

Department of Financial Institutions and Markets
Bangladesh Bank
Head Office
Dhaka

April 06, 2011

DFIM Circular No.04

Date -----
Chaitra 23, 1417

Chief Executives/Managing Directors,
All Financial Institutions in Bangladesh

Dear Sir

Guidelines on Environmental Risk Management (ERM)

The concept of Environmental Governance is now very important phenomenon. The effective handling of environmental issues and management of natural resources are significant for the very survival of humanity. For this, Environmental Risk Management is applicable for all sort of financing. And therefore, Banks/Financial Institutions (FIs) are very concerns of this issue. The main determinants of environmental risks are the nature of a borrower's business activity and the vulnerability of the location of the business activity. Over the last two decades, the adoption of Environmental Risk Management techniques and procedures is increasingly becoming an important area of activity for Banks/FIs. This has been driven by an increasing awareness of environmental issues among all stakeholders, particularly community, customers, shareholders and Investors. The regulators are also increasingly raising challenging questions about corporate governance, social and environmental impacts of operations and investments of Banks/FIs.

The environment in Bangladesh is deteriorating significantly. The key areas of deterioration include land degradation, water pollution and scarcity, air pollution, biodiversity resources and impacts of natural disasters. Rapid population growth, improper use of land, poor resource management and uncontrolled discharge of pollutants are the major causes. In addition, Bangladesh is one of the most climate change vulnerable countries and floods, tropical cyclones, storm surges, droughts are likely to become more frequent and severe in the coming years. Banks/FIs in Bangladesh need to protect their financing from the risks arising out of the deteriorating environmental scenario and climate change. Failing to consider these environmental risks as a part of financing decisions will lead to an increase in non-performing loans (NPLs) for Banks/FIs.

In view of the above, Bangladesh Bank has prepared Guidelines on Environmental Risk Management (ERM) to streamline solutions for managing the environmental risks in the financial sector. These guidelines were prepared in a consultative manner with several rounds of inputs/discussions with Banks and FIs.

Now, for the awareness and preparation for easy adoption and smooth compliance of the [ERM guidelines](#) by June 30, 2011, a soft copy of ERM guidelines has been made available in the BB website: www.bangladesh-bank.org and www.bangladeshbank.org.bd.

FIs are advised to give suggestions if they face problem in the implementation of the guidelines by May 31, 2011. BB will continue its support and facilitate FIs by conducting exclusive training programme, seminar or workshop upon the request from the FIs for their capacity building on ERM issue.

Since development is a continuous process, there will always be scope for making adjustment to develop ERM guidelines. These Guidelines are dynamic documents, which will be revised as and when required and at least once in every three years. The structure of the guidelines provide the minimum that needs to be in place and are intended to make available a common platform from which individual banks and financial institutions can launch their own environmental risk assessment framework.

Please acknowledge receipt.

Yours sincerely

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