initiatives?

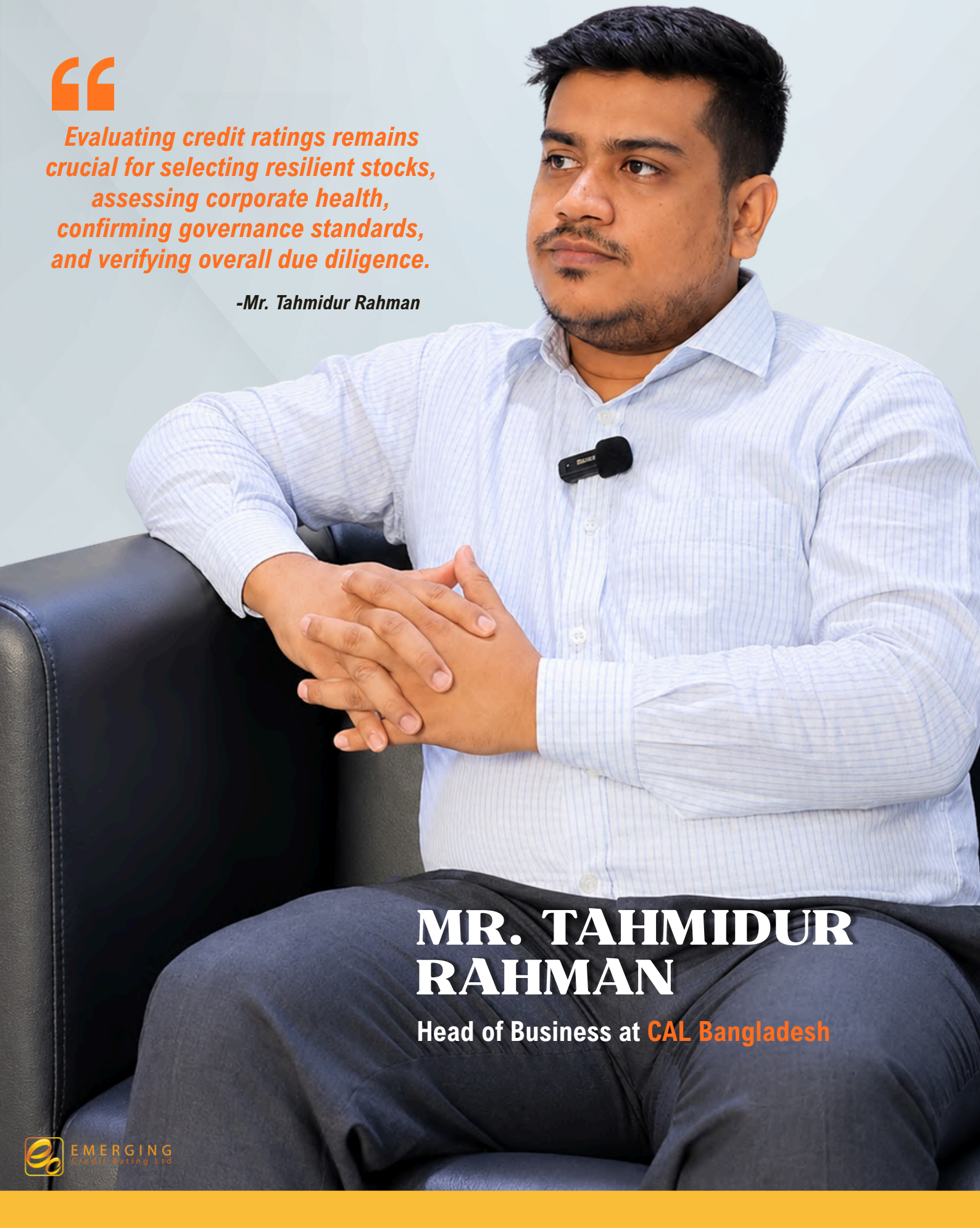
Mr. Faiaze:

Thank you for highlighting this achievement. This recognition is very encouraging for all of us. The recognition reflects Grameenphone's continued efforts to strengthen transparency, accountability, and the quality of its sustainability disclosures. Starting in 2024, Grameenphone voluntarily began preparing its Sustainability Report (as part of the Annual Report) in accordance with the IFRS Sustainability Disclosure Standards. Additionally, the report aligns with the United Nations Sustainable Development Goals (UNSDGs) and is inspired by the European Sustainability Reporting Standards (ESRS). Subsequently, in the Annual Report for 2025, Grameenphone significantly enhanced its Sustainability disclosures by introducing more data points and, specifically, by beginning to disclose Scope 3 GHG emissions in accordance with the GHG protocol.

To ensure the accuracy and reliability of the information presented, our Sustainability Report undergoes independent external limited assurance in accordance with ISSA 5000. This assurance process enhances stakeholders' confidence in the integrity and credibility of our sustainability disclosures. In addition, Grameenphone publicly tracks and reports on key ESG indicators through its website, enabling stakeholders to monitor its sustainability performance and progress throughout the year. These proactive decisions to adopt Sustainability Reporting standards and implement limited assurance in the process underscore its unwavering commitment to the well-being of society and the environment, recognizing the immense value these standards bring to its sustainability efforts.

Asking the Expert

Interviewed by Muhammad Labib Talibuddin & Yausub Ali on 29th October, 2026



Evaluating credit ratings remains crucial for selecting resilient stocks, assessing corporate health, confirming governance standards, and verifying overall due diligence.

-Mr. Tahmidur Rahman

MR. TAHMIDUR RAHMAN

Head of Business at CAL Bangladesh



Interview with Mr. Tahmidur Rahman
Head of Business, CAL Bangladesh

Interviewed by Muhammad Labib Talibuddin, Research Analyst, ECRL
Yausub Ali, Senior Officer- Content & Communication, ECRL
on 29th October, 2026.

Meet the Expert

Mr. Tahmidur Rahman is an experienced capital markets professional with a strong background in equity research, institutional sales, business development and financial market analysis. Currently serving as Head of Business at CAL Bangladesh, he brings extensive experience in driving business growth and building institutional relationships. Previously, he led the Institutional Sales Desk at UCB Stock Brokerage Limited, focusing on institutional clients and high-net-worth investors. Earlier in his career, he worked as a Research Analyst at 1857 Advisors Group, covering the banking, telecommunications, tobacco and manufacturing sectors across the Dhaka and Colombo stock markets, alongside country-specific economic and global macroeconomic developments. His diverse experience bridges financial research, market intelligence and business leadership.

Emerging Credit Rating Ltd.

What are your views on the recent tax policy revisions regarding investments in the capital market?

Mr. Rahman:

It would be a highly positive step if fully implemented. Under current regulations, individual equity investors enjoy a tax-exempt capital gains ceiling of up to BDT 50 Lakh. For instance, if an investor commits BDT 5 Crore and realizes BDT 50 Lakh in capital gains, that entire gain remains untaxed. Any gains exceeding BDT 50 Lakh are taxed at a concessional rate of 15%, alongside any applicable personal income tax surcharge. In a subdued market environment over the past couple of years, such abnormal gains have been virtually non-existent.

Regarding dividend taxation, another significant adjustment was made. The higher tax rates previously applied to dividends have been flattened to a uniform 15% (plus surcharge where applicable). This is particularly impactful because many listed entities demonstrate robust cash flow and solid fundamentals, enabling both retail and institutional investors to benefit as capital locks into the market.

Emerging Credit Rating Ltd.

How soon can retail investors expect to see the impact of these tax adjustments?

Mr. Rahman:

The capital gains benefit primarily targets individuals earning over BDT 50 Lakh in gains within a single fiscal year. For the average retail investor, the immediate impact will remain subtle until overall market conditions strengthen. Conversely, corporate investors do not receive this capital gains waiver. A corporate entity realizing BDT 10 Lakh in capital gains may incur a 15% tax rate, even if it is experiencing operational losses in other business divisions. Extending capital gains exemptions to corporate investors would encourage them to reinvest saved capital directly back into the stock market or core operations.

Emerging Credit Rating Ltd.

Addressing market governance—what role do credit ratings play in establishing transparency and trust within Bangladesh's capital market?

Mr. Rahman:

Credit ratings represent an essential decision-making component for capital market investors. Rating agencies, independent auditors, and bankers share a collective responsibility to deliver accurate, transparent, and actionable information to the market.

Reflecting on the global financial crisis, rating agencies and auditors in several sectors bypassed rigorous due diligence, assigning favorable ratings to subprime debt. In Bangladesh, retail investors often overlook credit rating reports. However, evaluating credit ratings remains crucial for selecting resilient stocks, assessing corporate health, confirming governance standards, and verifying overall due diligence.

When companies approach rating agencies expecting top-tier scores, our thorough due diligence sometimes reveals that their underlying financial health does not justify such high ratings. While raw financial statements are publicly accessible, not all market participants possess the skills for deep financial analysis. Our primary role is to decode complex financial metrics—such as inventory turnover—into clear insights regarding a company's true operational reality

Emerging Credit Rating Ltd.

Your team recently published a research report projecting substantial growth for the DSEX index. What analytical modeling and underlying assumptions inform this projection?

Mr. Rahman:

To summarize our methodology: US equities currently trade near a 25x Price-to-Earnings (P/E) multiple, Indian equities near 20x, and Chinese equities around 15x. When analyzing regional economies such as Sri Lanka and Pakistan, distinct market cycles emerge. Following political transitions and economic reforms in Sri Lanka, government bond yields spiked to nearly 30% before plummeting below 10%, while inflation was successfully curbed. Pakistan navigated a similar trajectory of currency stabilization following severe inflationary pressure.

Bangladesh has faced comparable macroeconomic headwinds in recent years. We anticipate that the compressed earnings multiples currently seen in Bangladesh possess strong potential for expansion. If market multiples expand toward 18x—aligning with regional peer averages—the DSEX index could achieve substantial upside well beyond current levels.

Emerging Credit Rating Ltd.

Given that the DSEX has struggled to reach 6,000 points recently, what justifies an expectation for the index to nearly double?

Mr. Rahman:

While pinpointing precise market tops is challenging, a holistic assessment reveals significant value. The top five publicly listed banks by market capitalization trade at modest P/E multiples of 6x to 7x (with certain institutions trading as low as 3x to 4x).

On a Price-to-Book (P/B) basis, these leading banks trade between 0.6x and 0.7x, whereas well-governed global institutions typically trade near 1.0x P/B.

Additionally, these banks hold equity stakes in valuable fintech subsidiaries—such as payment platforms like bKash—that are not fully captured on standalone balance sheets. Reaching valuation parity with regional peers would require top banking stocks to double in price.

Emerging Credit Rating Ltd.

What factors account for current low equity valuations, and what structural shifts are required for market recovery?

Mr. Rahman:

At least 15 high-performing listed companies in Bangladesh consistently deliver double-digit revenue growth, strong profitability, transparent governance, and dependable dividend yields. However, local market pricing currently fails to differentiate clearly between these top 15 performers and the remaining 385 listed entities.

This valuation disconnects stems from three key structural issues:

- **Institutional Balance Sheet Weakness:** Financial intermediaries suffered substantial capital erosion from non-performing assets and banking sector restructuring, diminishing their market-making capability.

- **Lack of Organised [long term] Funds:** Asset under management through mutual funds against active free-float market capitalization is relatively small, estimated between BDT 10,000 Crore and BDT 15,000 Crore out of a total BDT 1.5-2 Lakh Crore free-float market cap. Furthermore, Bangladesh lacks a widespread mutual fund culture driven by Systematic Investment Plans (SIPs) like those in India.

- **Unutilized Bank Investment Limits**: Commercial banks are permitted to invest up to 25% of their eligible capital base into equities. Currently, most major banks operate well below 15% or 10%, leaving significant liquidity on the sidelines.

Consider a market leader like Square Pharmaceuticals—which commands roughly 20% of the national market share in medicine sales and operates with virtually no debt. Once institutional capital returns and broader sentiment improves, accumulation in such fundamentals-driven stocks will pick up rapidly.

Emerging Credit Rating Ltd.

What is your outlook on foreign institutional involvement and sentiment toward Bangladesh's capital market?

Mr. Rahman:

Many foreign investors who allocated capital to Bangladesh during previous market cycles achieved favorable returns. However, emergency regulatory measures introduced during the COVID-19 pandemic—such as floor price controls—temporarily disrupted secondary market liquidity. As regulatory policy choices normalize and auditing standards advance, foreign institutional participation will resume. Bangladesh remains an attractive frontier and emerging market destination for long-term institutional capital.

Emerging Credit Rating Ltd.

How do you adapt international valuation models to accommodate Bangladesh's retail-dominated investor base and governance nuances?

Mr. Rahman:

Capital markets differ significantly in investor composition. Sri Lanka's market is predominantly institution-driven, and India maintains heavy foreign and mutual fund participation, whereas Bangladesh's market is driven overwhelmingly by retail investors. Due to a thin institutional foundation, short-term stock prices frequently diverge from underlying corporate fundamentals.

For example, while government treasury rates declined and dividend yields on leading pharmaceutical and consumer blue-chips remain attractive, equity prices have not yet adjusted to reflect available market liquidity.

In Sri Lanka, institutional wealth management is widely adopted, with salaried professionals routinely allocating capital to mutual fund managers. Conversely, retail investors in Bangladesh largely manage their portfolios independently without access to institutional research tools. We are developing digital research platforms and wealth management frameworks to bridge this information gap, supporting a shift toward long-term, research-driven investing.

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ECRL KEY PERSON





Mr. Ahsan Parvez, FCA

Chairman

Mr. Ahsan Parvez is one of the Sponsor Directors of Emerging Credit Rating Ltd. (ECRL). He is also the Chairman of the company. He is a Fellow Member of ICAB and possesses a strong academic background and was an articled student of Rahman Rahman Huq, Chartered Accountants (member firm of KPMG). He obtained First Class both in B.Com (Honors) and Masters in Accounting with distinction and secured First Class 1st Position from the University of Dhaka. His considerable knowledge and vast experiences in the field of financial accounting, financial planning & budgeting, project planning & implementation, investment decision making, credit management, taxation, VAT, foreign remittances and company regulatory affairs brought great success in his long professional career. Mr. Parvez also is an active OLSA member and secured 2nd Position (Commerce Group) in the SSC Examination from Dhaka Board. He has a prolific career of 25 years of service in Senior Management positions, namely Dhaka Match Industries Co. Ltd. (Swedish Match), Duncan Brothers BD. Ltd. and DHL Worldwide Express (Bangladesh) Ltd. Prior to joining ECRL, he served as the National Financial Controller (CFO) at DHL. He worked as consultant and took active part in Accounting System Design and implementation in a number of large companies.



Mr. N K A Mobin, FCS, FCA

Executive President

Mr. N K A Mobin is a veteran businessman and skilled in a broad range of trade ventures. He is one of the 4 Sponsor Directors of Emerging Credit Rating Ltd. (ECRL), the eminent credit rating agency in Bangladesh. Mr. Mobin has completed his Bachelor of Business Administration & Master of Business Administration from the University of Dhaka, majoring in Finance with First Class results. He has been a Fellow Member of the Institute of Chartered Accountants of Bangladesh (ICAB) & Institute of Chartered Secretaries and Managers of Bangladesh (ICSMB) since 1992 & 1998, respectively. He is also a Member of the Institute of Financial Consultants (IFC), USA, since 2002.

Mr. Mobin has working experience of more than 34 years in different corporate arenas, including financial management systems, the budgeting and reporting system, tax management and optimization in tax expenses, involvement in different projects, cost optimization/efficiency, and revenue maximization areas, etc. He has been Director of Projects and Administration, Director Finance and Company Secretary in Grameenphone Ltd. (GP). He has also been the Director of Finance and Company Secretary at Novartis (Bangladesh) Limited. He also performs the following responsibilities:

- People's Leasing and Financial Services Limited – Court appointed as the Director of People's Leasing and Financial Services Limited.
- Dhaka Chamber of Commerce and Industry (DCCI) – Appointed as one of the Board Members for 2020–2022 and Senior Vice President for 2021.
- Institute of Chartered Accountants of Bangladesh (ICAB) – Elected Council Member for 2019–21 and Ex-Vice President (Education and Examination) for 2019.
- Unique Hotel and Resort – Appointed as the Independent Director of Unique Hotel and Resort.



Dr. Jamaluddin Ahmed, FCA

Director

Dr. Jamaluddin Ahmed is one of the Sponsor Directors of Emerging Credit Rating Ltd. (ECRL). He is also the Chairman of the company. Professionally a Chartered Accountant and a Fellow Member of the Institute of Chartered Accountants of Bangladesh (ICAB) since 1990, he has been awarded a PhD in Accounting from Cardiff Business School, University of Wales, under the Commonwealth Scholarship in 1996, and secured First Class in Masters Degree and Bachelors with Honours from the Accounting Department of Dhaka University.

He has many years of experience in the financial sector of Bangladesh and has used his expertise and experience to carry out numerous research work and publications. He is the Audit Engagement Partner of 10 banks and leasing companies, 4 energy companies, 10 listed non-bank companies, and a Tax Advisor for many local and multinational companies. He also performs the following responsibilities:

- The Board of Directors of Janata Bank Limited (2008–2013), Essential Drugs Limited, Power Grid Company of Bangladesh Limited.
- The Chairman of the Board Audit Committee of Janata Bank Limited (2008–2013) and Power Grid Company of Bangladesh Limited.
- The Member of the Board of Directors and Chairman of the Audit Committee of Grameen Phone Limited, Advisor to the Board and Audit Committee of Bangladesh Bank.
- Previously, he had been the representative of ICAB to the Board of Dhaka WASA, Dhaka Stock Exchange Ltd., Consultative Committee at the Security and Exchange Commission, Bangladesh Telecommunication Company Limited.
- From 1999 to 2013, he was a Partner at Hoda Vasi Chowdhury & Co., an Independent Firm of Deloitte Touche & Tohmatsu. He has taken several training courses in the power and energy sector and has completed assignments at numerous banks.

About ECRL

Emerging Credit Rating Limited (hereinafter referred to as ECRL) began its journey in the year 2009 with the motive to deliver credible, superior & quality credit rating opinions in various industry segments around Bangladesh. ECRL obtained a Credit Rating License from Bangladesh Securities and Exchange Commission (BSEC) in June 2010 as per Credit Rating Companies Rules, 1996, and also received Bangladesh Bank Recognition as an External Credit Assessment Institution (ECAI) in October 2010 to do the rating of Banks, Financial Institutions and their borrowers, and also from Insurance Development & Regulatory Authority (IDRA) in 2015 to do the rating of Insurance Companies & affiliated with Malaysian Rating Corporation Berhad.

Emerging Credit Rating Limited's team is oriented towards the continuous improvement of processes, striving for an important role in the leadership of the business world. Every individual in ECRL is committed to providing topmost ingenious Credit Rating Services and Comprehensive Research Services in Bangladesh. ECRL's rating services and solutions reflect independence, professionalism, transparency, and impartial opinions, which assist businesses in enhancing the quality of their decisions and helping issuers access a broader investor base and even smaller known companies approach the money and capital markets. The Credit Rating process is an informed, well-researched and intended opinion of rating agencies on the creditworthiness of issuers or issues in terms of their/its ability and willingness to discharge its financial obligations in a timely manner. Issuers, lenders, fixed-income investors use these risk assessments for the purpose of lending to or investment in a corporation (such as a financial institution, an insurance company, a non-banking corporation or a corporate entity), as well as evaluating the risk of default of an organization's financial obligations in terms of loan or debt.

Editorial Overview

ECRL Research provides insights, opinions, and analysis on Bangladesh and International Economies. ECRL Research conducts surveys and produces working papers and reports on Bangladesh's different socio-economic issues, industries, and capital market. It also provides training programs to professionals from financial and economic sectors on a wide array of technical issues.

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