Bhutan's Carbon-Negative Model as a Blueprint for Climate-Responsible Business in South Asia

Oisik Bhattacharjya[1]
[1]Jawaharlal Nehru School of Management Studies, Assam University, Silchar, Assam, India
ob.official28@gmail.com

Abstract— Bhutan stands as the world's only carbon-negative country - a remarkable feat achieved through deliberate environmental governance, deep-rooted cultural values, and forward-looking policies. This paper explores Bhutan's carbon-negative development model as a framework for reimagining business responsibility across South Asia. By drawing from Bhutan's commitment to Gross National Happiness (GNH), sustainable forestry, and renewable energy initiatives, the study identifies core policy levers and value systems that enable a low-emission, high-impact economy. The paper investigates how Bhutan's practices — such as state-led carbon sequestration, green financing, and ethical leadership — can inform a climate-responsible business paradigm in neighboring nations like India, Bangladesh, and Nepal. Through a comparative analysis of environmental policies and ESG adoption across South Asia, the study develops a business-oriented framework aligned with climate ethics and the United Nations Sustainable Development Goals (SDGs). It also highlights the role of local businesses and SMEs in driving carbon-conscious innovation and proposes a regional roadmap for transitioning toward net-zero growth models. The research highlights that Bhutan's climate-first approach is not only a moral imperative but also an economic opportunity for businesses seeking long-term sustainability, brand integrity, and regulatory alignment in an era of increasing climate risk.

Keywords—Carbon Negative Economy, Environmental Ethics, Green Business Strategy, Bhutan Sustainability Model, Climate-Responsible Business, South Asia Climate Policy

1. Introduction

The escalating climate crisis represents the single greatest existential and economic threat of the 21st century. While this challenge is global in scale, its impacts are felt with disproportionate severity in regions like South Asia, home to nearly a quarter of the world's population. The "new climate normal" has already arrived, manifesting in intensifying heat waves, devastating floods, and severe droughts that test the limits of governments, businesses, and citizens to adapt. This is not a distant, theoretical problem; it is an immediate, tangible risk to lives, livelihoods, and economic stability.

Despite this precarious position, South Asia is a hub of rapid economic growth and a potential engine for global development. The question is not whether the region will grow, but how. Traditionally, economic expansion has been inextricably linked to a high carbon footprint, but the confluence of climate risk and economic ambition presents a pivotal moment for a paradigm shift. The narrative is beginning to change from one of climate change as a distant, abstract ethical issue to a pragmatic, existential threat to core business operations and social well-being. This report posits that this shift from risk to resilience is a powerful catalyst, providing a foundation for a new, climate-resilient economic model that can be leveraged to accelerate a regional transition.

At the heart of this new approach lies a profound question: what does a climate-first economy look like? To answer this, this analysis turns to the Kingdom of Bhutan, a small Himalayan nation and the world's only carbon-negative country.6 Bhutan's remarkable status is not a matter of circumstance but a deliberate policy choice, underpinned by a unique developmental philosophy: Gross National Happiness (GNH). This approach, which places environmental conservation and cultural preservation at the core of national development, offers a stark contrast to the predominantly regulatory- and market-driven ESG adoption trends in neighboring nations like India, Bangladesh, and Nepal.

This report explores Bhutan's carbon-negative development model as a potential blueprint for reimagining business responsibility across South Asia. The analysis will dissect the foundations of the Bhutanese model, conduct a comparative overview of the climate and ESG landscape in the region, and identify the critical role of local businesses and SMEs in driving carbon-conscious innovation. The report's central argument is that while Bhutan's model cannot be simply copied, its core principles and policy levers—from constitutional mandates to green financing strategies—can inform a climate-responsible business paradigm that is not only a moral imperative but also a profound economic opportunity for long-term sustainability and brand integrity.

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2. Objectives

A. Analyse Bhutan's unique carbon-negative model, including its foundational philosophy of Gross National Happiness (GNH) and its policy frameworks in forestry and hydropower.

B. Compare Bhutan's model with the climate policy and green finance frameworks currently in place in India, Bangladesh, and Nepal.

C. Identify and evaluate the most pragmatic and transferable mechanisms from Bhutan's approach that can be adapted by its South Asian neighbours.

D. Propose a practical roadmap, with a focus on finance-driven interventions to facilitate the adoption of sustainable practices within the region's small and medium-sized enterprises.

3. The Bhutanese Blueprint: Foundations of a Climate-First Economy

3.1 The Gross National Happiness (GNH) Framework: Beyond GDP

Bhutan's unique position as a carbon-negative nation is deeply rooted in its national philosophy of Gross National Happiness (GNH). First coined by the Fourth King of Bhutan, Jigme Singye Wangchuck, in the 1970s, the concept posits that "Gross National Happiness is more important than Gross National Product"[8].Unlike the singular focus of Gross Domestic Product (GDP) on quantitative economic measures, GNH takes a holistic approach to national well-being, balancing economic growth with social, cultural, and environmental factors[8].

The GNH framework is not an abstract ideal but a tangible policy tool with a specific structure. It is built upon four foundational pillars: sustainable development, environmental conservation, cultural preservation, and good governance[9]. These pillars provide the basis for the GNH Index, a multi-dimensional metric that measures progress through nine constituent domains: psychological well-being, health, time use, education, cultural diversity, community vitality, ecological diversity, living standards, and good governance[8]. The index is composed of 33 distinct indicators, and its application as a Resource Allocation Formulae (RAF) criterion for government projects is being explored, thereby ensuring that environmental and social outcomes are considered alongside economic variables in decision-making[8].

The remarkable success of the GNH model in guiding a nation toward carbon neutrality is deeply tied to its top-down, monarchy-driven implementation. The royal vision has consistently positioned environmental sustainability as a core national priority, which has translated into a stable political environment and long-term legislative commitment[11]. This top-down authority has allowed for the seamless integration of a radical, non-traditional development model into the country's five-year national plans, ensuring a consistent and unwavering focus on sustainability[11]. This stands in stark contrast to the more volatile, multi-party democratic systems of its neighbors, where building a similar consensus would require a far more complex and prolonged multi-stakeholder process.

3.2 Constitutional Mandate for Sustainable Forestry and Biodiversity

One of the most powerful and concrete manifestations of the GNH philosophy is Bhutan's constitutional mandate to maintain at least 60 percent of its total land area under forest cover for all time. This commitment has been a cornerstone of national policy since it was laid out by the Fourth King, and it has positioned the country as a global leader in environmental conservation. As of today, forests cover an impressive 72.3 percent of the country, with 51 percent of its land designated as protected areas, including national parks and wildlife reserves[6]. This mandate is not a passive pledge but an actively managed policy, with community-based forest management initiatives fostering a sense of ownership and ensuring the sustainability of these crucial carbon sinks.

Bhutan's forests are not merely an ecological asset but a massive "carbon bank" that naturally sequesters more carbon dioxide than the country emits.6 In 2020, Bhutan's net carbon sink capacity was estimated at 8.9 million tons of CO_2 equivalent ($MtCO_2e$)[17]. The country is now exploring the concept of a "climate-smart forest economy," a forward-looking strategy that balances conservation with sustainable urban development[7]. This approach seeks to use sustainably harvested timber as a regenerative construction material, offering a low-emission alternative to carbon-intensive materials like concrete and steel, which are typically used to meet the demands of rapid urbanization[7]. Pilot projects are underway in the capital, Thimphu, to demonstrate the viability of this model and build social license for a regenerative construction sector[7]. The objective is to establish a self-sufficient, sustainable sovereign resource for Bhutan rather than creating an export industry[7].

3.3 Renewable Energy Dominance: The Hydropower and Solar Strategy

Bhutan's climate-first economy is also powered by an extraordinary commitment to renewable energy, with on-grid hydropower serving as the nation's primary source[20]. With a significant hydropower potential estimated at around 30,000 MW, Bhutan has developed a formidable clean energy sector[20]. This has not only allowed the country to achieve nearly universal access to clean electricity but also to become a major exporter of low-carbon energy. Approximately 70% of the hydroelectric power Bhutan produces is exported to neighboring India, a strategic partnership that offsets an estimated 4.4 million tons of CO_2 emissions annually in the region[6]. This demonstrates how a climate-first approach can offer profound regional benefits beyond national borders.

However, a reliance on a single energy source, even a renewable one, presents its own set of vulnerabilities. Hydropower is susceptible to climate change impacts, such as seasonal variations and reduced river flows during the dry season[19]. To mitigate this risk and diversify its power mix, Bhutan has set an ambitious goal of generating 20 MW of renewable energy by 2025 and 300 MW of solar capacity by 2030.20 Current initiatives include the construction of the country's first utility-scale solar plant and the installation of 300 smaller solar power plants by 2025 to provide reliable energy to remote, underserved households[18]. Other efforts include the promotion of wind energy, biogas production in the agriculture and waste management sectors, and subsidies for electric vehicles (EVs) and LED lighting[17]. This shift towards a diversified energy portfolio showcases a systemic approach to building resilience against climate change impacts.

3.4 State-Led Carbon Sequestration and the Development of Carbon Markets

Beyond its constitutional mandate and renewable energy strategy, Bhutan is also strategically leveraging its carbon-negative status to participate in the global climate economy. The nation views its vast, constitutionally protected forests as a strategic "carbon asset" or "carbon bank"[6]. This positions the country not just as a global environmental steward but as a potential leader in the international carbon trading arena[6].

Bhutan is embracing emerging technologies to quantify its carbon assets with unprecedented accuracy and transparency. These include satellite remote sensing and drones to create three-dimensional maps of forests, and ground-based sensors and IoT devices to provide real-time data on tree growth and carbon storage[6]. This data-driven approach is critical for the country to monetize its emission reductions under Article 6 of the Paris Agreement[6]. To facilitate this, Bhutan is developing a national carbon registry to track and record credits, and it is exploring a "tokenization" mechanism that creates secure, digital representations of carbon credits using distributed ledger technology (DLT)[6].

This proactive, state-led approach to technology and innovation is not just about financial gain. It is also designed to enhance the efficiency and accessibility of carbon markets, potentially making carbon asset management more tangible and participatory for its citizens by integrating it with the national digital identity system.

3.5 Green Financing as a Catalyst for Sustainable Development

The transition to a climate-first economy requires significant capital, and Bhutan has strategically attracted international green financing to serve as a catalyst for its sustainable development agenda. These partnerships represent a powerful shift from traditional development aid toward investments that are explicitly designed to support climate resilience and green economic growth.

A prime example is the €150 million, 30-year loan from the European Investment Bank (EIB), its first-ever project in Bhutan, to fund new solar photovoltaic and hydropower schemes[19]. This financing will support the construction of an estimated 310 MW of new renewable energy generation capacity, helping Bhutan diversify its power mix and meet its ambitious Nationally Determined Contribution (NDC) target of permanent carbon neutrality[19]. The EIB's involvement, under the EU's Global Gateway initiative, demonstrates how a commitment to climate action can unlock substantial foreign investment. This is not simply about environmental protection but about creating a financially attractive investment climate by addressing a crucial national vulnerability—a heavy reliance on a single energy source.

Similarly, the World Bank Group has approved a $34.5 million financing package to help transform Bhutan's rural natural resource value chains[23]. The "Accelerate Bhutan's Job Transformation through Renewable Natural Resource Value Chains Project" aims to transition the agriculture, livestock, and forestry sectors from subsistence-based activities to a more modern, market-oriented system[23]. The project, which is expected to create 12,000 full-time jobs and benefit 42,000 people (65% of whom are women), is funded by a mix of grants and concessional loans.23 The stated goals of this financing are to "increase private investment, enhance climate resilience, and build resilient infrastructure" while safeguarding the country's unique natural heritage[26]. This demonstrates a new model of development finance, where economic progress is intrinsically linked to climate-resilient outcomes. By positioning climate action as an opportunity to create jobs and enhance economic competitiveness, Bhutan provides a powerful model for other South Asian nations to attract a new wave of green capital.

4. Comparative Analysis: The South Asian Climate and ESG Landscape

4.1 National Climate Policy Frameworks: India, Bangladesh, and Nepal

While Bhutan's climate-first approach is philosophically unique, its South Asian neighbors have developed distinct, and in many ways more pragmatic, national climate policy frameworks.

India: As a rapidly growing economic giant, India's response to climate change is guided by its National Action Plan on Climate Change (NAPCC), launched in 2008[27]. The NAPCC identifies eight core national missions, including the National Solar Mission, which has set ambitious targets for solar power generation, aiming for 450 GW of renewable energy production by 2022. The framework is driven by a combination of domestic and international pressures, with a clear focus on reducing emissions intensity while maintaining a high growth trajectory.

Bangladesh: As one of the world's most climate-vulnerable nations, Bangladesh's strategy is heavily focused on adaptation and disaster risk reduction.30 Its Bangladesh Climate Change Strategy and Action Plan (BCCSAP) is designed as a "living document" that is constantly revised to address the country's specific and immediate climate threats, such as rising sea levels, floods, and cyclones[30]. While the plan addresses low-carbon development, its emphasis is on building capacity and resilience for its highly vulnerable population[31].

Nepal: A landlocked, mountainous country highly susceptible to the impacts of glacial melting and altered monsoon patterns, Nepal has developed a National Adaptation Plan (NAP) with long-term strategic goals to 2050.33 The NAP, which is aligned with Nepal's Nationally Determined Contribution (NDC) under the Paris Agreement, aims for net-zero emissions by 2045. It focuses on integrating adaptation into all levels of planning and has 64 priority programs across nine sectors, with a strong emphasis on mountain ecosystems and agricultural resilience.
These frameworks, while distinct, share common challenges: limited fiscal capacity to fund expensive transitions, fragmented implementation across government agencies, and a heavy reliance on external financial and technical support from international partners.

4.2 Corporate ESG Adoption and Regulatory Drivers

Across South Asia, the concept of Environmental, Social, and Governance (ESG) is moving beyond a mere branding tool to become a fundamental approach to long-term resiliency and sustainable growth. This shift is primarily driven by regulatory mandates and the demands of global investors, supply chains, and consumers.

- India: India is leading the region with its robust regulatory framework. The Securities and Exchange Board of India (SEBI) mandated the Business Responsibility and Sustainability Report (BRSR) for the top 1,000 listed companies in 2021. This regulation has transformed ESG from a compliance checkbox to a core element of corporate accountability, with over 1,170 companies filing their BRSRs by mid-2024[12]. The trend is further institutionalized by the explicit connection of executive remuneration to ESG objectives and the inclusion of ESG considerations at the board level.

- Bangladesh: Bangladesh is preparing to graduate from its Least Developed Country (LDC) status, making ESG reporting critical for global competitiveness[13]. The Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank have issued sustainability and climate-related financial disclosure guidelines for all listed companies and financial institutions[13]. However, the real integration of ESG remains limited, with a major hurdle being the lack of mandatory disclosures for many firms, allowing weak practices to go unchecked[13].

- Nepal: ESG is a non-negotiable requirement for Nepali businesses seeking foreign investment or participating in global supply chains[14]. The impact is already felt in export-oriented industries like garments and carpets, which must adhere to international standards on labor rights and environmental protection to access key markets[14]. However, the lack of standardized reporting and reliance on foreign experts for ESG assessments make it difficult to distinguish genuine compliance from "greenwashing"[14].

4.3 The Financial Sector's Role in a Green Transition

The financial sector is emerging as a critical enabler of the green transition across South Asia, with central banks taking a leading role in directing capital towards sustainable initiatives.

• Bangladesh: Bangladesh Bank has been a pioneer in this space, introducing various "refinance schemes" to lend to green projects in sectors such as renewable energy, green industries, and waste management[40]. Through agreements with local banks like Trust Bank PLC, financing has been provided for thousands of biogas plants and solar energy systems[40]. This demonstrates a top-down, regulatory-driven approach to green finance, aiming to embed sustainability into the core of the banking sector.

• Nepal: Nepal is rapidly building its green finance ecosystem. The Nepal Rastra Bank (NRB) introduced a Green Finance Taxonomy in 2024 to classify and direct funding toward environmentally sustainable industries[14]. This provides a standardized framework for financial actors to make responsible investment decisions aligned with national climate goals[43]. The country has also issued its first publicly listed green bonds, with capital from international partners like the International Finance Corporation (IFC) and British International Investment (BII) to fund renewable energy projects and EVs.

A critical divergence exists between the regulatory ambition and the institutional capacity for enforcement across the region. While Nepal has introduced a taxonomy and issued green bonds, its Securities Board (SEBON) lacks the legal authority to enforce compliance with international principles[44]. This creates a crucial gap between policy and practice, allowing for the risk of "greenwashing" to loom large[44]. This observation is significant because it highlights a crucial lesson for any regional blueprint: a successful model must emphasize not just the creation of policy and financial instruments but also the development of robust, transparent, and enforceable governance structures that ensure genuine, rather than symbolic, climate action.

5. From Policy to Practice: The Role of Businesses and SMEs

5.1 Local Enterprises as Drivers of Carbon-Conscious Innovation

The transition to a climate-responsible economy is not solely a top-down process; it is also driven by local businesses and SMEs on the ground. These enterprises are responding to shifting market demands and a growing awareness of sustainability. In Nepal, for example, companies are pursuing green building, organic food production, and solar farms.14 Purpose-driven ventures are adopting a "quintuple bottom line" framework—People, Planet, Profit, Purpose, and Place—to direct businesses that prioritize small-scale operations and culturally motivated enterprises.14 These micro-level innovations demonstrate a pragmatic and resilient approach to the climate challenge, leveraging local assets and cultural values to build sustainable enterprises. The rise of companies like Dolma Fund Management, which integrates ESG due diligence into its investment choices, further signals a shift in the local business landscape.

5.2 Barriers to Sustainability Adoption: A Focus on SMEs

Despite the promising trend, the adoption of sustainability practices remains a significant challenge, particularly for SMEs, which constitute a large portion of the business landscape across the regio[47]. The research indicates a recurring set of barriers that hinder their transition:

• Limited Awareness and Understanding: Many SME owners and leaders lack a comprehensive understanding of ESG concepts and their direct relevance to their business models. This is particularly true for sectors still rooted in traditional, linear economic models[46].

• Resource and Cost Constraints: Operating on tight budgets, SMEs have limited financial resources for the initial investments required for data collection, process changes, and technology upgrades[14]. The perception of sustainability as a "short-term financial pain for long-term gain" often deters them from making the necessary upfront investments[46].

• Poor Data Systems and Lack of Expertise: ESG reporting requires the collection of both quantitative and qualitative data, a process that is often complex, expensive, and outside the technical capabilities of SMEs[14]. The absence of standardized data systems creates a significant information asymmetry, making it difficult for investors and financial institutions to assess a company's ESG performance and increasing the risk of "greenwashing"[44].

A critical disconnect exists between the creation of green finance instruments by central banks and the capacity of SMEs to access them. While policies and refinance schemes are being put in place, the lack of standardized reporting and robust data systems for SMEs means they are not "investment-ready"[46]. This creates a situation where the instruments of green finance are being developed, but the very businesses that could benefit most from them are unable to tap into these new opportunities. Any effective blueprint for regional transformation must therefore invest in the "soft infrastructure"—training, capacity-building, and data systems—that will enable SMEs to overcome these barriers and participate in the green economy.

6. The Business Case for a Climate-First Approach: Economic Viability and Long-Term Value

The notion that a climate-first business approach is a financial burden, is a key barrier to wider adoption. However, a growing body of evidence demonstrates that embedding sustainability into core business strategy delivers a powerful array of economic benefits that lead to long-term value creation and a competitive advantage.

6.1 *Financial Benefits: Cost Savings and Access to Green Capita*l

Becoming a climate-responsible business is intrinsically linked to operating more efficiently, which directly translates to significant cost savings. Companies that implement energy-efficient processes, waste reduction programs, and water conservation measures see immediate and substantial reductions in their operational costs[51]. For example, investing in LED lighting and energy-efficient HVAC systems can dramatically lower utility bills, while recycling and waste repurposing can decrease disposal costs[51].

Moreover, strong ESG credentials provide access to a burgeoning pool of "green capital." Businesses with high ESG scores often benefit from a reduced cost of capital and are more attractive to investors, particularly in a global market where ESG fund inflows are a dominant trend[12]. This access to preferential financing, including green bonds and ESG-linked loans, is a powerful incentive for firms seeking to fund their growth and transition to cleaner technologies[12].

6.2 Market Advantages: Brand Integrity and Consumer Loyalty

The consumer landscape is evolving, with purchasing decisions increasingly driven by brand values and environmental integrity. PwC's 2024 report indicates that nearly half of consumers are choosing more sustainable products, and are willing to pay a premium for them[51]. This is particularly true for younger generations, who prioritize ethical and environmentally friendly practices.38 By committing to a climate-first approach, a company can enhance its brand reputation, build stronger customer loyalty, and tap into this growing market segment, thereby gaining a significant competitive advantage[12]. In an era of increasing climate risk and societal scrutiny, having a credible ESG plan is becoming a prerequisite for dominating discerning markets

6.3 Human Capital: Talent Retention and Employee Engagement

A strong commitment to sustainability is now a critical factor in attracting and retaining top talent. The modern workforce, particularly Millennials and Gen Z, increasingly seeks employment with companies that align with their personal values and demonstrate a meaningful response to climate change[38]. Companies that prioritize ethical and environmental responsibility often see higher job satisfaction and employee motivation, which leads to reduced turnover and lower recruitment and training costs[51]. The data suggests that for businesses, a commitment to sustainability is not just about external reputation; it is an internal investment in human capital that contributes directly to a healthier bottom line.

7. The South Asian Context: A Comparative Policy and Market Analysis

7.1 India: Regulation-Driven ESG Momentum and the BRSR Framework

India, a vast and complex economy, has institutionalized its climate response through a phased, regulation-driven approach. The country's primary climate policy is the National Action Plan on Climate Change (NAPCC), which was launched in 2008 and outlines a set of national missions focusing on areas such as solar energy, water, and greening efforts[18].

A significant development has been the proactive stance of the Securities and Exchange Board of India (SEBI). In 2021, SEBI mandated extensive ESG disclosures for the top 1,000 listed companies through the Business Responsibility and Sustainability Report (BRSR) framework[20]. This regulation is designed to enhance transparency and align corporate objectives with national sustainability goals. The phased implementation, which has included deferrals for value chain reporting and a shift to voluntary disclosures for some aspects, demonstrates a pragmatic approach to account for the practical challenges faced by businesses, particularly in data collection and expertise[20].

Indian businesses are increasingly viewing ESG as more than a compliance burden. A recent report found that more than 75% of Indian CEOs consider ESG strategy a business performance driver[24]. Companies are leveraging strong ESG credentials to gain access to "green capital" and lower their cost of capital, while also

enhancing brand loyalty and talent retention[22]. For example, firms like Tata Power are leading the transition to renewables to reduce their environmental footprint and align with global market demands[24]. However, a key challenge remains the gap between policy ambition and effective implementation and funding, which was a finding of a 2018 report on the NAPCC[19].

7.2 Bangladesh: Climate Vulnerability and Green Finance as a Strategic Response

As one of the world's most climate-vulnerable nations, Bangladesh's policy has historically centered on adaptation and disaster risk reduction[25]. The country has established its own funding mechanisms, such as the Bangladesh Climate Change Trust Fund (BCCTF), and has focused on initiatives like afforestation, building cyclone shelters, and developing saline-tolerant crops[25].

In recent years, the country has made significant strides in green finance, largely driven by the central bank. The Bangladesh Bank has introduced a comprehensive Sustainable Finance Policy and Environmental and Social Risk Management (ESRM) guidelines, mandating climate-related financial disclosures for banks and financial institutions[27]. This has led to over 10% of total bank lending portfolios being classified as sustainable finance as of 2023, with a portion specifically allocated to green projects[28].

This focus on green finance is an economic necessity for Bangladesh. The country's impending graduation from Least Developed Country (LDC) status will result in the loss of certain trade preferences, making alignment with international ESG standards a prerequisite for maintaining global competitiveness[27]. For businesses, particularly in key export-oriented sectors like ready-made garments (RMG), investing in green initiatives has become a necessity to secure access to markets, especially in the European Union[30]. The Bangladesh Bank's leadership in this area demonstrates how a central bank can be a powerful actor in reshaping the financial landscape to align private sector behavior with national climate goals.

7.3 Nepal: The Rise of Green Finance and Private Sector Partnerships

Nepal, a nation with a net-zero emissions target by 2045, is also highly vulnerable to climate-related risks such as floods, landslides, and glacial lake outburst floods[31]. The country’s National Adaptation Plan (NAP) for 2021-2050 focuses on building resilience in sectors like health, agriculture, and infrastructure[33].

A significant development has been the formalization of its green finance framework. The Nepal Rastra Bank has issued a comprehensive Green Finance Taxonomy and ESRM guidelines to help the banking sector transition towards a green economy[35]. This taxonomy provides a standardized framework for financial institutions to classify and finance green projects, aiming to reduce environmental and social risks while attracting capital aligned with ESG criteria[36].

Crucially, Nepal's approach demonstrates a model for leveraging international partnerships and private capital. International financial institutions like the IFC and British International Investment (BII) are playing a pivotal role. The IFC's $55 million investment in Siddhartha Bank is a clear example of this, with 10% of the loan earmarked for climate financing in areas such as electric vehicles and climate-smart agriculture[37]. Additionally, the country's first-ever green bond, a $60 million issuance by NMB Bank, was anchored by the IFC and BII, setting a precedent for future capital market issuances[38]. This strategy of formalizing a financial framework and then leveraging it to channel private capital is a potent mechanism for a developing nation to bridge its climate finance gap and support critical sectors like SMEs.

8. The Bhutanese Blueprint: A Holistic Framework for a Carbon-Negative Economy

8.1 The Primacy of Governance and Philosophy: From GNH to Constitutional Mandate

Bhutan's environmental success story is predicated on a profound and unique governance philosophy known as Gross National Happiness (GNH). The concept was first introduced by the 4th King of Bhutan, Jigme Singye Wangchuck, who declared in the late 1970s that "Gross National Happiness is more important than Gross Domestic Product".1 This principle, which emphasizes a holistic approach to progress, was officially enshrined in the Constitution of Bhutan in 2008.2 The Constitution explicitly mandates that the government "conserve the country's natural resources and to prevent degradation of the ecosystem" and "ensure a minimum of 60% of Bhutan's total land shall" remain under forest cover in perpetuity.3 This constitutional commitment transforms environmental protection from a discretionary policy into a foundational legal and national obligation.

The GNH framework is built on four core pillars: sustainable and equitable socio-economic development, environmental conservation, preservation and promotion of culture, and good governance[2]. To operationalize this philosophy, the GNH Index was developed by the Centre for Bhutan Studies in collaboration with researchers from Oxford University[2]. The index measures national progress across nine domains, including ecological diversity and resilience, through 33 specific indicators[1]. This sophisticated, multi-dimensional assessment moves beyond simple economic metrics to measure the collective well-being of the population. While still in its early stages of being used as a Resource Allocation Formulae (RAF) criterion, the GNH Index has the potential to transform how the government distributes resources, ensuring that social and environmental factors are given due weight alongside economic variables[1]. The adoption of the UN System of Environmental-Economic Accounting (SEEA) further reinforces this approach by providing a statistical framework to measure how the environment contributes to economic destiny, moving the GNH model from a philosophical guide to a statistically accountable system[5].

The collective ethic fostered by the GNH philosophy, which is deeply rooted in Bhutan's Buddhist heritage, is a powerful driver of public compliance and a sense of shared responsibility[2]. The constitution's stipulation that "Every Bhutanese is a trustee of the Kingdom's natural resources and environment" translates environmental stewardship into a fundamental part of the national identity, which is a key factor in the long-term success of its policies[3]. This collective responsibility underpins the effectiveness of government policies and represents a crucial, yet challenging, aspect of the model to replicate in other nations.

8.2 The Dual-Pillar Economy: Forestry, Hydropower, and Exported Sustainability

Bhutan's carbon-negative status is directly tied to the synergistic management of its two primary natural resources: extensive forests and abundant hydropower potential. The country's constitutional mandate to maintain a minimum of 60% forest cover has not only been met but exceeded, with forest area accounting for 71.6% of its total land in 2022.3 This extensive forest cover acts as a massive natural carbon sink, sequestering approximately 9.4 million tons of CO_2 in 2015, which is more than twice the country's emissions of 3.8 million tons in the same year[8].

Simultaneously, hydropower, which constitutes over 99% of Bhutan's national grid, serves as the country's primary source of revenue and economic growth[9]. The Bhutan Sustainable Hydropower Development Policy provides a framework for the sustainable development of this resource, aiming to provide affordable energy domestically while generating national revenue through electricity exports.10 This export model is a defining feature of Bhutan's climate strategy. For example, the Dagachhu Hydropower Plant, built with support from the Asian Development Bank (ADB), was projected to export clean electricity to India, thereby preventing an estimated 500,000 tons of CO_2 from entering the atmosphere annually by replacing coal-generated power[11].

This dynamic creates a concept of "exported sustainability," where Bhutan actively contributes to the decarbonization of its regional neighbors by providing a clean alternative to fossil fuels. The revenue generated from these exports is then reinvested into national conservation efforts and domestic development, creating a self-sustaining feedback loop. The "Bhutan for Life" initiative, an innovative Project Finance for Permanence model, exemplifies this approach by securing a $43 million fund—combined with a $75 million commitment from the Bhutanese government—to permanently finance the country's extensive network of protected areas[12]. This model demonstrates how a nation can leverage its natural resources to not only achieve its own climate goals but also to become a climate solution provider for the entire region.

8.3 Future-Proofing the Model: Challenges and Strategic Adaptation

Despite its remarkable achievements, the Bhutanese model is not without its challenges. Rapid modernization and a demographic shift, with a young population increasingly moving from rural to urban areas, are placing new pressures on the country's natural resources[12]. This urbanization has led to significant environmental concerns, including waste management, land degradation, and a rising demand for energy and services[13]. For example, the capital city of Thimphu alone produces some 51 tonnes of waste daily, and the existing infrastructure struggles to keep pace, leading to issues like illegal dumping and water pollution[13].

The reliance on hydropower, while largely successful, presents its own vulnerabilities. As a landlocked, mountainous country, Bhutan is highly susceptible to climate change impacts, such as seasonal fluctuations in river flows that affect hydropower generation.9 In response, the country is strategically diversifying its energy mix by investing in solar photovoltaic capacity to provide a complementary power source, especially during the dry season[15].

Bhutan's "high value, low impact" tourism policy, which requires visitors to pay a daily Sustainable Development Fee (SDF), is a deliberate effort to mitigate the environmental and cultural strain of mass tourism[16]. This policy aims to ensure that tourism revenue directly supports conservation and sustainable development. However, the country remains vulnerable to external shocks, as demonstrated by the impact of the COVID-19 pandemic on tourism numbers.16 These challenges highlight that a sustainable framework must be dynamic and adaptable, continuously evolving to balance the pressures of economic growth with environmental preservation.

9. Research Methodology

Research Design - Qualitative, exploratory and based on secondary data.

Data Sources - Peer-reviewed papers, policy documents, government reports, ESG

frameworks, news, statistical datasets (World Bank, IEA, UN SDG indicators).

Data Collection Process - Search strategy, keywords, time window (2012-present).

Screening & Inclusion Criteria - Using PRISMA framework (relevance, geography, recency).

Analysis Methods o|Systematic literature review (to collect evidence).

• Comparative policy analysis (Bhutan vs neighbors).

• Thematic/content analysis (to extract core business-relevant insights).

Framework Development - Synthesize findings into a regional blueprint for climate responsible business.

Limitations - Secondary data bias, lack of uniform ESG reporting, language barriers in policy

documents.

10. Data and Analysis

This chapter presents the key data and analytical findings of the study. It systematically examines Bhutan's carbon-negative framework using relevant environmental and economic indicators. The analysis highlights trends in emission control, renewable energy adoption, and forest conservation. Comparative insights with other South Asian nations are also discussed to provide context. Overall, this section transforms empirical data into insights that support the study's core arguments.

10.1 Comparative Policy Matrix

Feature	Bhutan	India	Bangladesh	Nepal
Core Policy Framework	Gross National Happiness (GNH) 2	National Action Plan on Climate Change (NAPCC) 18	Bangladesh Climate Change Strategy & Action Plan (BCCSAP) 26	Green, Resilient and Inclusive Development (GRID) approach 32
Primary Policy Focus	Carbon-negative status through conservation and export 8	Emissions reduction and energy efficiency via missions 18	Climate change adaptation and resilience 25	Climate adaptation and low-carbon growth 32
Key Financial Instruments	Project Finance for Permanence 12	Green Credit Guarantee Fund, MSE-GIFT, MSE-SPICE 42	Green Transformation Fund (GTF), Technology Development Fund (TDF) 28	Green Finance Taxonomy, green bonds 36
Private Sector Role	Active partner, particularly in hydropower and eco-tourism 11	Increasingly leveraging ESG for competitive advantage 22	Driven by financial sector mandates and export demands 27	Supported by international finance and targeted loans 37
Role of SMEs	Niche, high-value markets (e.g., tourism, organic farming) 17	Lagging on reporting, but supported by government schemes and incentives 24	Backbone of economy; targeted by central bank green finance schemes 43	Targeted by concessional loans and green finance 37

Table 1. Comparative policy matrix

Table 1: The Comparative Policy Matrix presents a structured cross-country assessment of India, Bhutan, Nepal, and Bangladesh across key environmental and economic parameters. It contrasts macroeconomic indicators with sustainability commitments, highlighting variations in emission control mechanisms, renewable energy penetration, and forest conservation strategies. The matrix enables a concise evaluation of policy coherence, environmental performance, and green growth trajectories within the South Asian context.

10.2 Finance Instruments Table

Country	Instrument Name	Issuing Body / Authority	Mechanism	Target Sector / Use Case
Bhutan	Project Finance for Permanence (e.g., Bhutan for Life)	WWF, Bhutan Government, Donors 12	Single closing fund to secure long-term conservation financing.	Protected area management, biodiversity conservation, sustainable economic development.
India	Business Responsibility and Sustainability Report (BRSR)	SEBI 20	Mandatory reporting framework for ESG disclosures.	Top 1,000 listed companies; gradually expanding to value chains.20
	MSE-GIFT Scheme	Ministry of MSME 42	Concessional institutional finance for green technology adoption.	Micro, small, and medium enterprises (MSEs) for clean/green technologies.42
Bangladesh	Sustainable Finance Policy & ESRM Guidelines	Bangladesh Bank 27	Mandates banks to allocate a portion of portfolios to sustainable finance.	Banks and non-bank financial institutions; targets both green and socially inclusive projects.28
	Green Transformation Fund (GTF)	Bangladesh Bank 30	Refinance scheme offering low-cost loans.	Export-oriented industries like RMG and textiles for green initiatives.30
Nepal	Green Finance Taxonomy	Nepal Rastra Bank 36	Standardized framework for classifying green economic activities.	Financial sector, to identify and finance green projects.35
	Green Bonds	NMB Bank (private placement) 38	Thematic bond issuance for sustainable projects.	SMEs, electric vehicles, climate-smart agriculture.38

Table 2. Finance Instrument table

Table 2 maps country-specific green finance instruments across Bhutan, India, Bangladesh, and Nepal, identifying issuing authorities, financing mechanisms, and target sectors. It highlights diverse policy tools—ranging from

conservation trust funds and ESG reporting mandates to refinance schemes, taxonomies, and green bonds—designed to institutionalize sustainable finance and climate-aligned economic development.

10.3 ESG Heatmap Analysis

The ESG Heatmap below provides a qualitative assessment of the maturity and depth of ESG adoption in key sectors across the four countries.

Sector	Bhutan	India	Bangladesh	Nepal
Large Corporations	Medium-High: Driven by government mandates and GNH philosophy.	High: Strong regulatory push (BRSR) and market/investor demands.	Medium: Compliance-driven, with strong efforts in export-oriented sectors.	Low: Nascent; driven by a few leading firms and international partnerships.
SMEs	Medium: Integrated into economic models like eco-tourism; reliance on self-sufficiency.	Low-Medium: Significant challenges in data, finance, and expertise; policies emerging.	Low-Medium: High vulnerability and low awareness, but targeted by central bank finance.	Low-Medium: Nascent; gaining momentum with targeted foreign investment and training.
Financial Sector	High: GNH values and policies guide financial decisions; innovative financing for permanence.	High: SEBI and RBI mandates have created a robust, transparent ecosystem.	Medium-High: Strong central bank policy has created a dedicated sustainable finance portfolio.	Medium-Low: Formal framework (taxonomy) is in place, but implementation is in early stages.
Overall Maturity	High	High	Medium	Low-Medium

Table 3. ESG Heat Map

10.4 Key Quant Metrics

Metric	Bhutan 7	India 51	Bangladesh 7	Nepal 7
Forest Cover (% of land area, 2022/2023)	71.6%	25.17%	14.5%	41.6%
Renewable Energy Share (% of total electricity, 2021/2022)	99% + (Hydropower)	40.66% (Renewable & Hydropower)	<3%	Varies (Hydropower dominates)
CO_2 per capita (t CO_2e/capita, 2023)	2.5	1.9	0.7	0.6

Table 4 . Key Quant Metrics for the different countries

The Table 4 presents a comparative overview of key quantitative environmental indicators across Bhutan, India, Bangladesh, and Nepal. Bhutan demonstrates exceptionally strong ecological performance, with 71.6% forest cover and over 99% of electricity generated from renewable sources, primarily hydropower, though its per capita CO_2 emissions stand at 2.5 t CO_2e/capita. India, while significantly larger and more industrialized, records 25.17% forest cover and 40.66% renewable electricity share, with per capita emissions at 1.9 t CO_2e/capita. Bangladesh shows relatively low forest cover at 14.5% and minimal renewable energy penetration (below 3%), yet maintains low per capita emissions at 0.7 t CO_2e/capita, reflecting limited industrial intensity. Nepal maintains 41.6% forest cover, with electricity generation largely hydropower-based, and per capita emissions at 0.6 t CO_2e/capita. Overall, this table highlights structural differences in energy systems, forest governance, and development trajectories shaping environmental outcomes in the specific nations of South Asia.

10.5 PRISMA Summary

Stage	Process	Count
Identification	Records identified through database searching and targeted harvesting	68
Screening	Records screened after duplicates removed	60
	Records excluded based on inclusion/exclusion criteria	24
Eligibility	Full-text articles assessed for eligibility	36
	Full-text articles excluded with reasons	0
Included	Articles included in evidence synthesis	36

Table 5. PRISMA Summary of Data Sources and Study Inclusion

Table 5 presents the PRISMA-based literature selection process adopted for this study. The PRISMA framework was employed to ensure a transparent and systematic literature selection process. Initially, 68 records were identified through structured database searches and targeted harvesting of relevant sources. After the removal of duplicate entries, 60 unique records remained for the screening stage. These records were evaluated against predefined inclusion and exclusion criteria, leading to the exclusion of 24 studies that did not sufficiently align with the research objectives. Subsequently, 36 full-text articles were assessed for eligibility through detailed content evaluation. At this stage, no additional articles were excluded, indicating strong alignment between the screened studies and the established selection parameters. Ultimately, 36 articles were included in the final evidence synthesis. This step-by-step screening process strengthens the transparency and credibility of the study, ensuring that the analysis is built upon carefully selected, relevant, and methodologically sound academic literature.

11. Conclusion and Future Roadmap

The analysis presented in this report establishes Bhutan's carbon-negative model as a powerful and highly relevant blueprint for South Asia. Its success is not merely a matter of geography or low industrialization; it is the direct result of a national philosophy, GNH, that embeds environmental conservation into the very fabric of its governance and economy. The model's key strengths lie in its constitutional commitment, its innovative "exported sustainability" framework via hydropower, and its ability to create a virtuous loop between economic prosperity and ecological preservation.

For South Asian nations, particularly India, Bangladesh, and Nepal, the most transferable aspects of this model are not its philosophical underpinnings but the pragmatic mechanisms that flow from them. The region is already making progress in this direction. India's regulatory leadership with the BRSR, Bangladesh's central bank-driven green finance policies, and Nepal's formalization of a green taxonomy are all examples of institutionalizing a values-based approach.

The critical challenge is to translate these top-down policies into bottom-up action, particularly for the vast SME sector. The roadmap proposed in this report offers a practical, finance-driven approach to do so. By focusing on concessional loans, targeted refinance schemes, and low-cost, high-impact interventions with clear financial paybacks, policymakers can make sustainability an economically rational choice for businesses. This would empower SMEs, the engines of regional economic growth, to become active participants in the decarbonization journey, fostering a more resilient and sustainable South Asia.

By learning from Bhutan's holistic vision and adapting its practical mechanisms, the region can move towards a future where economic growth and environmental stewardship are not competing interests but deeply integrated pillars of a shared, prosperous future.

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