

Quarterly Review Report

on

Green Banking Activities of Banks & Financial Institutions

and

Green Refinance Activities of Bangladesh Bank



April-June, 2019



Sustainable Finance Department
Bangladesh Bank
Head Office

Executive Summary

The world at large is experiencing the devastating effects of the global climate crisis including droughts, floods, tsunami, water scarcity, and rising sea level. These consequences of climate change threaten the sustainable living on this planet which calls for an urgent and collective response from both developed and developing nations especially countries like Bangladesh. On that standpoint, we need to take necessary steps for our sustainability in long run. Green interventions and frameworks are crucial for making future development more sustainable. Forming green frameworks are very much within the broader scope of sustainable development agenda of a country like Bangladesh.

Banks and financial institutions (FIs) hold a unique position in an economic system that can affect production, business and other economic activities through their financing activities, and thus also influence environmental risk management in real economy, and sustainable growth. These institutions can accelerate the movement of a clean world to a large extent. For instance, these institutions can implement a 'go-green' policy for themselves and encourage client firms to adopt clean technology. In the long-term, this strategy is expected to be favorable for firms, to reduce the cost and induce the access to the new market. To advance their interest, all the financial institutions should follow the carbon footprint of their clients or projects to ensure overall sustainability.

In recent days, an increasing number of banks/NBFIs are going green by providing innovative products that cover financial services to support the activities that are not hazardous to environment, on the other hand help to conserve environment. Such activities are popularly known as 'Green Banking Activities'. This report entails the information on all the policy initiatives and operational approaches on green finance taken by Bangladesh Bank (BB), and also the Green banking activities of Banks & Financial Institutions from April 01 to June 30, 2019 timeline. It covers both green finance/investment by 58 scheduled banks (excluding recently scheduled Community Bank Bangladesh Limited) and 33¹ FIs under refinance scheme and also finance/investment for green projects from their own sources.

	June, 2018	Sep, 2018	Dec, 2018	March, 2019	June, 2019
Green Finance by Banks (In million Tk)	25,238.85	25,231.91	21,090.38	28,754.37	23,676.38
Green Finance by FIs (In million Tk)	998.90	588.01	2,630.23	1,739.23	1,542.40

¹ After initiation of legal process of the liquidation of Peoples Leasing & Financial Services Limited, number of total Financial Institutions stands at 33.

1. Introduction

Green banking is a genre of banking practices which considers all the social and environmental/ecological factors with an aim to protect the environment and conserve natural resources. It is also called as ethical banking or sustainable banking. The banking sector is one of the major sources of financing industrial projects such as steel, paper, cement, chemicals, fertilizers, power, textiles, etc., which cause maximum carbon emission. Therefore, the banking sector can play an intermediary role between economic & social development and environmental protection, for promoting environmentally sustainable and socially responsible investment. Green banking refers to the banking business conducted in such areas and in such a manner that help the overall reduction of external carbon emission and internal carbon footprint.

‘Go-green’ approach in banking sector has basically two forms. Firstly, through adoption of environmental and social responsibility in bank’s day to day operations like wise use of paper, energy conservation etc. and secondly, by including sustainability in to banks’ products and strategies like green lending, etc. Bangladesh Bank (BB) has set examples for others by pioneering green banking initiatives by guiding proactively the banks and NBFIs since 2011. In such aspect, green banking initiatives of BB broadly categorized into the following aspects: policy initiatives, monitoring of green banking activities of banks and NBFIs, refinance support from BB in diverse green products/ sectors, and BB's own initiatives for environmental management.

2. Policy Chronology and Support Funding Initiatives of BB:

Bangladesh Bank (BB) started its policy intervention on environment friendly banking practices by issuing Environmental Risk Management (ERM) Guidelines for Banks and Financial Institutions (FIs) and Green Banking Policy Guidelines for Banks². In 2012, a uniform reporting format for reporting green banking activities in an ordered manner for banks was introduced, whereas in the subsequent year in 2013, Policy Guidelines for Green Banking was also issued³ for the Financial Institutions (FIs)⁴ and for the banks scheduled in 2013. Through these guidelines all banks and FIs were brought under the structured reporting system. Besides, to expedite the ongoing initiatives of banks and FIs at faster pace, from January 2016 onwards minimum target of direct green finance was set at 5% of the total funded loan disbursement/investment for all banks and FIs⁵. Bangladesh Bank instructed all banks and FIs to establish Sustainable Finance Unit and Sustainable Finance

² BRPD Circular No.01/2011 & 02/2011

³ GBCSRD Circular No. 04/2013 and GBCSRD Circular Letter No. 05/2013

⁴ Financial Institutions licensed under Financial Institutions Act, 1993.

⁵ GBCSRD Circular No. 04/2014

Committee by abolishing both Green Banking and CSR units⁶. Guidelines on Environmental and Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh along with an Excel-based Risk Rating Model have been issued⁷ which has become enforceable from January 01, 2018 replacing the Guidelines on ERM to all extent. Recently, a comprehensive list of product/initiatives of Green Finance for banks and FIs has been circulated in September 2017⁸. To monitor green banking policy & other regulations and to ensure the quality & uniformity of data provided by Banks & FIs, a new uniform reporting format of Quarterly Review Report on Green Banking Activities has been circulated for Banks & FIs in January 2018⁹.

To ensure the movement towards sustainability, Banks and FIs were instructed to form a ‘Climate Risk Fund’ having allocation at least 10% of their Corporate Social Responsibility budget for Climate Risk Fund. This funding can be done in both ways- by providing grants or financing at reduced rate of interest¹⁰. Meanwhile, Banks & FIs have been instructed to set up Solid Waste Management System, Rainwater Harvesting and Solar Power Panel in their newly constructed or arranged building infrastructure¹¹. Besides, by the direction of Honorable Prime Minister, and Bangladesh Bank's instruction in conformity with that, all the banks & FIs must ensure the establishment and activeness of Effluent Treatment Plant (ETP) during financing to all possible clients¹².

To broaden the financing avenue for green products like solar energy, bio-gas plant and effluent treatment plant, etc., BB established a revolving refinance scheme amounting to Taka 2 billion (200 crore) from its own fund for solar energy, Bio-gas and Effluent Treatment Plant (ETP) in 2009. The product line has been enhanced to 51 under 08 categories¹³.

An on-lending scheme namely “Financing Brick Kiln Efficiency Improvement Project”, was established in BB supported by ADB with a view to reducing greenhouse gas emissions and refine particulate pollution from brick fields throughout the country and building environment friendly brick fields through development of efficiency of brick kiln with usage of appropriate technology and energy in 2012. In this scheme, total amount of loan from ADB is 50.00 million USD/converted to equivalent BDT for local use. It has two parts: Part-A: 30.00 million USD for conversion of Fixed

⁶ SFD Circular No. 02/2016

⁷ SFD Circular No. 02/2017

⁸ SFD Circular No. 04/2017

⁹ SFD Circular No. 01/2018

¹⁰ GBCSRD Circular No. 04/2015

¹¹ SFD Circular No. 01/2016

¹² SFD Circular No 03/2016

¹³ SFD Circular No. 03/2017

Chimney Kiln (FCK) to Improved Zigzag Kiln and Part-B: 20.00 million USD for establishment of new Vertical Shaft Brick Kiln (VSBK), Hybrid Hoffman Kiln (HHK) and Tunnel Kiln.

Bangladesh Bank has introduced refinance scheme funded by excess liquidity of shariah based financial institutions to facilitate the shariah based banks and non-bank financial institutions (NBFIs) in the country¹⁴. This refinance scheme aims to encourage the shariah based investors to be involved more in the renewable energy and environment friendly efforts, and strengthen the involvement of shariah based financing in this sector.

In January 2016, a longer-term refinancing window named Green Transformation Fund (GTF) of 200 million USD was launched to ensure sustainable growth in export oriented textile and leather sectors conducive to transformation of green economy in the country¹⁵. To further fortify the financing arrangement under GTF, it was decided to provision for a Participation Agreement to be signed between Bangladesh Bank and intended banks. To widen the scope of this fund, it has been opened for all manufacturer-exporters irrespective of sectors against import of capital machinery and accessories for implementing specified green/environment-friendly initiatives since June, 2019¹⁶.

3. Review on Support Funding Schemes of BB for Green Finance:

3.1. BB Refinance Scheme for Environment Friendly Products/Initiatives:

The fund was created to promote Environment Friendly Financial Products/initiatives in the country. Since inception, total amount of Tk. 4,118.30 million has been disbursed as refinance facility from the fund till June 30, 2019. The facility is extended to the participating Banks and Financial Institutions (PFIs)¹⁷, those who have signed agreement with Bangladesh Bank to avail the fund. The disbursement scenario of this scheme during April-June, 2019 quarter is furnished below:

Table-1: Sub-category/ Product wise Disbursement		
SL. No	Sub-category/ Product	Taka in million
1	Biogas	1.33
2	Central Effluent Treatment Plant (CETP)	40.00
3	Safe Working Environment (SWE)	20.05
4	Vermicompost	0.79
	Total Disbursement	62.17

¹⁴ GBCSRD circular no. 06 /2014

¹⁵ FE Circular No. 02/2016

¹⁶ FE Circular Letter No. 14/2019)

¹⁷ 36 banks and 23 Financial Institutions

3.2. ADB Supported Financing Brick Kiln Efficiency Improvement project:

“Financing Brick Kiln Efficiency Improvement Project” funded by Asian Development Bank (ADB) was established in Bangladesh Bank for reducing greenhouse gas emissions and fine particulate pollution from brick fields of the country and building environment friendly brick field through efficiency development of brick kiln with appropriate use of energy. Relending facilities are extended to the Participatory Banks and Financial Institutions (PFIs) in this purpose. 36 banks and 21 financial institutions have signed participation agreement with Bangladesh Bank so far. Under this relending facility, total \$33.55 million equivalent BDT 264.05 crore has been disbursed to 14 subprojects through 15 Participating Financial Institutions (PFIs) till June 2019. In the April-June quarter of FY2018-19, \$6.87 million equivalent BDT 54.78 crore has been disbursed to two subprojects through 4 PFIs. The tenure of the project is December 2019.

3.3. Refinance Scheme for Islamic Banks & Financial Institutions for Investment in Green Products/Initiatives:

Recently Bangladesh Bank has issued an integrated and comprehensive “master circular”¹⁸ by revising and incorporating all the existing circular and circular letters related to the refinance scheme for Islamic banks and non-bank financial institutions (NBFIs) under renewable energy and eco-friendly sectors. BB has enhanced the product range under this scheme from 50 to 51 and segregated these products into 8 categories. During April-June, 2019 quarter Bangladesh Bank has disbursed BDT 22.69 million for “Working Environment and Fire Safety of Factory” and collected BDT 0.19 million profit.

3.4. Green Transformation Fund (GTF):

Under this scheme, 19 banks have signed participation agreement with BB. The disbursement from this Fund is 22.276 million USD in till June, 2019. In April-June, 2019 quarter disbursement from this fund is 22.145 million USD only in textile sector.

4. Review on Green Banking Activities of Banks and Financial Institutions (FIs)

4.1 Policy Formulation and Governance:

All scheduled banks (except Probashi Kallyan Bank & Community Bank Bangladesh Limited) have formed their own Sustainable Finance Unit and Green Banking Policy. All the FIs (except Lankan Alliance Finance Limited) have also formed their own Green Banking Policy.

¹⁸ SFD Circular No.02/2018

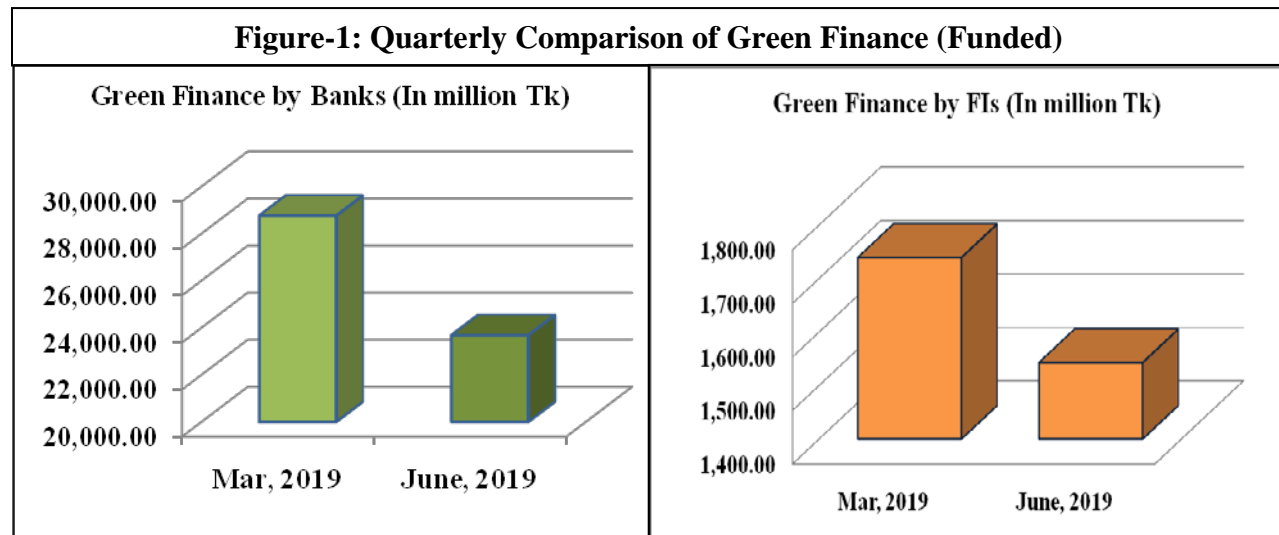
4.2 Overview of Green Finance:

The snapshot of sanction and disbursement of total finance along with green finance by banks and FIs during April-June, 2019 quarter is shown in Table-2. The quarterly shift from March 2019 to June 2019 evidences a decreasing trend in case of Green Finance by Banks and FIs (Figure-1).

Table-2: Sanction & Disbursement of Green Finance (Funded)

Type of Bank/FI	Total Finance in April-June, 2019 (in million Taka)		Green Finance in April-June, 2019 (in million Taka)	
	Sanctioned	Disbursed	Sanctioned	Disbursed
SOCBs (06)	105,026.13	94,796.08	310.81	310.81
SDBs (03)	49,169.75	49,154.75	0.29	0.29
PCBs (40) ¹⁹	2,098,499.55	1,741,663.21	30,807.39	13,410.57
FCBs (09)	336,210.37	316,355.30	9,930.79	9,954.71
Banks' Total	2,588,905.80	2,201,969.33	41,049.28	23,676.38
FIs (33)	121,743.53	116,755.04	1,259.98	1,542.40

Figure-1: Quarterly Comparison of Green Finance (Funded)



4.3 Green Finance- Category wise:

48 Banks out of 58 and 11 FIs out of 33 have had exposure in green finance in the reporting quarter. Total amount invested as green finance has been Tk. 23,676.38 million by banks and 1,542.40 million by FIs in April-June, 2019 quarter. A brief picture of green finance by Banks and FIs is shown in Table-3 & 4 and Figure-2, 3 & 4:

¹⁹ Except Community Bank Bangladesh Limited, total number of PCB is 40.

Table-3: Green Finance (in million Taka)

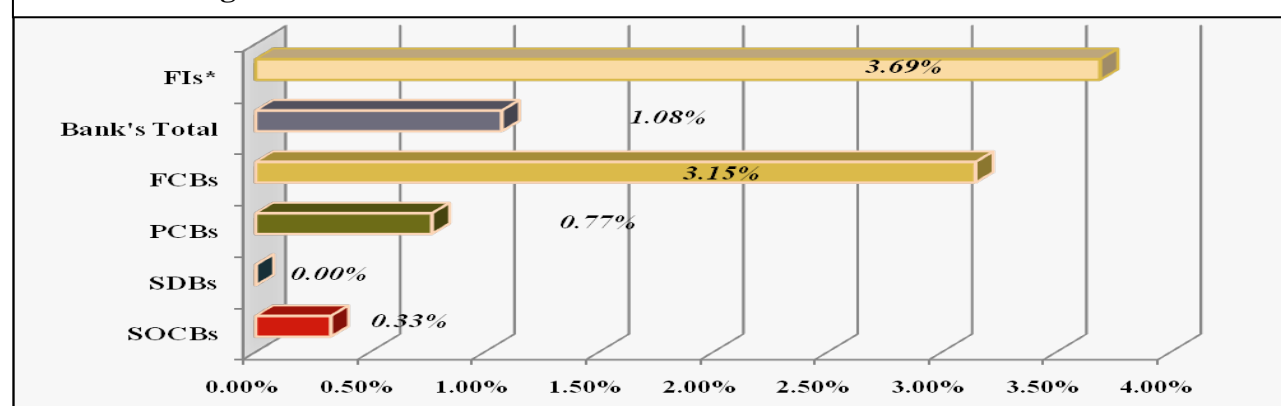
Type of Bank/FI	Sectors of Green Finance			
	Renewable Energy	Energy Efficiency	Alternative Energy	Waste Management
SOCBs (06)	1.31	0.00	0.00	216.70
SDBs (03)	0.14	0.00	0.00	0.00
PCBs (40)	567.84	1,727.78	3.79	1,206.99
FCBs (09)	41.57	99.71	0.00	2.35
Banks' Total	610.86	1,827.49	3.79	1,426.04
FIs (33)	486.40	138.94	0.00	50.00

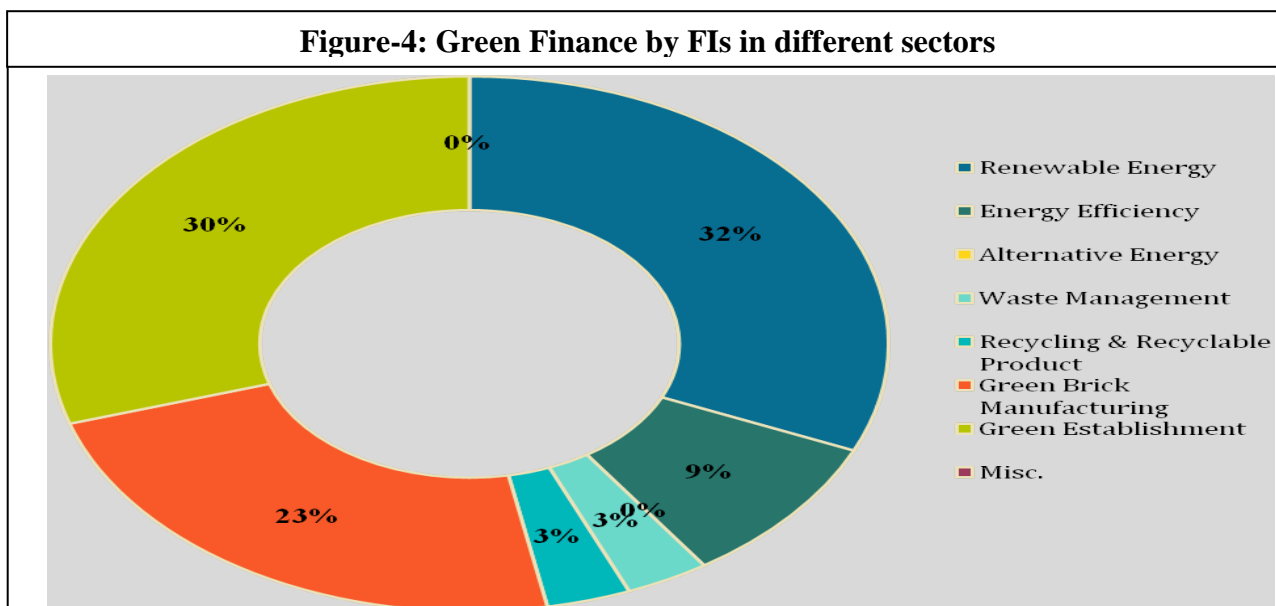
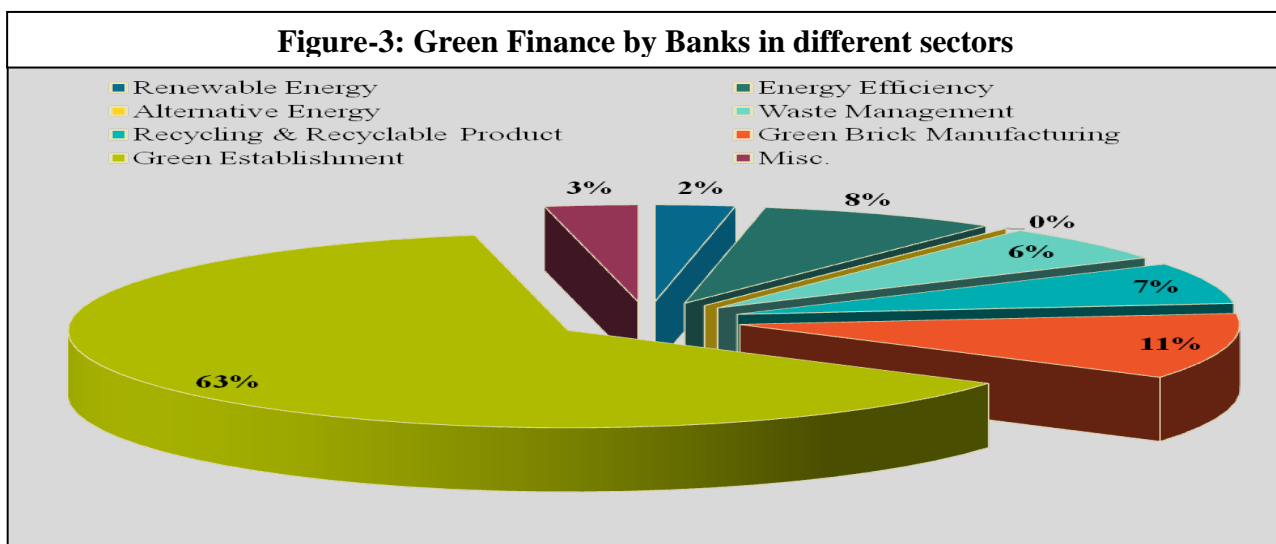
Table-3: Green Finance (in million Taka)- Table Continued

Type of Bank/FI	Sectors of Green Finance			
	Recycling & Recyclable Product	Green Brick Manufacturing	Green Establishment	Miscellaneous
SOCBs (06)	75.25	16.87	0.00	0.68
SDBs (03)	0.00	0.00	0.00	0.15
PCBs (40)	1,547.54	2,577.24	5,071.02	708.39
FCBs (09)	0.00	0.00	9,811.08	0.00
Banks' Total	1,622.79	2,594.11	14,882.10	709.22
FIs (33)	50.00	357.05	460.00	0.00

Table-4: Green Finance as % of Total Finance

Type of Bank/FI	As % of Total Sanctioned	As % of Total Funded Loan Disbursement
SOCBs (06)	0.30%	0.33%
SDBs (03)	0.00%	0.00%
PCBs (40)	1.26%	0.77%
FCBs (09)	2.95%	3.15%
Banks' Total	1.42%	1.08%
FIs (33)	3.25%	3.69%

Figure-2: Green Finance as % of Total Funded Loan Disbursement

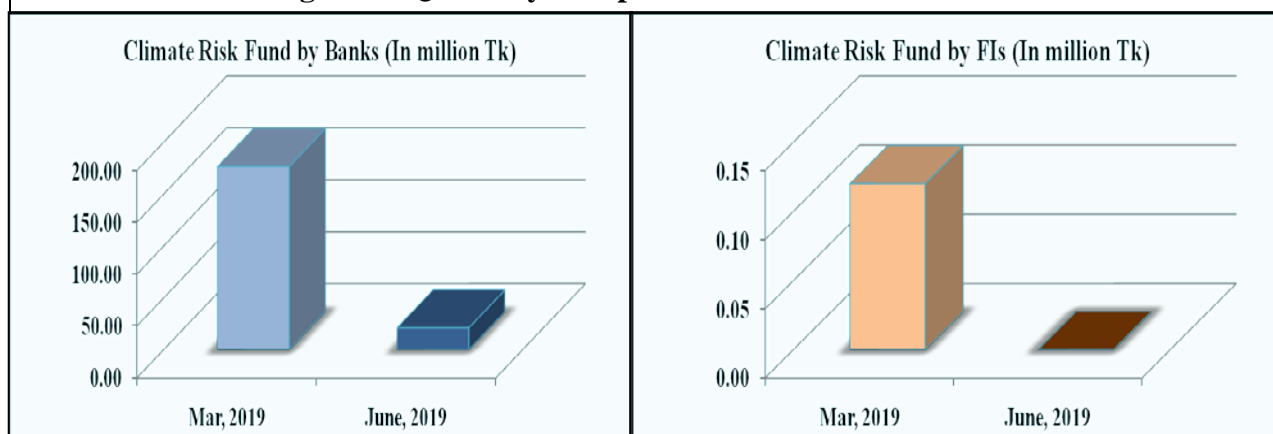


4.4 Climate Risk Fund:

20.96 million taka has been utilized as grant from climate risk fund by Banks which is significantly less than the previous quarter (Figure-5).

Table-5: Utilization of Climate Risk Fund (in million taka)

Type of Bank/FI	Grant		Concessional Loan
	Event	Project	
SOCBs (06)	0.00	0.00	0.00
SDBs (03)	0.00	0.00	0.00
PCBs (40)	20.46	0.00	0.00
FCBs (09)	0.00	0.50	0.00
Banks' Total	20.46	0.50	0.00
FIs (33)	0.00	0.00	0.00

Figure-5: Quarterly Comparison of Climate Risk Fund

4.5 Compliance Overview of ESRM Framework:

41 banks out of 58 and 18 FIs out of 33 have conducted environmental risk rating in the reporting quarter. The quarterly shift of ESRR by banks and FIs is showing a decreasing trend (Table-6 and Figure-6, 7).

Table-6: Environmental & Social Risk Rating

Type of Bank/FI	No. of Projects Rated	No. of Rated Projects Financed	Amount disbursed in Rated projects (in million taka)
SOCBs (06)	1,131	1,241	10,477
SDBs (03)	0	0	0
PCBs (40)	12,656	11,959	402,210
FCBs (09)	325	181	38,320
Banks' Total	14,112	13,381	451,006.28
FIs (33)	682	661	25,134.94

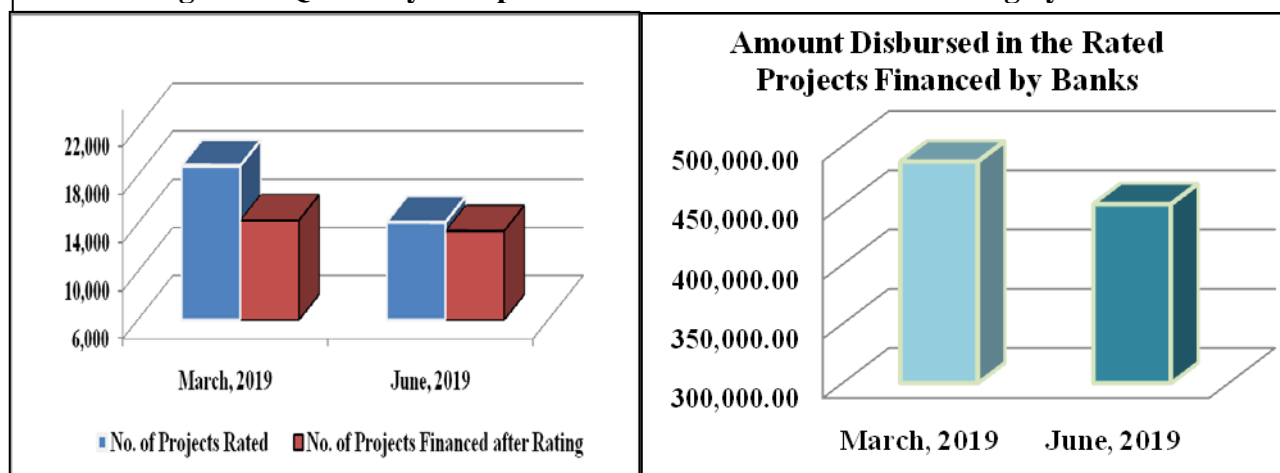
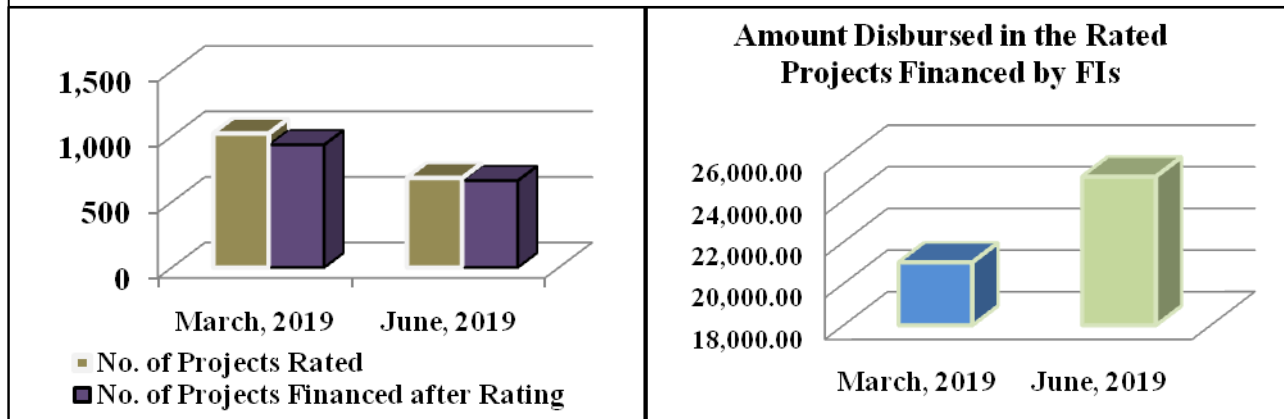
Figure-6: Quarterly Comparison of Environmental Risk Rating by Banks

Figure-7: Quarterly Comparison of Environmental Risk Rating by FIs

4.6 In-house Environment Management:

Table-7: Environmental Conservation in Business Centres

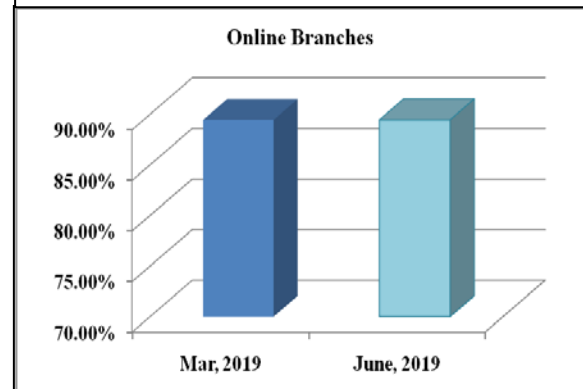
Type of Bank/FI	No. of Branches	No. of branches powered by Solar Energy	No. of ATM Booths	No. of ATM Booths powered by Solar Energy	Number of Agent Outlets	Number of Solar Powered Agent Outlets
SOCBs (06)	3,762	67	216	2	200	0
SDBs (03)	1,418	5	6	0	0	0
PCBs (40)	5,097	492	6,653	82	20,335	5
FCBs (09)	65	5	140	11	0	0
Banks' Total	10,342	569	7,015	95	20,535	5
FIs (33)	277	3	-	-	-	-

4.7 Online Banking:

56 Banks out of 58 have at least one online branch and 41 banks have introduced internet banking facility up to March, 2019. 89.45% automation towards green banking has been observed in the expansion of online branches (Figure-8).

Table-8: Automation towards Green Banking (till June 30, 2019)

Type of Bank/FI	No. of Total Branches	No. of Branches with online coverage	% of Online Branches
SOCBs (06)	3762	3,688	98.03%
SDBs (02)	1418	402	28.35%
PCBs (40)	5097	5,096	99.98%
FCBs (09)	65	65	100.00%
Grand Total	10,342	9,251	89.45%

Figure-8: Online Branches

4.8 Training, Promotion and Disclosure:

29 Banks have arranged 80 training programs concerning green banking where total number of participants was 3,039. On the other hand, 6 FIs have arranged 7 training programs concerning green banking where total number of participants was 320. A snapshot on training in April-June, 2019 quarter is given below:

Type of Bank/FI	No. of Programs	No. of Employees	No. of Customers
SOCBs (06)	3	76	0
SDBs (03)	3	90	0
PCBs (40)	70	2667	25
FCBs (09)	4	177	4
Total	80	3,010	29
FIs (33)	7	171	149

4.9 Major Green Banking Activities at a Glance in April-June, 2019:

Issue	Bank	FI
Amount disbursed as green finance (in million Taka)	23,676.38	1,542.40
Direct green finance as % of total funded loan disbursement	1.08%	3.69%
Amount utilized for climate risk fund (in million Taka)	20.96	0.00
Number of banks/FIs having Sustainable Finance unit	57	32
Number of banks/FIs having Green banking policy	57	32
Number of banks/FIs having Green office guide	57	32
Number of environmental risk rated projects	14,112	682
Number of environmental risk rated projects and financed	13,381	661
Amount disbursed against rated projects (in million Taka)	451,006.28	25,134.94
Number of solar powered branches	569	3
Number of solar powered ATM Booths	95	-
Online branches (as % of total branches)	89.45%	N/A

5. Concluding Remarks:

The green banking activities of Banks and FIs in the quarter ended June 30, 2019 has experienced a downward trend in green finance for the financial sector. Green finance by banks has been decreased by 17.66% in this quarter than the previous one; in case of FIs it has been decreased by 11.32%. The overall picture is not quite encouraging for this quarter. BB is trying to play a significant role by monitoring the whole scenario and by taking appropriate policy initiatives. Refinance support from BB is also playing an important role to incentivize the green banking activities. We can expect the outcome of these initiatives should be positive and anticipate a rigorous and effective performance of banks and FIs in mainstreaming green banking in near future.

Preserve nature & reduce pollution



for the sustainability of human race.....