

**Quarterly Review Report
on
Green Banking Activities of Banks &
Financial Institutions
and
Green Refinance Activities of Bangladesh Bank**

January - March, 2017



**Sustainable Finance Department
Bangladesh Bank
Head Office**

1. Introduction:

Bangladesh Bank issued Environmental Risk Management (ERM) Guidelines for Banks and Financial Institutions (FIs) vide BRPD Circular No.01/2011. Later in the same year it issued Green Banking Policy Guideline for Banks vide BRPD Circular 02/2011. In 2012, a uniform reporting format for reporting green banking activities in a structured manner for banks was introduced, whereas in the subsequent year in 2013, Policy Guidelines for Green Banking was also issued (GBCSRD Circular No. 04/2013 and GBCSRD Circular Letter No. 05/2013) for the Financial Institutions (FIs)¹ 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 loan disbursement/investment for all banks and FIs (GBCSRD Circular No. 04/2014). Recently Bangladesh Bank instructed all banks and FIs to form Sustainable Finance Unit and Sustainable Finance Committee by abolishing both Green Banking and CSR units (SFD Circular No. 02/2016). Guidelines on Credit Risk Management (CRM) for Banks issued vide BRPD Circular No. 04/2016 have incorporated the evaluation of Environmental and Social Risks in the process of Credit Risk Management. On the contrary, 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 issued vide SFD Circular No. 02/2017 which will be enforceable from January 01, 2018 replacing the Guidelines on ERM to all extent.

To ensure the movement towards sustainability against the climate change, Banks and FIs were instructed to form a ‘Climate Risk Fund’ and allocate 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 interest (GBCSRD Circular No. 04/2015). 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 infrastructure (SFD Circular No. 01/2016). 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 clients (SFD Circular No 03/2016).

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 categories vide SFD Circular No. 03/2017.

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

¹ Financial Institutions licensed under Financial Institutions Act, 1993.

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.

In September 2014, BB introduced a refinance scheme funded by liquidity of Shariah based banks and FIs in excess of their requirement which will be explicitly utilized for direct green finance of the said banks and FIs. These banks and FIs can utilize this fund for financing in the 51 products identified under BB Refinance scheme according to SFD Circular No. 03/2017. Under this scheme, 4 banks and 1 FI have signed participation agreement with BB till March 31, 2017.

Bangladesh Bank (BB) intends to provide long term financing for private sector firms, mainly midsize manufacturing firms under the Financial Sector Support Project (FSSP) financed by the International Development Association (IDA). An Environmental and Social Management Framework (ESMF) has been developed to ensure the sustainability of financing of this facility (FE Circular No. 18/2015).

In January 2016, a new longer term refinancing window naming 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 country (FE Circular No. 02/2016). To further fortify the financing arrangement under GTF, it has been decided to provision for a Participation Agreement to be signed between Bangladesh Bank and intended banks. Under this scheme, 16 banks have signed participation agreement with BB till March 31, 2017.

This review report has highlighted the activities of refinance schemes of BB. Thus, this review report is the consolidated reflection of the quarterly reports of all scheduled banks and FIs of January - March, 2017 and the activities of refinance schemes of BB for green products of the same quarter.

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

2.1. Policy Formulation and Governance:

All Scheduled banks except Shimanto Bank Ltd. (Scheduled from July 21, 2016 through BRPD Circular Letter 10/2016) and 32 out of 33 FIs have formed their own Green Banking Policy Guidelines. They have also prepared own Green Office Guide for conducting in-house green activities.

2.2. Allocation and Utilization of Fund for Green Banking Activities:

The snapshot of allocation and utilization by banks and FIs in Green Finance, Climate Risk Fund as well as Marketing, Training and Capacity Building in March 2017 quarter is shown in Table-1. The quarterly shift from December 2016 to March 2017 evidences a bit downward in case of Green Finance (Figure-1). 48 banks out of 56 and 24 FIs out of 33 have conducted environmental risk rating in the reporting quarter. According to that, in this quarter number of Projects applicable for Environmental Due Diligence (EDD) rating is 20,987; number of projects rated is 18,176; number of rated project financed is 15,681 and amount disbursed in rated projects is 701,024.30 million taka. The quarterly shift of ERR by banks and FIs is showing a consistent trend (Figure-2).

Table-1: Allocation and Utilization of Fund for Green Banking Activities

Type of Bank/FI	Annual Allocation of Fund, 2017 (in million Taka)				Utilization of Funds, January-March, 2017 (in million Taka)			
	Green Finance	Climate Risk Fund	Marketing, Training and Capacity Building	Total	Green Finance	Climate Risk Fund	Marketing, Training and Capacity Building	Total
SOCBs (06)	15,856.00	148.00	625.00	16,629.00	3,368.46	0.00	3.75	3,372.21
SDBs (02)	1,075.00	5.00	0.10	1,080.10	3.28	0.00	0.00	3.28
PCBs (39)	333,075.31	422.68	286.37	333,784.36	101,757.02	147.78	11.89	101,916.69
FCBs (09)	71,114.14	83.70	65.10	71,262.94	27,257.16	0.00	0.00	27,257.16
Total	421,120.45	659.38	976.57	422,756.40	132,385.92	147.78	15.64	132,549.34
FIs (33)	6,314.11	38.75	40.43	6,393.29	3,232.36	1.00	0.75	3,233.11
Grand Total	427,434.56	698.13	1,016.99	429,149.68	135,618.28	148.78	16.39	135,782.45

Figure-1: Quarterly Comparison of Utilization of Fund

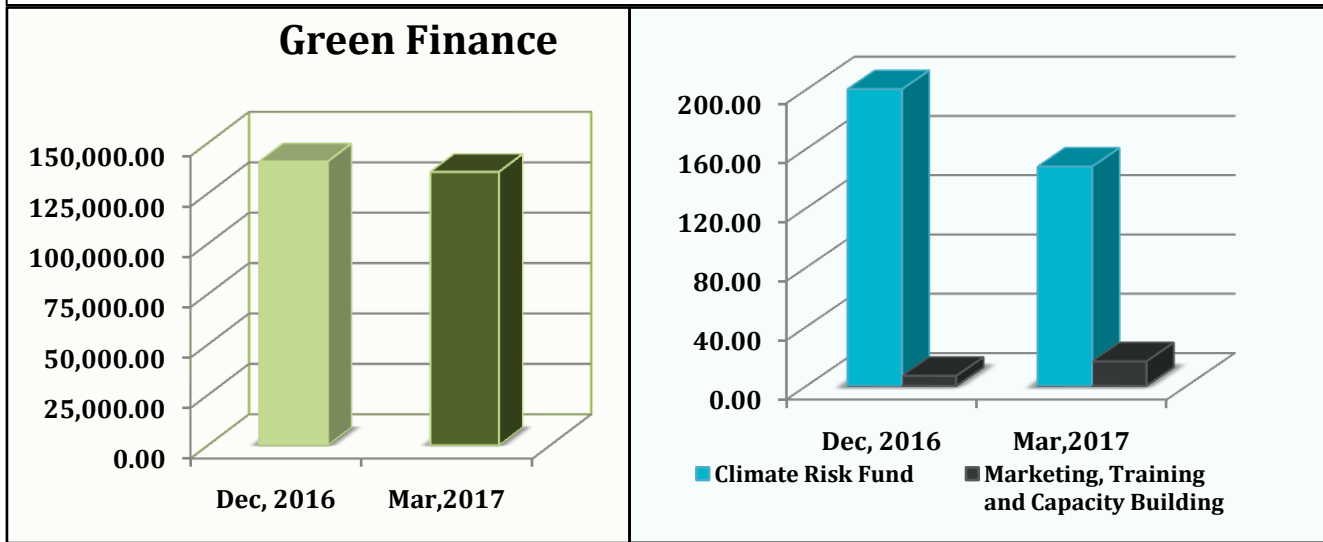
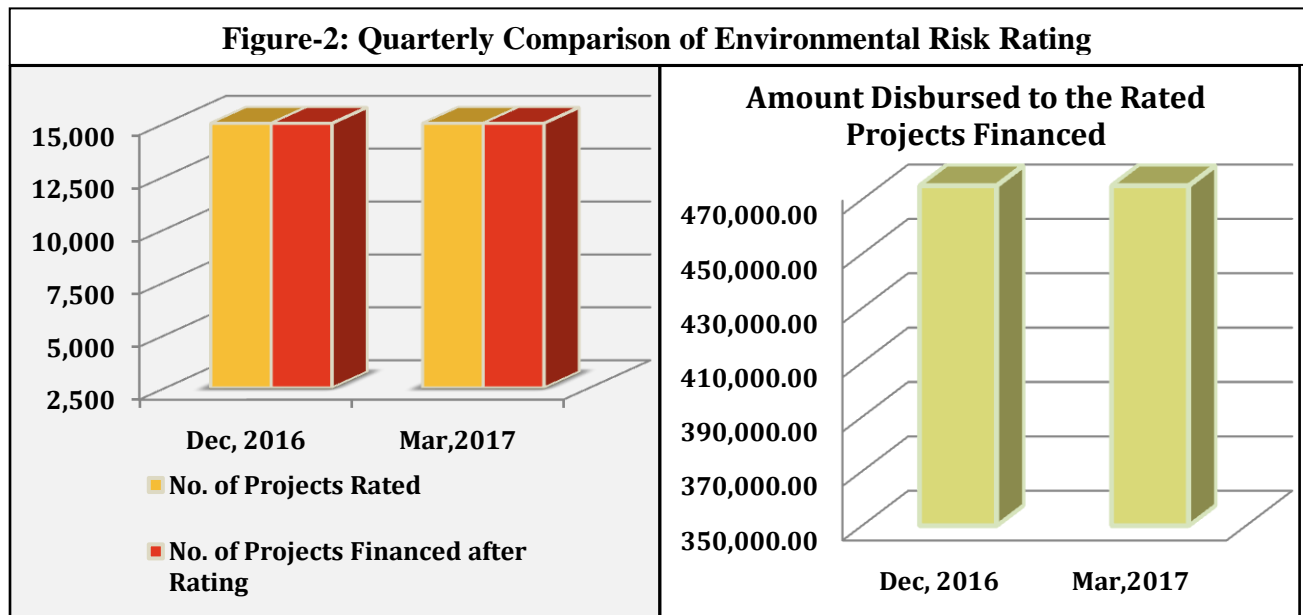


Table-2: Utilization of Climate Risk Fund (in million taka)

Type of Bank/FI	Event	Project
SOCBs (06)	0.00	0.00
SDBs (02)	0.00	0.00
PCBs (39)	147.78	0.00
FCBs (09)	0.00	0.00
Total	147.78	0.00
FIs (33)	1.00	0.00
Grand Total	148.78	0.00

2.3. Environmental Risk Rating (ERR):

Table-3: Environmental Risk Rating				
Type of Bank/FI	No. of Projects Applicable for EDD	No. of Projects Rated	No. of Rated Projects Financed	Amount disbursed in Rated projects (in million taka)
SOCBs (06)	490	489	487	11,117
SDBs (02)	6	0	0	206
PCBs (39)	18,982	16,320	13,855	617,565
FCBs (09)	838	633	528	39,302
Total	20,316	17,442	14,870	668,190
FIs (33)	671	734	811	32,833
Grand Total	20,987	18,176	15,681	701,023



2.4. In-house Environment Management:

Table-4: Solar Powered Branches and ATM/SME Units			
Type of Bank/FI	No. of Branches	No. of branches powered by Solar Energy	No. of ATM/SME units powered by Solar Energy
SOCBs (06)	3729	35	2
SDBs (02)	1410	0	0
PCBs (39)	4573	456	244
FCBs (09)	69	2	3
Total	9781	493	249
FIs (32)	220	3	0
Grand Total	10001	496	249

2.5. Green Finance:

43 Banks out of 56 and 16 FIs out of 33 have had exposure in green finance, either direct (38 Banks, 12 FIs) or indirect (28 Banks, 8 FIs) made in the reporting quarter. Total amount invested as green finance has been Tk. 135,618.28 million in January - March 2017 quarter. Green financing is on downward mode, Banks and FIs are concentrated in Indirect Green Finance. In this quarter, direct green finance by Banks and FIs is 8.96% of total green finance and 0.61% of total funded loan disbursement. A brief picture of green finance by Banks and FIs is shown in Table-5, Table-6 and Table-7:

Table-5: Direct Green Finance (in million Taka)

Type of Bank/FI	Category of Green Finance					
	Renewable Energy	Energy Efficiency	Solid Waste Management	Liquid Waste Management	Alternative Energy	Fire Burnt Brick
SOCBs (06)	8.55	0.00	0.00	27.13	0.00	74.33
SDBs (02)	3.15	0.00	0.00	0.00	0.00	0.00
PCBs (39)	450.55	546.77	7.25	4,187.87	87.01	1,157.69
FCBs (09)	128.96	0.00	0.00	0.00	0.00	0.00
Total	591.21	546.77	7.25	4,215.00	87.01	1,232.02
FIs (33)	312.76	33.00	0.00	33.73	0.00	541.00
Grand Total	903.97	579.77	7.25	4,248.73	87.01	1,773.02

Table-5: Direct Green Finance (in million Taka)- Table Continued

Type of Bank/FI	Category of Green Finance					
	Non Fire Block Brick	Recycling & Recyclable Product	Green Industry	Safety and Security of Factory	Misc.	Others
SOCBs (06)	0.00	95.82	249.23	0.00	0.30	1,313.69
SDBs (02)	0.00	0.00	0.00	0.00	0.13	0.00
PCBs (39)	0.00	471.67	1,418.24	522.48	7.56	13.58
FCBs (09)	0.00	0.00	113.00	0.00	0.00	0.00
Total	0.00	567.49	1,780.47	522.48	7.99	1,327.27
FIs (33)	0.00	0.00	343.27	0.00	0.00	0.80
Grand Total	0.00	567.49	2,123.74	522.48	7.99	1,328.07

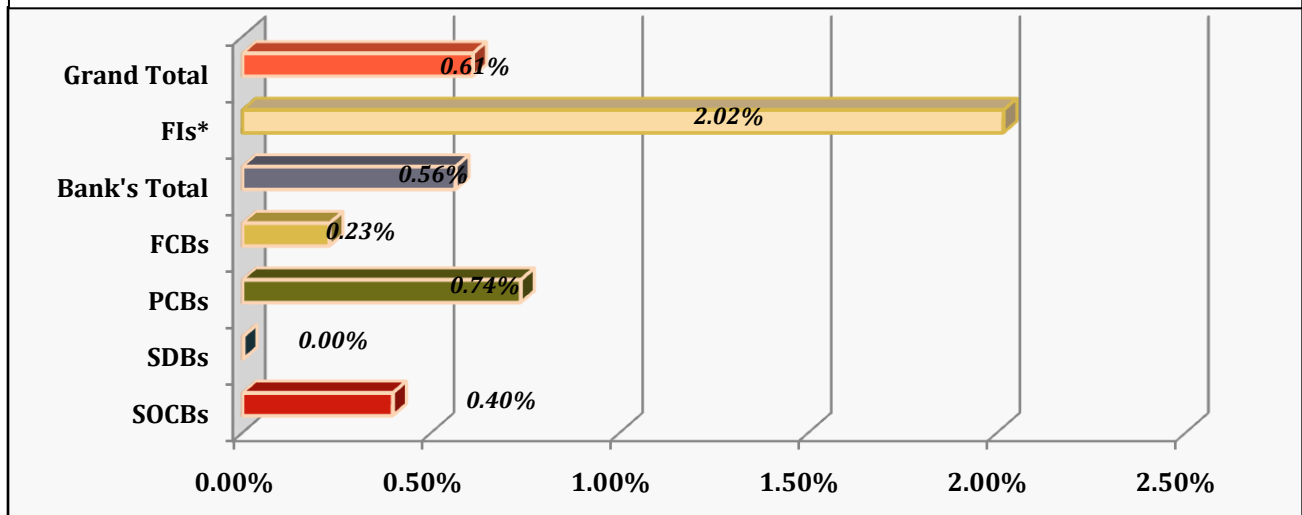
Table-6: Green Finance (in million Taka)

Type of Bank/FI	Direct Green Finance	Indirect Green Finance	Total Green Finance
SOCBs (06)	1,769.05	1,599.41	3,368.46
SDBs (02)	3.28	0.00	3.28
PCBs (39)	8,870.67	92,886.35	101,757.02
FCBs (09)	241.96	27,015.20	27,257.16
Total	10,884.96	121,500.96	132,385.92
FIs (33)	1,264.56	1,967.80	3,232.36
Grand Total	12,149.52	123,468.76	135,618.28

Table-7: Direct Green Finance as % of Total Finance

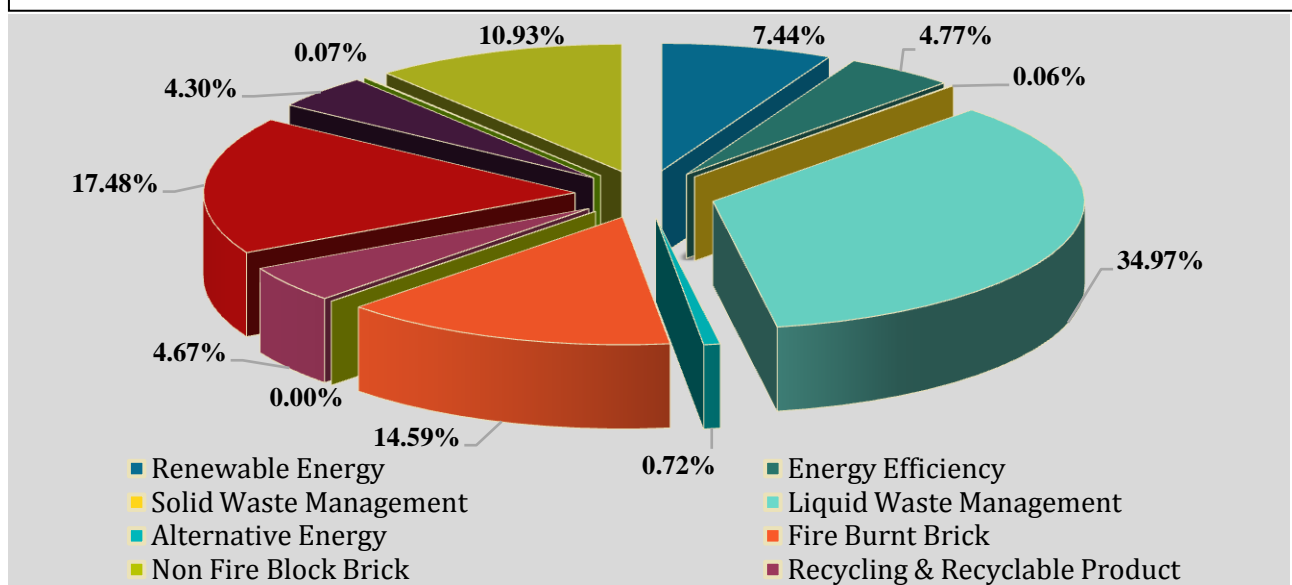
Type of Bank/FI	As % of Total Green Finance	As % of Total Funded Loan Disbursement
SOCBs (06)	52.52%	0.40%
SDBs (02)	100.00%	0.00%
PCBs (39)	8.72%	0.74%
FCBs (09)	0.89%	0.23%
Total	8.22%	0.56%
FIs (33)	39.12%	2.02%
Grand Total	8.96%	0.61%

Figure-3: Direct Green Finance as % of Total Funded Loan Disbursement



*If we consider FIs except Infrastructure Development Company Ltd (IDCOL), then direct green finance of FIs became 1.55% of total loan disbursement.

Figure-4: Direct Green Finance across All Categories



2.6. Online Banking:

55 Banks out of 56 have at least one online branch and 41 banks have introduced internet banking facility up to March 2017. No significant progress has been observed in the expansion of online branches in the previous quarters. But SMS/mobile banking facility has been observed a significant increase than the previous quarter (Figure-5).

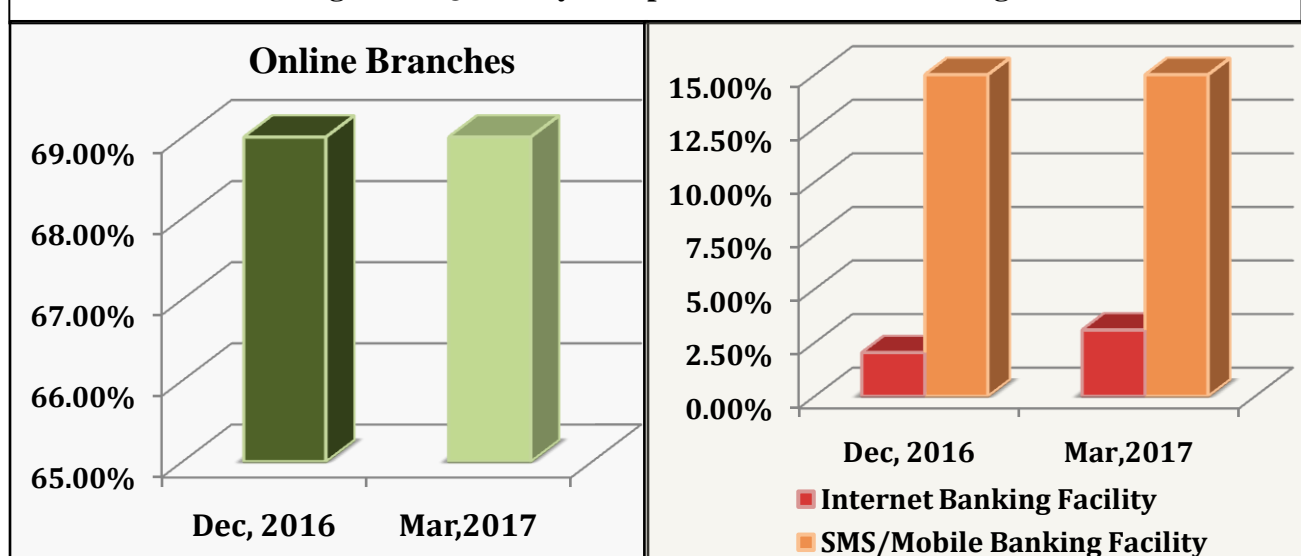
Table-8: Online Banking (on March 31, 2017)

Type of Bank	No. of ATM		No. of Total Branches	No. of Branches with online coverage	% of Online Branches
	Own	Shared			
SOCBs (06)	180	13,381	3,729	2,587	69.38%
SDBs (02)	6	0	1,410	97	6.88%
PCBs (39)	8,710	74,063	4,573	4,570	99.93%
FCBs (09)	169	4,207	69	69	100.00%
Grand Total	9,065	91,651	9,781	7,323	74.87%

Table-9: Internet and Mobile/SMS Banking (on March 31, 2017)

Type of Bank	No. of Total Accounts	No. of Accounts facilitated with		% of Accounts facilitated with	
		Internet Banking	Mobile/SMS Banking	Internet Banking	Mobile/SMS Banking
SOCBs (06)	16,397,497	61	191,827	0.00%	1.17%
SDBs (02)	4,532,254	0	10,785	0.00%	0.24%
PCBs (39)	42,117,784	1,789,833	16,413,002	4.25%	38.97%
FCBs (09)	394,426	168,731	202,962	42.78%	51.46%
Grand Total	63,441,961	1,958,625	16,818,576	3.09%	26.51%

Figure-5: Quarterly Comparison of Online Banking



2.7. Training, Promotion and Disclosure:

30 Banks out of 56 have arranged 220 training programs concerning green banking where total number of participants was 3,636. On the other hand, 8 FIs out of 33 have arranged 16 training programs concerning green banking where total number of participants was 113. A snapshot on training in January-March, 2017 quarter is given below:

Type of Bank/FI	No. of Programs	No. of Participants
SOCBs (06)	35	522
SDBs (02)	0	0
PCBs (39)	183	2,991
FCBs (09)	2	123
Total	220	3,636
FIs (33)	16	113
Grand Total	236	3749

7 Banks and 2 FIs have arranged Green Events in January-March, 2017 quarter. Up to March, 2017, 45 Banks and 15 FIs have pursued disclosure on green banking in their annual report; 42 Banks and 13 FIs have put green banking disclosure in their website. 18 Banks and 5 FIs have disclosed their green banking activities in the media; 9 Banks and 2 FIs have prepared Independent Report on green banking activities.

2.8. Major Green Banking Activities at a Glance in January-March, 2017:

Issue	Bank	FI
Number of banks/FIs having Sustainable Finance unit	55	30
Number of banks/FIs having Green banking policy	56	32
Number of banks/FIs having Green office guide	56	32
Number of environmental risk rated projects	17,442	734
Number of environmental risk rated projects and financed	14,870	811
Amount disbursed against rated projects (in million Taka)	668,190	32,833
Number of solar powered branches	493	3
Number of solar powered ATM/SME units	249	0
Online branches (as % of total branches)	74.87%	N/A
Amount disbursed as green finance (in million Taka)	132,385.92	3,232.36
Direct green finance as % of total funded loan disbursement	0.56%	2.02%
Amount utilized for climate risk fund (in million Taka)	147.78	1.00
Amount utilized for green marketing, training and development (in million Taka)	15.64	0.75

3. Review on Green Refinance Activities of BB:

3.1. BB Refinance Scheme for Environment Friendly Product/ Initiative:

The main objective of this fund is to promote of environmental friendly financial product/initiatives in Bangladesh. Recently a master circular has been issued in this regard (SFD Circular No. 03/2017). Refinance facilities have been extended to the participating Banks and Financial Institutions (PFIs) in this purpose. A total of 38 banks and 21 Financial Institutions so far have signed participation agreement with Bangladesh Bank. The disbursement scenario of this scheme during January - March, 2017 quarter is furnished below:

SL. No	Sub-category/ Product	Taka in million
1	Biogas	4.90
2	Energy Efficient Tech	0.59
3	ETP	9.56
4	Paper Waste Recycling	20.00
5	SHS	7.28
6	SWE	25.29
	Total Disbursement	67.62

3.2. ADB Supported Financing Brick Kiln Efficiency Improvement project:

“Financing Brick Kiln Efficiency Improvement Project” has been established in Bangladesh Bank under financing of Asian Development Bank (ADB) 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. 35 banks and 21 financial institutions so far have signed participation agreement with Bangladesh Bank. Upto March, 2017, Bangladesh Bank has released total USD 16.21 million (BDT 125.95 crore) to 5 PFIs against their financing for 8 sub projects. Liquidation application has been completed through ADB for the said amount.

4. Concluding Remarks:

The green banking activities of Banks and FIs in the quarter ended March 31, 2017 evidences downward trend in total green finance for both Banks and FIs. Total green finance has been decreased by 3.70% in this quarter compared to the previous one. On the other hand, direct green finance has been increased by 1.62% (Taka 193.38 million) in this quarter than the previous one. Banks and FIs need to heighten the investment and expenditure in direct green finance in the upcoming years. BB is trying to play a significant role by monitoring the whole scenario and by taking appropriate actions. Thus, BB anticipates more rigorous and effective performance of Banks and FIs in mainstreaming green banking activities especially in direct green finance.

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