

## Sustainable and Inclusive Banking

### Sustainable Banking

6.01 Sustainability, sustainable finance and sustainable banking are the designated terms which are remarkably correlated and intensively supplementary to one another. The COVID-19 pandemic has given an atrocious reminder about the necessity to emphasise these terminologies to strengthen the resilience of our economy as a whole. Undoubtedly, decisions made under the current circumstances should shape the real economy and financial ecosystem in near future. The newly evolved sustainable finance policy aims to support the financing of the transition to a sustainable economy by ensuring action through financing with inclusiveness, resilience and contribution of the financial system and national aspirations. In an emerging economy like Bangladesh, environmental management needs to be the key focus area of the business fraternity and especially the banking industry being the major intermediary. Approaching environmental and social risks consorted with financing activities by banks and non bank financial institutions (NBFIs) is a 'must do' step in credit approval, monitoring and evaluation. Accordingly, Bangladesh Bank (BB) as a regulator of banking industry has provided timely guidelines so that financing by banks and NBFIs should be at the expected level to ensure meeting the present needs while maintaining the unbending standard of capacity to meet the needs in near future. BB has always been keen to incentivise sustainable banking. It has already issued guidelines for green and sustainable finance, environmental and social risk management and such more considering the requisition of time. Introduction of

sustainable finance policy has created multiple ways for the banks and NBFIs to contribute towards inclusive sustainable green growth where green finance, sustainable agriculture, sustainable cottage, micro, small and medium enterprises (CMSME) socially responsible financing and other financing linked to sustainability are structurally addressed. Sustainable banking exclusively focuses on three broad categories—sustainable finance (including green finance), corporate social responsibility and financial inclusion.

### Sustainable Finance

6.02 Sustainable finance initiatives of BB has broadly categorised into the following aspects: policy initiatives, monitoring of sustainable finance activities of banks and NBFIs, refinance support from BB in diversified green products/sectors, and BB's own initiatives for environmental management.

### Policy Initiatives

6.03 Bangladesh Bank addressed environmental risk management for the first time in 2011 and policy guidelines for green banking for banks in the same year. In 2013, NBFIs were brought under green banking activities. In 2020, BB introduced sustainable finance policy for banks and NBFIs. Meanwhile, the government's development plans including National Sustainable Development Strategy (NSDS) 2010-2021, Perspective Plan of Bangladesh: 2010 – 2021, 7th and 8th Five Year Plan, globally adopted sustainable development goals (SDGs), and combating the COVID-19 have been considered during policy formulation and monitoring of green banking activities by

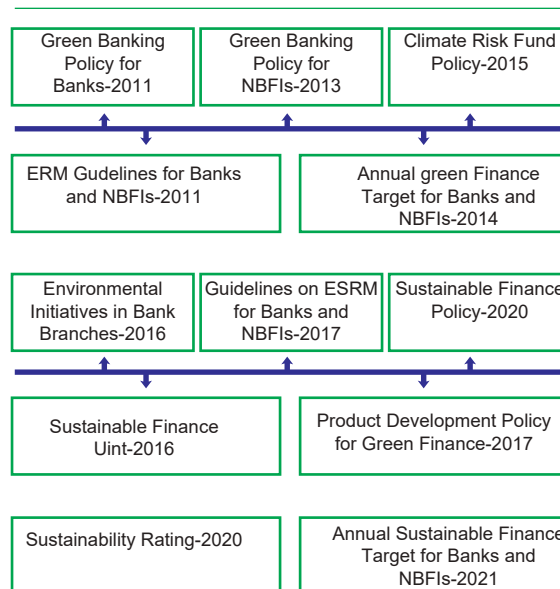
banks and NBFIs. Chart 6.01 depicts green banking policy initiatives.

6.04 Sustainable finance is defined for the first time in sustainable finance policy on 30 December 2020. Banks and NBFIs have been contributing to sustainable finance since January 2021. During January-June of FY21, the total amount of disbursement as sustainable finance was BDT 348.14 billion by banks and BDT 6.05 billion by NBFIs. The rate of sustainable finance against the total loan disbursement during this period was 7.19 percent. Category-wise amounts of sustainable finance by banks and NBFIs are shown in Table 6.01.

### Green Finance

6.05 The total amount of disbursement as green finance during FY21 was BDT 97.64 billion by banks and BDT 3.16 billion by NBFIs while the share of green finance against the total term loan disbursement was 4.41 percent. Category-wise total amount and share of green finance by banks and NBFIs are given in Table 6.02 and Chart 6.02 respectively. Chart 6.03 shows the trend in green finance disbursed by banks and NBFIs during last 5 years.

**Chart: 6.01 BB's Policy & Regulation for Banks and NBFIs on Sustainability**



Source: Sustainable Finance Department, Bangladesh Bank.

### Environmental and Social Risk Management (ESRM)

6.06 Environmental and social risk rating (ESRR) is an obligatory task aligned with ESRM guidelines for banks and NBFIs. The number of projects rated by environmental and social due diligence (ESDD) checklist during FY21 was 93,466. A total amount of BDT 2,469.95 billion was disbursed in 72,678 rated

**Table 6.01 Summary of Sustainable Finance (January-June 2021)**

Types of Banks/ NBFIs	Sustainable Agriculture	Sustainable CMSME	Socially Responsible Financing (SRF)	Working Capital and Demand Loan of Green Products/ Projects/Initiatives	Priority Green/ Eco-Friendly Products for Trading Sector	(In million BDT)	
						Green Finance	Sustainable Finance
SOCBs (06)	10,947.39	3,987.61	5,945.00	192.23	0.32	2,585.54	23,658.10
SDBs (03)	30,927.00	2,563.76	0.00	0.00	0.00	16.73	33,507.49
PCBs (40)	88,098.03	41,283.94	45,009.80	30,803.36	7,664.96	31,465.39	244,325.48
FCBs (09)	11,720.56	385.40	12,837.57	17,943.32	1,868.50	1,894.86	46,650.22
Total	141,692.98	48,220.71	63,792.37	48,938.91	9,533.78	35,962.52	348,141.29
NBFIs (34)	735.49	1,093.60	1,801.70	400.83	232.60	1,784.81	6,049.03
<b>Grand Total</b>	<b>142,428.47</b>	<b>49,314.31</b>	<b>65,594.07</b>	<b>49,339.74</b>	<b>9,766.38</b>	<b>37,747.33</b>	<b>354,190.32</b>

Note: The figures in the parentheses are the number of banks/NBFIs.  
Source: Sustainable Finance Department, Bangladesh Bank.

projects in FY21. Chart 6.04 shows the trend of ESRR by banks and NBFIs during last 5 years.

### Climate Risk Fund

6.07 A total amount of BDT 1.86 billion was utilised from Climate Risk Fund by banks and NBFIs in FY21. This amount was utilised as a grant.

### Online Banking and Energy Efficiency

6.08 Green banking policy has always pursued the banks to establish online branches and bring the branches powered by solar energy. The number of branches powered by solar energy was 718 at the end of FY21. Percentage of online branches in total branches was 95.48 percent at the end of FY21.

### Sustainability Rating

6.09 Sustainability rating methodology for banks and NBFIs was circulated on 31 December 2020. Sustainability rating is defined as the rating of the banks and NBFIs with respect to their performance in five major components namely (i) sustainable finance, (ii) CSR, (iii) green refinance, (iv) core banking

sustainability, and (v) banking services coverage. Banks and NBFIs are financial intermediaries which are subsequently going to be rated with their performance on environmental, social and governance attributes, especially on their policies and performances. They will be rated once a year. Good performers having higher rating scores will be incentivised with respect to BB's year wise recognition as one of the top ten banks and top five non bank financial institutions. According to this given methodology, sustainability rating of banks and NBFIs for the year of 2020 has been prepared for publishing the names of the top ten banks and top five NBFIs in Bangladesh Bank's website.

### Refinance Scheme for Environment Friendly Products/Initiatives/Projects

6.10 A revolving refinance scheme of BDT 2.0 billion was initiated in 2009 with a view to broadening finance for green products or initiatives at a lower cost of fund which increased to BDT 4.0 billion subsequently. Initially, 6(Six) green products or initiatives were identified to extend the refinance facility under this scheme. Subsequently, following the market demand and expert opinions from

**Table 6.02 Green Finance in FY21**

(In million BDT)

Types of Banks/ NBFIs	Renewable Energy	Energy Efficiency	Alternative Energy	Liquid Waste Management	Solid Waste Management	Recycling Manufacturing of Recyclable Goods	Environment Friendly Brick Production	Green/ Environment Friendly Establishments	Green Agriculture	Green CMSME	Green SRF	Total
SOCBs (06)	1,838.89	227.96	0.00	396.13	119.13	813.54	372.10	5,638.70	56.64	93.96	0.00	<b>9,557.05</b>
SDBs (02)	6.38	0.00	0.00	0.00	0.00	0.00	11.00	0.00	2.83	0.00	0.00	<b>20.21</b>
PCBs (40)	1,598.04	11,014.12	45.51	6,074.61	177.80	10,294.47	5,438.67	36,893.84	498.47	469.59	68.45	<b>72,573.57</b>
FCBs (09)	3.13	1,264.30	0.00	559.88	0.00	3.40	0.00	12,993.75	462.24	200.20	0.00	<b>15,486.90</b>
Bank's Total	3,446.44	12,506.38	45.51	7,030.62	296.93	11,111.41	5,821.77	55,526.29	1,020.18	763.75	68.45	<b>97,637.73</b>
NBFIs (33)	496.72	1,032.21	0.00	379.69	83.15	0.35	312.10	100.00	157.40	516.80	77.90	<b>3,156.32</b>
<b>Grand Total</b>	<b>3,943.17</b>	<b>13,538.59</b>	<b>45.51</b>	<b>7,410.31</b>	<b>380.08</b>	<b>11,111.76</b>	<b>6,133.87</b>	<b>55,626.29</b>	<b>1,177.58</b>	<b>1,280.55</b>	<b>146.35</b>	<b>100,794.05</b>

Note: The figures in the parentheses are the number of banks/NBFIs.  
Source: Sustainable Finance Department, Bangladesh Bank.

the technical advisory committee and from the stake holder's consultations, BB has enhanced the number of eligible green products/initiatives under this refinance scheme from 6 to 55 in FY21 (Table 6.04).

6.11 Participatory banks/financial institutions (PFI) are allowed to charge maximum interest rate of 6-7 percent on financing in green products/initiatives under the scheme. The government's priority towards agriculture sector for "Solar Irrigation Pumping System" is given emphasis over the conventional diesel and electricity run pumps. In accordance with the government's policy, BB has set maximum interest rate at 6.00 percent for financing the PFI in 'Solar Irrigation Pumping System' under the refinance scheme.

6.12 The cumulative amount of refinance under the scheme up to June 2021 stood at BDT 5,681.89 million. In FY21, the total disbursement under the refinance scheme was BDT 994.81 million. The product wise disbursement trend from FY17 to FY21 are presented in Table 6.03 and Chart 6.05 respectively.

### Financing Brick Kiln Efficiency Improvement Project Supported by Asian Development Bank (ADB)

6.13 Asian Development Bank (ADB) supported revolving relending facility—Financing Brick Kiln Efficiency Improvement Project – was established in BB June 2012 with a view to improving the brick industry especially environment friendly brick kilns through energy efficient technology for reducing green house gas (GHG) and suspended particulate matter (SPM). The total amount of this relending facility comprises of USD 50.00 million equivalent Bangladeshi currency. The project

**Table 6.03 Disbursement Trend of BB Refinance Scheme for Green Products/Initiatives**

(In million BDT)					
Products	FY17	FY18	FY19	FY20	FY21
Bio gas	46.60	10.50	4.56	1.24	2.17
Solar home system	35.30	0.00	0.19	0.45	1.32
Solar mini grid	0.00	0.00	0.00	0.00	27.50
Effluent treatment plant	179.60	60.00	108.44	132.50	193.14
HHK technology in brick kiln	10.00	0.00	5.00	100.00	0.00
Vermicompost	1.30	0.00	0.79	1.26	1.67
Green industry	0.00	500.00	152.33	198.70	485.00
Safe working environment	55.30	81.97	39.96	88.10	60.00
Organic manure from slurry	0.10	0.00	0.00	0.00	0.00
Paper waste recycling	20.00	0.00	0.00	0.00	0.00
Energy efficient technology	0.60	13.00	10.00	46.29	200.00
Led bulb/tube manufacturing/assembly plant	0.00	0.00	0.00	0.00	24.00
<b>Total</b>	<b>919.70</b>	<b>348.80</b>	<b>321.27</b>	<b>568.54</b>	<b>994.81</b>

Source: Sustainable Finance Department, Bangladesh Bank.

has two parts—part-A (ordinary capital resources): USD 30.00 million equivalent Bangladeshi currency is for conversion of Fixed Chimney Kiln (FCK) to Improved Zigzag Kiln and part-B (special fund resources): USD 20.00 million equivalent Bangladeshi currency is for establishment of new Vertical Shaft Brick Kiln (VSBK), Hybrid Hoffman Kiln (HHK) and Tunnel Kiln. The total USD 50.00 million equivalent to BDT 4039.70 million relending facility was disbursed to 19 subprojects through 20 PFIs till December 2019. The duration of the project ended in December 2019 with full disbursement. The revolving phase of the project is active in two terms. The duration of one of the terms is 25 years (part-A) and the other is 32 years.

### Green Transformation Fund

6.14 The latest step of BB in fostering sustainable finance is to create Green

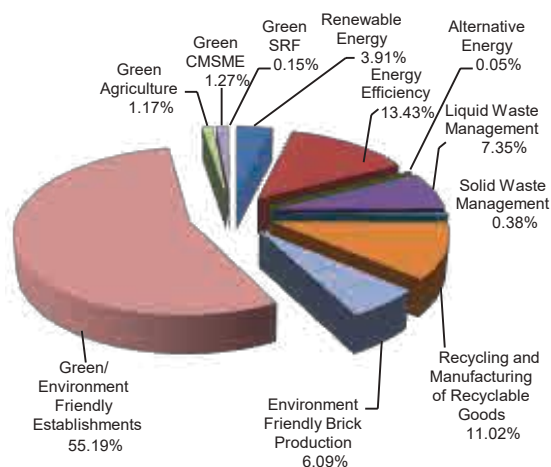
Transformation Fund. In February 2016, BB announced its intention to create a new long term refinancing window of USD 200 million, namely Green Transformation Fund (GTF). Though initially the fund was available only for export-oriented textile, leather and jute sectors, it became available for all export-oriented sectors from June 2019 to ensure sustainable export growth of the country in the process of transformation to a greener economy. It is intended to facilitate access to financing in foreign exchange by all manufacturer-exporters in export-oriented sectors to import capital machinery and accessories for implementing environment-friendly initiatives. The initiatives include water use efficiency in wet processing, water conservation and management, waste management, resource efficiency and recycling, renewable energy and energy efficiency, heat and temperature management, air ventilation and circulation efficiency and work environment improvement initiatives<sup>1</sup>. In April 2020, Euro 200.0 million along with the existing USD 200.00 million was added in the GTF. The disbursement from GTF up to FY21 was USD 118.59 million in 23 projects and Euro 8.41 million in 6 projects.

### Refinance Scheme for Islamic Banks and Financial Institutions for Investment in Green Products/Initiatives.

6.15 In September 2014, BB introduced the “Islamic Refinance Fund” with the surplus liquidity of SLR of Shariah based Islamic banks. To encourage the further involvement of the Shariah based banks and NBFIs in green finance, BB launched a refinance scheme for Islamic banks and NBFIs operated by “Islamic Refinance Fund”. Over time, considering the modification in the country’s economic

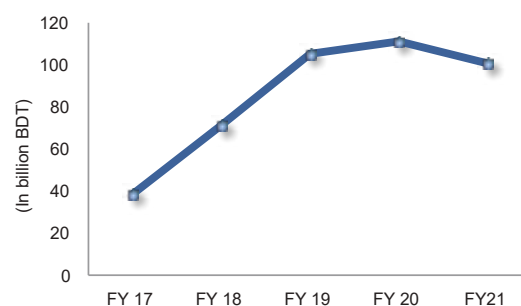
<sup>1</sup> For details, the FE Circular No. 02/2016 can be seen.

**Chart 6.02 Share of Category-wise Green Finance in FY21**



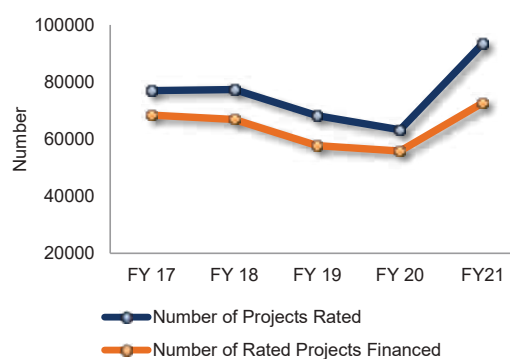
Source: Sustainable Finance Department, Bangladesh Bank.

**Chart 6.03 Trend in Total Green Finance**



Source: Sustainable Finance Department, Bangladesh Bank.

**Chart 6.04 Trend in ESRR by Banks and NBFIs**



Source: Sustainable Finance Department, Bangladesh Bank.

structural conditions, advanced technology, gradually rising demand for the eco-friendly products/ initiatives, BB issued an integrated and comprehensive SFD “Master Circular” on April 05 2018. According to this circular, the scheme has been re-titled as “Refinance Scheme for Islamic Banks and Financial Institutions for Investment in Green Products/Initiatives”. BB enhanced the product range from 50 to 51 under this scheme and segregated these products into 8 categories viz. renewable energy, energy-efficient and energy-savings technology, alternative energy, waste management, recycling and recyclable product, environment-friendly brick production, environment-friendly installations and miscellaneous. The cumulative amount of refinance under the scheme up to June 2021 stood at BDT 476.73 million. Total disbursement under this scheme during FY21 was BDT 37.91 million.

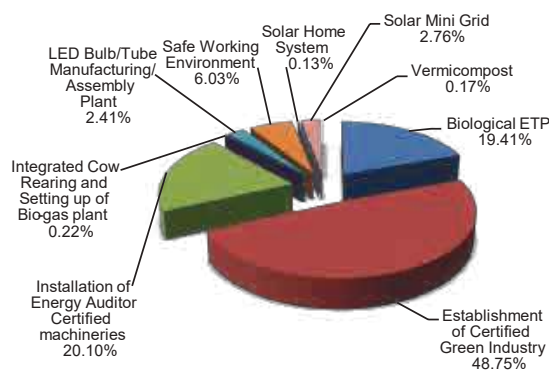
### Refinance Fund for Technology Development /Upgradation of Export-Oriented Industries

6.16 Bangladesh Bank introduced BDT 10.00 billion refinance fund for technology development/up-gradation. The fund has been circulated for banks and NBFIs through the SFD circular (No. 02 dated 17 January 2021). It offers refinance facility for the modernisation and technological development/up-gradation of export-oriented industries in Bangladesh. The fund facilitates 32 industrial sectors mentioned in the Export Policy, 2018-2021 under 11 initiatives/categories. So far 23 banks and 7 NBFIs have become Participating Financial Institution (PFI) till 30 June 2021.

### Corporate Social Responsibility (CSR)

6.17 On 22 December 2014, BB issued indicative guidelines for allocation and end use

**Chart 6.05 Product-wise Refinance Disbursement in FY21**



Source: Sustainable Finance Department, Bangladesh Bank.

monitoring of corporate social responsibility (CSR) engagements in the arena of the financial sector. The guidelines clearly state the administrative setup, budgetary allocation, expected range/coverage of CSR activities and end use monitoring process of CSR expenditures and activities. Besides, on 10 June 2015, BB issued a circular letter for reporting CSR activities undertaken by banks and financial institutions.

### CSR Activities of Banks and NBFIs

6.18 Total amount of CSR expenditure by banks and NBFIs in FY21 was BDT 9225.66 million while the amount was BDT 9399.67 million in FY20. Bank’s total CSR expenditure in FY21 was BDT 9120.00 million. Banks contributed major shares in humanitarian and disaster relief, health and education to 44.06 percent, 34.73 percent and 7.36 percent respectively of the total CSR activities. Expenditure on infrastructure development and environment in underprivileged area were 2.48 percent and 1.97 percent respectively. Besides, only 1.59 percent of total CSR expenditure was made under cultural welfare. Specifically banks’ share of expenditure in



income generating activities for the poor appeared to be inconsequential. The amount and sector-wise CSR expenditure of banks and NBFIs in FY21 are shown in Table 6.05 and Chart 6.06 respectively.

6.19 NBFIs reported direct CSR expenditure of BDT 105.66 million in FY21. The major shares of CSR expenditure by NBFIs served for health (38.19 percent), humanitarian and disaster relief (35.94 percent). However, in infrastructural development sector, others, and education sector, they spent 9.34 percent, 8.67 percent and 5.02 percent respectively. During FY21, only 0.26 percent of total CSR expenditure was made under environment and 0.20 percent under income generating activities. Sectoral shares of CSR expenditure by NBFIs in FY21 are stated in Chart 6.07.

### Special CSR Activities

6.20 In 2021, in order to restrain the COVID-19 crisis, BB has instructed all operating scheduled banks to allocate 1.00 percent of their net profit in 2020 as an additional allocation to their regular CSR budget in 2021 through deputy commissioner/NGO/MFI/bank's own network/Sena Kalyan Sangstha in specific sectors such as daily essential food items, maintaining medical treatment expenses including health-safety materials and providing necessary livelihood facility towards jobless people.

### BB's Own CSR Activities

6.21 BB established "Bangladesh Bank Disaster Management and Social Responsibility Fund" by transferring BDT 50.00 million from its annual profit each year to conduct its own CSR activities in different areas such as education, health, environment, women empowerment,

**Table 6.04 List of Eligible Green Products/ Initiatives under "Refinance Scheme for Green Products/ Initiatives/ Projects"**

Sl. No	Green Product/Initiatives
1	Solar Home System
2	Solar Micro
3	Solar Irrigation Pumping System
4	Surface Water withdrawal, Refinement and Supply Run by Solar Pumping and Plant
5	Solar PV Assembly Plant
6	Solar PV Power Plant
7	Solar Cooker Assembly Plant
8	Solar Water Heater Assembly Plant
9	Solar Air Heater and Cooling System Assembly Plant
10	Cold Storage Run by Solar Energy
11	Setting up Bio-gas Plant in Existing Cattle/Poultry Farm
12	Integrated Cow Rearing and Setting up Bio-gas Plant
13	Organic Manure from Slurry
14	Medium Size Bio-gas Plant
15	Large Scale Biomass based Bio-gas Plant
16	Poultry and Dairy based Large Scale Bio-gas Plant
17	Windmill Electricity Generation Plant
18	Hydro Electricity Plant (Pico, Micro, Mini)
19	Replacement of Energy Inefficient Materials by Energy Efficient Materials
20	Auto Sensor Power Switch Assembly Plant for Electricity Savings
21	Energy Efficient Improved Cook Stove Assembly Plant
22	LED Bulb Manufacturing Plant
23	LED Bulb/Tube Light Assembly Plant
24	Replacement of Conventional Lime Kiln by Energy Efficient Kiln
25	Waste Heat Recovery System
26	Bio Crude Oil Production through Pyrolysis Method
27	Biological ETP
28	Combination of Biological and Chemical ETP
29	Conversion of Chemical ETP to Combined Biological and Chemical ETP
30	Central Effluent Treatment Plant (CETP)
31	Waste Water Treatment Plant
32	Sewage Water Treatment Plant
33	Methane Recovery and Electricity Generation from Municipal Waste
34	Organic Manure Production from Municipal Waste
35	Hazardous Waste Management
36	Fecal Sludge Management and Treatment
37	PET Bottle Recycling Plant
38	Plastic Waste (PVC, PP, LDPE, HDPE, PS) Recycling Plant
39	Paper Manufacturing by Recycling of Waste/Used Paper Plant
40	Recyclable Baggage Manufacturing
41	Recyclable Non-Oven Polypropylene Yarn and Baggage Manufacturing Plant
42	Solar Battery Recycling Plant
43	Used Led Acid Battery Recycling Plant
44	Compressed Block Brick Manufacturing Plant
45	Foam Concrete Brick Manufacturing Plant
46	Setting up Modern Technology Based Plant (HHK/Tunnel Kiln/equivalent Technology) to Reduce Carbon Emission in Brick Manufacturing Industry
47	Green Industry
48	Green Featuring Building
49	Improving Working Environment and Safety Ensuring Project
50	Vermicompost Production
51	Palm Oil Production Through Energy Efficient Plant
52	Solar Pico Grid
53	Solar Nano Grid
54	Solar Mini Grid
55	Net Metering Rooftop Solar System

Source: Sustainable Finance Department, Bangladesh Bank.

human resources development, etc. with a view to developing the backward sectors of Bangladesh and ensuring its sustainable development. Later the fund was extended to BDT 100.00 million in FY15. BB has sanctioned (Contribution from BB's operating profit and bank interest) BDT 51.65 million in FY21 and BDT 51.49 million in FY20 from the fund. The sector wise allocation in FY21 is shown in Table 6.06.

### Refinance Scheme of Pre-shipment Credit

6.22 In the realm of COVID-19 pandemic, exports were disrupted due to stoppage and cancellation of contracts from Bangladesh. Therefore, to ensure uninterrupted exports, Bangladesh Bank formed a scheme named "Refinance Scheme of Pre-shipment Credit" for all export orient industries. The scheme is fully funded by BB and its size comprises of BDT 50.00 billion for the tenure of 3 (Three) years.

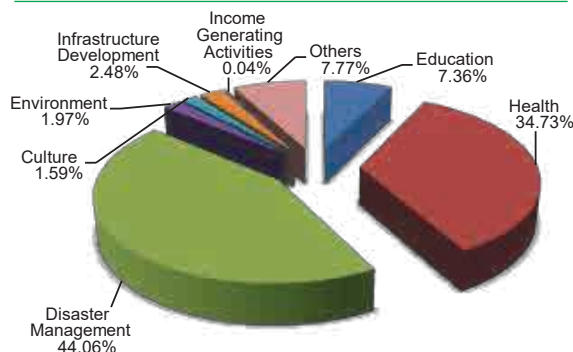
### Interest Rate and Duration of the Scheme

6.23 Initially the interest rate at the client level was 6.00 percent and BB charged 3.00 percent interest rate on PFI. But for the advancement of exports, it has been reduced to 5.00 percent at the client level and 2.00 percent for the PFI. Each time the facility is limited for maximum 180 days (Starting from the date of credit to bank's current A/C maintained with Bangladesh Bank, Motijheel Office).

### Eligibility of the Scheme

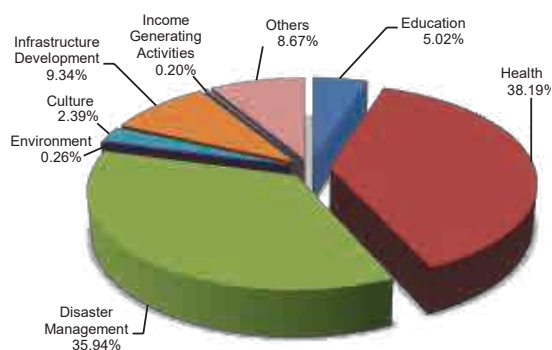
6.24 Any exporter with no record of default and overdue export bills for the past 2 (Two) years starting from the date of application, is entitled to the facility. Furthermore, refinance facility will not be approved against any contract/export LC issued by SHELL company/bank.

**Chart 6.06 Share of Sector-wise CSR Expenditure of Banks in FY21**



Source: Sustainable Finance Department, Bangladesh Bank.

**Chart 6.07 Share of Sector-wise CSR Expenditure of NBFIs in FY21**



Source: Sustainable Finance Department, Bangladesh Bank.

### Scheme Update as on 30 September 2021

- Total PFIs signed agreement for the facility: 34
- Total PFIs taken the facility : 08
- Total amount disbursed: BDT 4082.2 million.
- Total export institutes: 65
- Sector : Textile and RMG
- Total direct beneficiaries: 1,64,689

### Impact of the Scheme

6.25 The interest rate margin served as a noteworthy fortification for the exporters especially during the COVID-19 situation.



Hence, exporters availing the facility of the scheme were able to provide salary to their workers even during the pandemic situation of COVID-19. Despite pandemic related uncertainty, Bangladesh's economy showed emerging signs of recovery. In fact, pre-shipment credit and other stimulus packages have large impact to this early recovery.

### Financial Inclusion Activities in Bangladesh

6.26 Financial inclusion has emerged as one of the most effective policies to achieve inclusive and sustainable economic development. In line with this policy objective, BB has been engaged in the exploration of innovative initiatives to bring the financially excluded people under the umbrella of formal financial services. As part of these initiatives, BB has been promoting multi-faceted and affordable alternative delivery channels including the digital services to make formal financial services available at the doorsteps of the mass people.

6.27 As per the responsibilities conferred upon vide various statutes, acts including the parent law 'The Bangladesh Bank Order, 1972' (amended up to July 2020), BB has been committed to promote financial inclusion activities to facilitate the best use of economic resources. As a part of this mission, BB has taken different initiatives to improve the access to credit and other financial services, especially for the unbanked and poor populace of the country who generally left out of the financial services.

6.28 Bangladesh Bank has committed for a greater financial inclusion of under-served productive sectors and brought new dimensions in financial markets for rapid poverty eradication, inclusive economic and

**Table 6.05 CSR Expenditure of Banks and NBFIs in FY21**

(In million BDT)

Sectors	Banks		NBFIs	
	Amount	Sectoral Share (percent)	Amount	Sectoral Share (percent)
Education	671.2	7.36	5.3	5.02
Health	3167.3	34.73	40.35	38.19
Humanitarian and disaster relief	4018.4	44.06	37.97	35.94
Environment	179.4	1.97	0.27	0.26
Cultural welfare	145.3	1.59	2.53	2.39
Infrastructural development	226.2	2.48	9.87	9.34
Income generating activities	3.4	0.04	0.21	0.20
Others	708.8	7.77	9.16	8.67
<b>Total</b>	<b>9120</b>	<b>100.00</b>	<b>105.66</b>	<b>100.00</b>

Source: Sustainable Finance Department, Bangladesh Bank.

**Table 6.06 Sector-wise Expenditure of BB's CSR Fund in FY21**

Sectors	Amount (In million BDT)	Sectoral Share (percent)
Education	32.31	62.56
Health/ sanitation	12.25	23.72
Human resources development/ Capacity building	6.84	13.24
Others/sports	0.25	0.48
<b>Total</b>	<b>51.65</b>	<b>100.00</b>

Source: Sustainable Finance Department, Bangladesh Bank.

social progress. In order to meet the commitments and targets within the stipulated time and to monitor the self-progress, BB has started outlying its commitments to the nation through publishing 'Strategic Plan' since 2010. In the latest Strategic Plan for 2020-2024, Bangladesh Bank has set several action plans which have been coupled with the indicators for deepening financial inclusion in Bangladesh. On implementation of those action plans, it is expected that financial services will be reached out to all including the underprivileged people, gender gap will be reduced, and finally the usage of financial services will be increased to the expected level.

6.29 In addition to the institutional goals, Bangladesh Bank has played an instrumental role in formulating country's first financial inclusion strategy, the "National Financial Inclusion Strategy (NFIS) of Bangladesh", where the commitment for financial inclusion of all citizens has been reaffirmed.

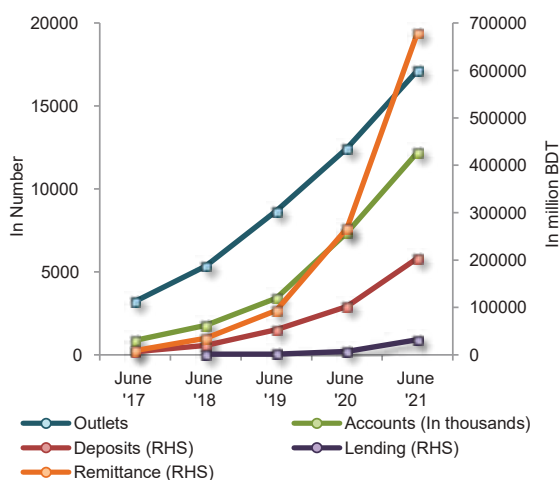
### Early Stages of Financial Inclusion in Bangladesh

6.30 The nationalisation of the banks in 1972 facilitated in reaching out to more remote places and diversifying banking services for a greater population. Another important step was the establishment of Bangladesh Krishi Bank (a specialised bank for financing the agricultural sector) in 1973, which facilitated access to agricultural finance to a large portion of the rural population. Meanwhile, microfinance institutions also found their ground to grow their operation as aid delivery channel and have been operating microcredit activities at the rural level.

6.31 As the time evolved, in 1982, Bangladesh Bank started licensing of private commercial banks in Bangladesh that increased financial access points and thus helped more people to be on-boarded in the financial system. With the emergence of mobile and internet, digital financial services (DFS) boosted the financial inclusion in Bangladesh further, especially in the last decade. Among the available DFS, mobile banking has gained much popularity and helped more unbanked people to use financial services. The role of DFS has also been pivotal in combating the COVID-19 pandemic.

6.32 In FY21, Bangladesh Bank, with its various initiatives, remained focused on reaching out to more unbanked and

**Chart 6.08 Trends in Agent Banking Activities**



Source: Financial Inclusion Department, Bangladesh Bank.

underprivileged people, exploring new areas and ensuring quality and affordable financial services.

### Financial Inclusion through Conventional Channels

#### Expansion of Branch Network of the Banks

6.33 The conventional and comprehensive way of extending banking services to the areas where there is a need for those services as well as business prospect for the banks is the full-fledged branch banking. Earlier, banks were permitted to maintain a ratio of 4:1 for setting up new branches in the urban and rural areas till 2011. With a view to reaching more rural areas with banking services, BB issued a circular on bank-branch expansion in 2011 and re-fixed the rural urban branch ratio to 1:1. In FY21, a total of 205 new bank branches were opened. The number of bank branches as on 30 June 2021 stood at 10,793.

#### Sub-branches and Bank Booths

6.34 In 2012, the Bangladesh Bank allowed

banks to establish small and medium enterprise (SME) branches, agri-branches, collection booths and business development centers. These new channels are bringing more unbanked and underprivileged people under the formal banking network. Such branches are providing limited scale banking services and operating within a limited expenditure under the supervision of a nearby full-fledged branch of the bank.

### **Financial Inclusion through Alternative Channels**

#### **Agent Banking**

6.35 Bangladesh Bank allowed scheduled banks to extend banking services through agents in 2013. Agents of a bank can offer limited-scale banking and financial services under a valid agency agreement. Through this system banks can extend their services to the remote areas without setting up a branch or employing their own officials to the remote location. This new system is cost efficient for the banks as well as suitable for a local entrepreneur to act for a bank in their locality. As a result, agent banking is gaining much popularity in the remote areas.

6.36 Financial inclusion has gained a pace through agent banking in the rural areas creating endless possibilities for both banks and their customers. Agent banking is helping banks in mobilising deposits, disbursing credit and most importantly distributing inbound foreign remittances. Even in the time of spreading COVID-19, when every other business and banking activities saw a downturn, the agent banking has still made a significant progress.

6.37 As of June 2021, 28 banks were

engaged in agent banking. A total of 12,912 agents were deployed with 17,145 outlets in FY21 which was 47.33 percent and 37.72 percent higher than 8,764 agents and 12,449 outlets in FY20 respectively. Total number of accounts up to June 2021 was 12,205,358 and total balance of these accounts was BDT 203.79 billion. The distribution of foreign remittance, through agent banking in FY21 was BDT 679.54 billion which was 154.98 percent higher than BDT 266.51 billion in FY20. Trends in agent banking activities are shown in Chart 6.08.

#### **Introduction of Automated Teller Machine (ATM)**

6.38 ATMs are making significant contribution towards creating branchless banking worldwide. Considering the comfort and convenience of the customers, BB encourages banks to introduce ATMs for their customers. This avenue allowed banks to provide allied services such as Debit Card, Credit Card, POS/online transactions etc. The first ATM in Bangladesh was introduced in 1993. As on 30 June 2021, the number of ATMs in Bangladesh was 12,337.

#### **Electronic Payment Services**

6.39 The popularisation of POS and e-Commerce services helped customers to make domestic and overseas payments with ease and convenience. Specially, with the evolution of technology, these services helped to financially include the tech-savvy young generation. BB also introduced Bangladesh Automated Cheque Processing Systems (BACPS) in 2010, Bangladesh Electronic Funds Transfer Network (BEFTN) in 2011, National Payment Switch Bangladesh (NPSB) in 2012 and Real Time Gross Settlement

System (RTGS) in 2015. These technical moves increased the speed of money and thus reduced time required for making interbank transactions significantly. As the usage of these services increases, the cost reduces and induces financial inclusion.

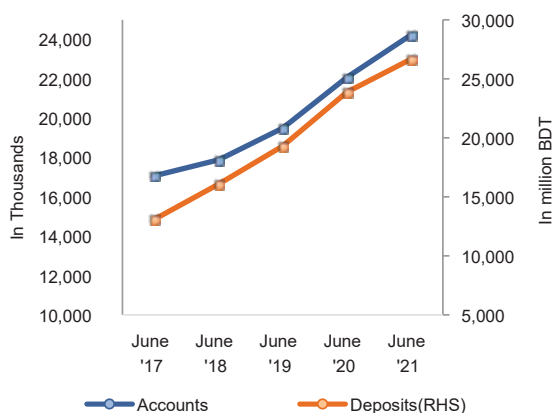
### Mobile Financial Services

6.40 Bangladesh Bank has introduced Mobile Financial Services (MFS) in 2011. Initially MFS was used as a mode of payment instrument, but later MFS has also been used as a medium of deposit mobilisation. MFS has experienced a rapid growth since the mobile phone network is omnipresent all over in Bangladesh. BB has also introduced a tiered KYC and electronic documentation for opening an MFS account which further accelerated financial inclusion.

6.41 At the early stage, only the cash-in/cash-out (CICO) transactions were popular through MFS, but now all modes of transactions including person to person (P2P), person to business (P2B), business to person (B2P), person to government (P2G) and government to person (G2P) are also popularly used.

6.42 MFS has grown exponentially since the inception and the growth continued in FY21. Bangladesh Bank has instructed all MFS companies to open accounts of the garment workers, receivers of government subsidies, stipend, scholarship etc. and allow them withdrawal of their hard-earned money with subsidised cash-out fee. The number of registered and active MFS clients increased by 14.01 percent and 6.10 percent respectively during FY21. The transaction number and volume were also increased by 24.88 percent and 40.52 percent respectively.

**Chart 6.09 Trends in No-frill Accounts**



Source: Financial Inclusion Department, Bangladesh Bank.

### Licensing of PSPs and PSOs

6.43 As a part of financial inclusion and deepening financial services, Bangladesh Bank has been providing licenses for payment services providers (PSP) and payment system operators (PSO) under the "Bangladesh Payment and Settlement Systems Regulation-2014 (BPSSR-2014)". PSPs are facilitating payment(s) or payment processes directly to the customers and settling their transactions through a scheduled bank or financial institution, such as e-wallet, mobile wallet, etc. PSOs are engaging as fintech companies who operate as settlement systems for payment activities between/among participants, such as payment gateway, payment aggregator etc. As of June 2021, a total of 9 PSPs and PSOs were in operation and their activities are helping financial inclusion in Bangladesh.

### Initiatives for Marginal and Specialised Segments

#### No-Frill Accounts

6.44 The focus of financial inclusion in Bangladesh rests mainly on low-income

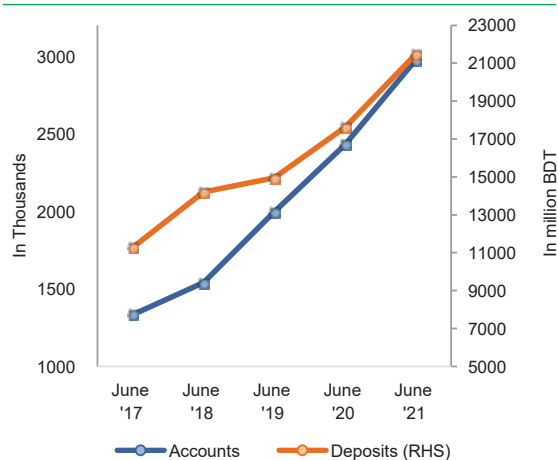
groups. Since the financial service is regarded as an important prerequisite for poverty alleviation and improving living standard, BB issued a set of directives to the commercial and specialised banks to onboard the poor, marginalised and special segment of population to the formal banking system and to retain them in the system through opening a special type of bank accounts with zero or nominal charges and free of unnecessary fees or frills. Those accounts are commonly known as no-frill accounts (NFA). NFAs require simplified know-your-customer requirement and documentation. BB guided commercial banks for opening NFAs for farmers, recipients of the social security programmes, freedom fighters, small life insurance policyholders, garment workers, cleaning workers of the city corporations, footwear and leather goods makers, small-scale factory workers, physically-challenged persons, dwellers of the former enclaves, flood affected marginal people, small businessmen, etc. In addition, Banks were instructed to offer higher interest rate against the deposits of those accounts. NFAs have been playing a pivotal role in respect to financial inclusion over the years.

6.45 As of June 2021, a total number of 24,233,665 NFAs were opened under the financial inclusion programme. The number was 22,070,630 in June 2020 indicating an increase of 9.80 percent. The total amount of deposits in the NFAs reached at BDT 26,659.4 million in June 2021 compared to BDT 23,867.4 million in June 2020 indicating an increase of 11.70 percent during the last financial year. Trends in NFAs are shown in Chart 6.09.

### School Banking

6.46 One of the most significant milestones

**Chart 6.10 Trends in School Banking Activities**



Source: Financial Inclusion Department, Bangladesh Bank.

in the financial inclusion initiatives of BB is the introduction of school banking. To develop savings habit at a very early age, the programme introduces banking services and modern banking technology to students of age less than 18 years. BB issued directives for the banks to introduce school banking in November 2010, later framed a comprehensive policy in October 2013. These policies have preceded the directive to convert school banking accounts to general savings accounts once the students reach the age of 18 years (subject to the consent of the account holder).

6.47 In light of these policies, banks can open student accounts with a minimum deposit of BDT 100 where no service charges applicable. Moreover, these accounts offer attractive interest rates, debit card facility and school-centric financial education services. Fifty-five (55) banks have so far offered school banking. Total number of students' accounts under school banking initiatives increased to 2,976,643 in June 2021 with a total deposit of BDT 21,478.1 million. The number of accounts



and amount of deposit increased by 545,041 (or 22.41 percent) and BDT 3,849.9 million (or 21.84 percent) respectively in June 2021 from June 2020. Chart 6.10 shows the picture of school banking accounts in Bangladesh.

### **Banking for the Working Children**

6.48 Bangladesh Bank has directed banks to provide financial services to street urchin and working children to secure their hard-earned money and help them to grow a saving attitude. Children who do not have parents can open accounts in the banks with the help of the registered non-government organisations (NGOs). The NGOs involved in this process are fully responsible for the account operation and for the welfare of the account holders. No fees are charged on these accounts.

### **Introduction of Refinance Packages**

#### **BDT 2 Billion Refinance Scheme for BDT 10 Account Holders**

6.49 In 2014, a revolving refinance fund of BDT 2.0 billion was created from Bangladesh Bank's own source to facilitate the rural economic activities by expanding the income-generating activities of the low-income marginal/small traders affected by natural disasters as well as small/marginal farmers with accounts of BDT 10 to provide access to credit to the financial services-strapped people under institutional financial services. The scheme has been used to refinance loans provided by banks directly and also through micro-financial institutions (MFI) linkage. Under this scheme, the banks under contract can lend up to BDT 50,000 to the account holders of BDT 10 for one-year period without any collateral. In contrast to the disbursement of these loans, BB provides refinance facility to banks at bank rate. The

maximum interest rate of this loan is 9.00 percent, which is calculated in reducing balance method. Besides, banks also get a rebate incentive at a rate of 3.5 percent against successful reclaiming of disbursed loans under this fund.

#### **Refinance Scheme of BDT 30 Billion for COVID-19 Affected Marginal People**

6.50 In order to tackle the adverse impact of COVID-19 on marginal people, BB announced a BDT 30.0 billion refinance scheme on 20 April 2020. The objective of the scheme is to provide the poor and marginal people with access to credit through microfinance institutions (MFI). The maximum limit for the loan is BDT 75,000 for individual and BDT 3,00,000 for a group of people. In case of a small enterprise, the maximum limit of loan is BDT 10,00,000 and a group of small enterprise are eligible to get maximum BDT 30,00,000. All credits under this scheme are to be given only to the members of MFIs for the period of one year for an individual and maximum 02 years for micro-enterprises. Forty-two (42) scheduled banks have already agreed upon a contract with BB to disburse the fund under the scheme to the MFIs who received eligibility certificate from microcredit regulatory authority (MRA). BB will charge only 1.0 percent p.a. to banks and banks will lend to MFIs at 3.5 percent p.a. The end-users, who are affected by the COVID-19, are eligible to get the fund at a maximum rate of 9.0 percent p.a. It is mentionable that remittance-providing workers who are returning from abroad due to COVID-19 situation, are also eligible to get credits under the scheme. Thus, this refinance scheme opened a great scope for the marginal people to carry on their livelihoods amidst the Corona crisis.

### Financial Literacy and Consumer Empowerment

6.51 Financial literacy of the citizen is a prerequisite to make a sustainable financial inclusion. With a view to making financial inclusion initiatives more successful, BB has taken numerous initiatives. An interactive web portal for financial literacy has been hosted in the internet. The website contains basic financial literacy documents, cartoons, story books, games, audio-visuals, calculator, etc. on different financial issues and financial services. Several television commercials, radio broadcasting commercials, advertisements in the newspaper, flyers, pamphlets, leaflets, video documentary have been made and released for building public awareness on financial literacy.

6.52 Moreover, as part of the commitment to build a nation with strong financial base, BB has undertaken a project financed by alliance for financial inclusion (AFI) named as 'Striving for a Financially Literate Society'. This project will primarily be implemented by undertaking the following three initiatives:

- Developing financial literacy guidelines specially designed for the employees of banks and non bank financial institutions to deploy financial literacy by them among the people under their jurisdiction;
- Producing financial literacy content and website aimed at different segments of people such as CMSMEs, women, youths, farmers/agro based people, mobile financial service (MFS) users, social safety net beneficiaries, senior citizens etc.;
- Producing short animated financial literacy videos for better

dissemination of financial literacy among the mass.

6.53 Bangladesh Bank has identified 'Strengthen financial education and financial literacy initiatives' as an important core objective in the Strategic Plan for 2020-2024. With a view to increase public awareness, formulate financial literacy and financial education policy, BB designed a special programme named 'School Banking Conference' in 2014. Accordingly, school banking conferences are arranged at the district-level of Bangladesh. Students from different educational institutions, parents, teachers, government officials, journalists of that locality participate, learn and share financial knowledge through various activities. Considering financial literacy as a foundational learning for the future citizen, BB has been working to include a special chapter on financial literacy in the national curriculum for the secondary level education.

6.54 In addition to the above-mentioned programmes and initiatives, BB arranges different financial awareness campaign such as open credit disbursement programme, awareness raising campaign under different schemes and projects, special fairs such as banking fair, SME fair, women entrepreneur fair, etc

### International Collaboration and Knowledge Sharing

6.55 Bangladesh Bank has built partnership with some international strategic alliances and become member of international organisations to boost financial inclusion, financial deepening and also to ensure an enabling and inclusive financial environment in Bangladesh.

6.56 Governor of Bangladesh Bank was the chair of the Board of Directors of alliance for financial inclusion (AFI)<sup>2</sup> from June 2018 to September 2019.

6.57 The Maya Declaration, a member institution's self-commitment regarding financial inclusion has been introduced by AFI in September 2011 at the AFI Global Policy Forum in Riviera Maya, Mexico. BB signed the Maya Declaration and made 54 commitments of which 44 commitments were successfully achieved till June 2021.

6.58 Bangladesh Bank has also been chosen the vice-chair of the financial inclusion working group of the Organisation of Islamic Cooperation (OIC). This working group of the central banks of the Islamic countries is working for the promotion of financial inclusion as well as for improving access to finance, financial education and consumer protection.

6.59 It is mentionable that due to significant progress in financial inclusion, BB was awarded with the AFI Policy Award in 2014, The Child and Youth Finance International (CYFI)'s Global Inclusion Award for 2016 and 2017, and AFI Gender Inclusive Ambassador award in 2018.

### Other Financial Inclusion Initiatives

#### Introduction of e-KYC and Simplified Account Opening Form

6.60 Bangladesh Bank is committed to ensure affordable and faster financial services for the citizen to promote financial inclusion and to achieve several national objectives including sustainable development goals (SDGs). As the modern financial ecosystem require customer identification and due

diligence with minimum possible time, Bangladesh Bank took initiative to introduce electronic e-KYC in 2016. Since the digitalisation enables easy access of customer, even from the remote location, into the financial services, this may pose some underlying risks. Furthermore, the verification of identity is an integral part to complete the KYC processes necessary for compliance with anti-money laundering and counter financing of terrorism (AML/CFT) regulation.

6.61 The inability of financial institutions to properly verify prospective clients will lead to financial exclusion. Considering the pros and cons and a trustworthy identification mechanism through e-KYC, Bangladesh Bank issued a guideline in January 2020.

6.62 In order to promote financial inclusion, BB reviewed the account opening form used by the banks and introduced a simplified form in February 2020. The simplified form is designed to offload the burden of the marginalised clients from submission of many documents based on their risk exposure.

6.63 The account opening forms were updated to make account opening more customer-friendly in accordance with the involvement of information technology, improvement of financial infrastructure and to facilitate faster information flow with the assistance of technology. Apart from the requirements of the simplified forms, the banks have been allowed to seek additional information from customers if they deem it necessary.

#### Deepening of Access to Finance in Rural Areas

6.64 Bangladesh Bank has been pursuing annual agricultural credit policy not only to increase financial inclusion but also to enhance

<sup>2</sup> A global knowledge exchange platform of 101 regulators from 89 countries for financial inclusion. (<https://www.afi-global.org>)

access to finance in the rural areas. The policy also aims at reaching every corner to rejuvenate rural economy each year as well as contributing to employment generation, agricultural production and food safety for the country. According to 'Agricultural and Rural Credit Policy and Programme' for the FY22, a total of BDT 255.11 billion was disbursed to 3.06 million borrowers in FY21. Among the borrowers, 1.61 million (52.60 percent) were women.

### **Narrowing the Gender Gap**

6.65 As per the Global Findex 2017, published by the World Bank, the prevailing gender gap in accessing financial services in Bangladesh is 29.00 percent. In order to reduce the gap and to increase the portion of pie for the female counterpart, BB has taken different initiatives which help increasing financial inclusion through widening the access to finance. Banks are instructed to extend new credit facilities in favor of at least 3 women entrepreneurs per branch annually. Furthermore, to encourage the women's participation in getting credit, banks are instructed to setup a dedicated desk in each branch and to form a women entrepreneur development unit at their head office to help and monitor the women entrepreneurship and allied activities. The policy measures taken by BB already impacted positively on the share of women in financial services.

### **Enhancing Eligible Collateral Base for Greater Access to Finance**

6.66 Sufficient collateral is one of the important prerequisites to avail loan from any bank or financial institution in Bangladesh. Among the collaterals, immovable fixed assets are most widely acceptable. Hence, financing to escalate the CMSME industry hinders due to

lack of adequate immovable collateral. Movable assets can be considered as alternative source of collateral for the CMSME loans. A project named 'secured lending and movable collateral registry reform in Bangladesh' has been undertaken jointly by BB, Ministry of Finance and International Finance Corporation (IFC) of the World Bank Group.

6.67 The objective of this project is to generate the acceptability of transferable or movable assets through reformation of eligible collateral. Consequently, the periphery of eligible assets considered as collateral and to ease financing intricacy for the CMSME entrepreneurs is being widened.

### **Establishment of Refinance Scheme on 'Start-up Fund'**

6.68 To create new entrepreneur and to inspire self-employment, a revolving refinance fund titled 'Start-up Fund' of BDT 5.0 billion has been created from the own source of BB. All the scheduled banks have also been instructed to form their own 'start-up' fund from their yearly operational profit. Refinance from this fund will be used to promote the innovation and development of the marketing of new product/service/process/ technology which will create disproportionate return of investment to the commercially successful investors. The maximum interest rate of this loan is 4.00 percent for the end user and banks can lend up to BDT 10 million for a five-year period.

### **Regulatory Responses on Financial Inclusion due to COVID-19**

6.69 Bangladesh Bank has taken several steps in COVID-19 pandemic situation, including the following:

- Uninterrupted digital financial services

in different sectors by enhancing transaction limit and waivers of fees;

- Disbursement of salaries, wages and government social safety net benefits through the workers'/customers bank account or mobile wallets;
- Disbursement of government allowance of distressed population by providing cash assistance to 5 million poor families, who have lost their source of earnings during the COVID-19 pandemic, through mobile financial services (MFS) and BDT 10 account;
- Formed a revolving refinance scheme with an initial fund of BDT 30 billion for providing credit facilities to low-income people to ensure inclusive growth;
- Develop financial assistance package of BDT 200 billion for capital loan/ investment facility for CMSME and BDT 100 billion refinance scheme for CMSME sector to provide working capital facility;
- Refinance scheme of BDT 30 billion for agriculture sector to combat financial crisis due to COVID-19 pandemic; and
- Refinance scheme of BDT 50 billion for providing working capital in agriculture sector due to break-out of COVID-19.