

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

July-September, 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 funded loan disbursement/investment for all banks and FIs(GBCSRD Circular No. 04/2014). Bangladesh Bank vide SFD Circular No. 02, dated December 01, 2016 instructed all banks and FIs to establish Sustainable Finance Unit and Sustainable Finance Committee by abolishing both Green Banking and CSR units. Guidelines on Credit Risk Management (CRM) for Banks was issued vide BRPD Circular No. 04/2016 which has 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’ 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 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 Master Circular No. 03/2017.

A non-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

¹ Financial Institutions licensed under Financial Institutions Act, 1993.

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 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 September 30, 2017. Up to September 30, 2017 Bangladesh Bank has disbursed total taka 147.36 million under this scheme where in July-September, 2017 quarter Bangladesh Bank disbursed taka 44.35 million.

Bangladesh Bank (BB) intends to provide long term financing for private sector firms, mainly mid size 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 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 country (FE Circular No. 02/2016). 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, in October, 2017 through FE Circular no 36/2017, export oriented Jute sector was included in GTF. Under this scheme, so far 17 banks have signed participation agreement with BB.

This report covers both green finance/investment by the participating scheduled banks and FIs under refinance scheme and also finance/investment for green projects from their own sources.

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

2.1. Policy Formulation and Governance:

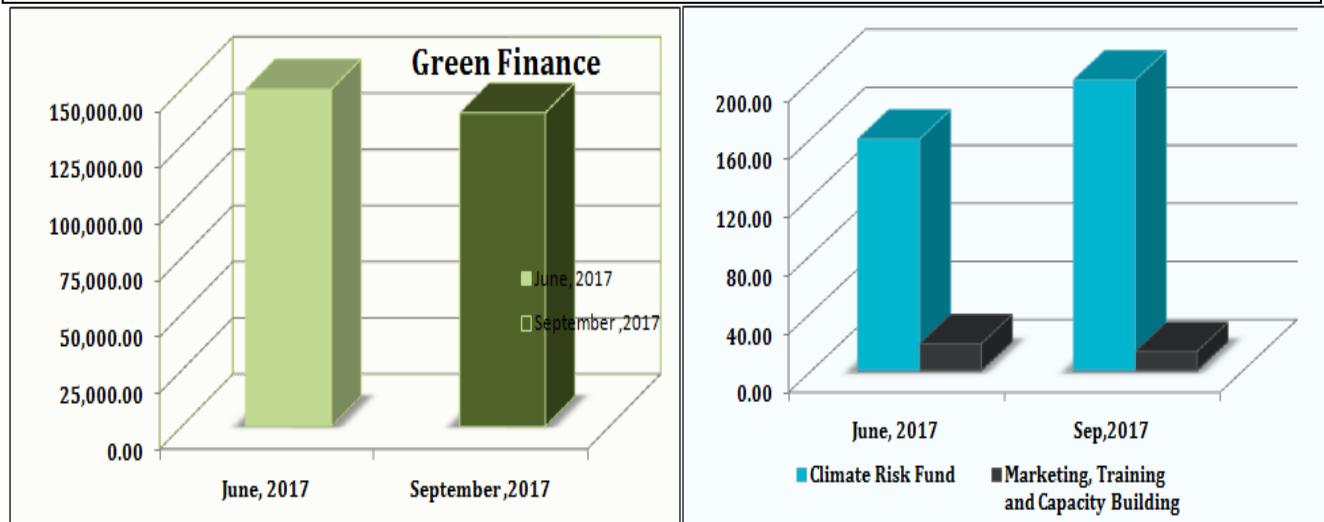
All scheduled banks except Shimanto Bank Ltd. (Scheduled from July 21, 2016 through BRPD Circular Letter 10/2016) have formed their own Green Banking Policy Guidelines and Green Office Guide. All the FIs have also formed their own Green Banking Policy Guidelines.

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 September 2017 quarter is shown in Table-1. The quarterly shift from June 2017 to September 2017 evidences a bit downward in case of Green Finance (Figure-1). 47 banks out of 57 and 22 FIs out of 33 have conducted environmental risk rating in the reporting quarter. In this quarter number of Projects applicable for Environmental Due Diligence (EDD) rating is 22,592; number of projects rated is 19,843; number of rated project financed is 17,201 and amount disbursed in rated projects is 1,312,592.17 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, July -September, 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) | 12,031.00 | 152.50 | 625.00 | 12,808.50 | 1,762.79 | 0.00 | 0.25 | 1,763.04 |
| SDBs (02) | 8,750.00 | 50.00 | 1.00 | 8,801.00 | 25.90 | 0.00 | 0.00 | 25.90 |
| PCBs (40) | 251,032.54 | 334.13 | 139.28 | 251,505.95 | 109,723.30 | 256.97 | 12.18 | 109,992.45 |
| FCBs (09) | 17,195.60 | 77.60 | 65.30 | 17,338.50 | 25,527.20 | 0.00 | 0.00 | 25,527.20 |
| Total | 289,009.14 | 614.23 | 830.58 | 290,453.95 | 137,039.19 | 256.97 | 12.43 | 137,308.59 |
| FIs (33) | 9,353.85 | 40.90 | 31.86 | 9,426.61 | 2,435.83 | 0.65 | 0.56 | 2,437.04 |
| Grand Total | 298,362.99 | 655.13 | 862.44 | 299,880.56 | 139,475.02 | 257.62 | 12.99 | 139,745.64 |

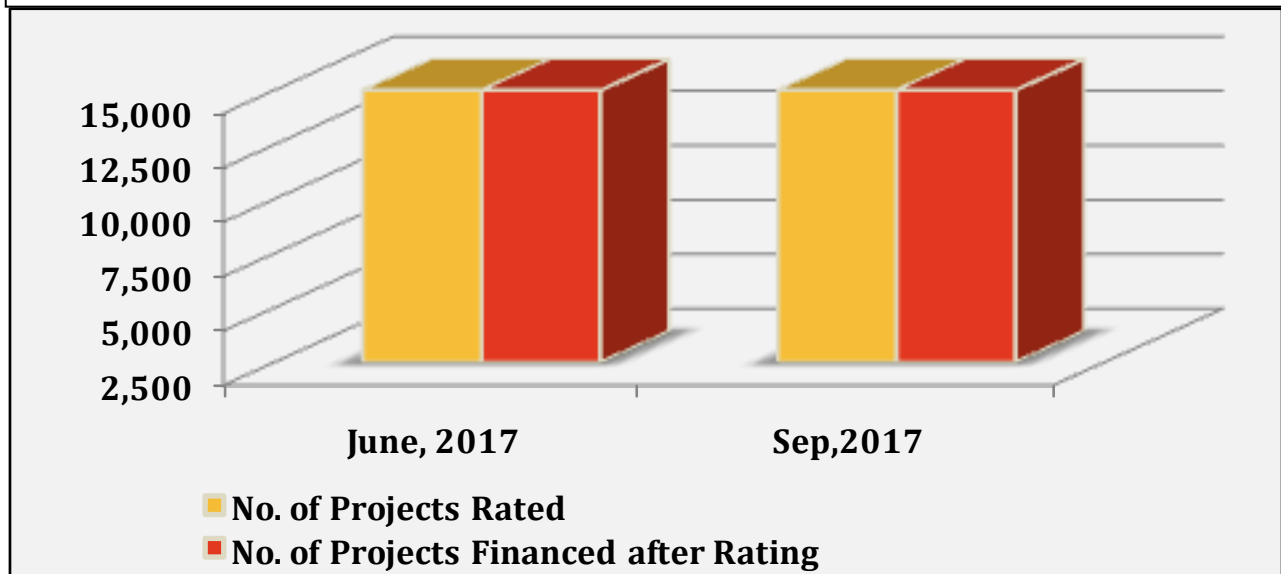
Figure-1: Quarterly Comparison of Utilization of Fund**Table-2: Utilization of Climate Risk Fund (mntk)**

| Type of Bank/FI | Event | Project |
|--------------------|---------------|-------------|
| SOCBs (06) | 0.00 | 0.00 |
| SDBs (02) | 0.00 | 0.00 |
| PCBs (40) | 256.97 | 0.00 |
| FCBs (09) | 0.00 | 0.00 |
| Total | 256.97 | 0.00 |
| FIs (33) | 0.84 | 0.00 |
| Grand Total | 257.81 | 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) | 273 | 378 | 250 | 8,853 |
| SDBs (02) | 0 | 0 | 2 | 514 |
| PCBs (40) | 20,999 | 18,244 | 15,342 | 1,242,745 |
| FCBs (09) | 761 | 549 | 470 | 36,623 |
| Total | 22,033 | 19,171 | 16,064 | 1,288,734.33 |
| FIs (33) | 559 | 672 | 1,137 | 23,857.84 |
| Grand Total | 22,592 | 19,843 | 17,201 | 1,312,592.17 |

Figure-2: Quarterly Comparison of Environmental Risk Rating



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) | 3731 | 36 | 2 |
| SDBs (02) | 1410 | 0 | 0 |
| PCBs (40) | 4669 | 464 | 210 |
| FCBs (09) | 66 | 2 | 3 |
| Total | 9876 | 502 | 215 |
| FIs (32) | 230 | 2 | 0 |
| Grand Total | 10106 | 504 | 215 |

2.5. Green Finance:

44 Banks out of 57 and 14 FIs out of 33 have had exposure in green finance, either direct (35 Banks, 8 FIs) or indirect (27 Banks, 9 FIs) made in the reporting quarter. Total amount invested as green finance has been Tk. 139,475.02 million in July-September 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 5.53% of total green finance and 0.37% 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) | 12.00 | 0.00 | 0.00 | 2.10 | 0.00 | 335.58 |
| SDBs (02) | 0.90 | 0.00 | 0.00 | 0.00 | 0.00 | 25.00 |
| PCBs (40) | 521.52 | 512.51 | 8.13 | 2,442.44 | 0.76 | 1,557.30 |
| FCBs (09) | 37.44 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | 571.86 | 512.51 | 8.13 | 2,444.54 | 0.76 | 1,917.88 |
| FIs (33) | 82.90 | 0.00 | 0.00 | 15.00 | 0.00 | 247.35 |
| Grand Total | 654.76 | 512.51 | 8.13 | 2,459.54 | 0.76 | 2,165.23 |

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 | 37.82 | 280.79 | 0.00 | 1.20 | 278.43 |
| SDBs (02) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| PCBs (40) | 9.00 | 502.47 | 554.88 | 460.89 | 2.40 | 0.00 |
| FCBs (09) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | 9.00 | 540.29 | 835.67 | 460.89 | 3.60 | 278.43 |
| FIs (33) | 0.00 | 0.00 | 144.40 | 0.00 | 0.00 | 123.81 |
| Grand Total | 9.00 | 540.29 | 980.07 | 460.89 | 3.60 | 402.24 |

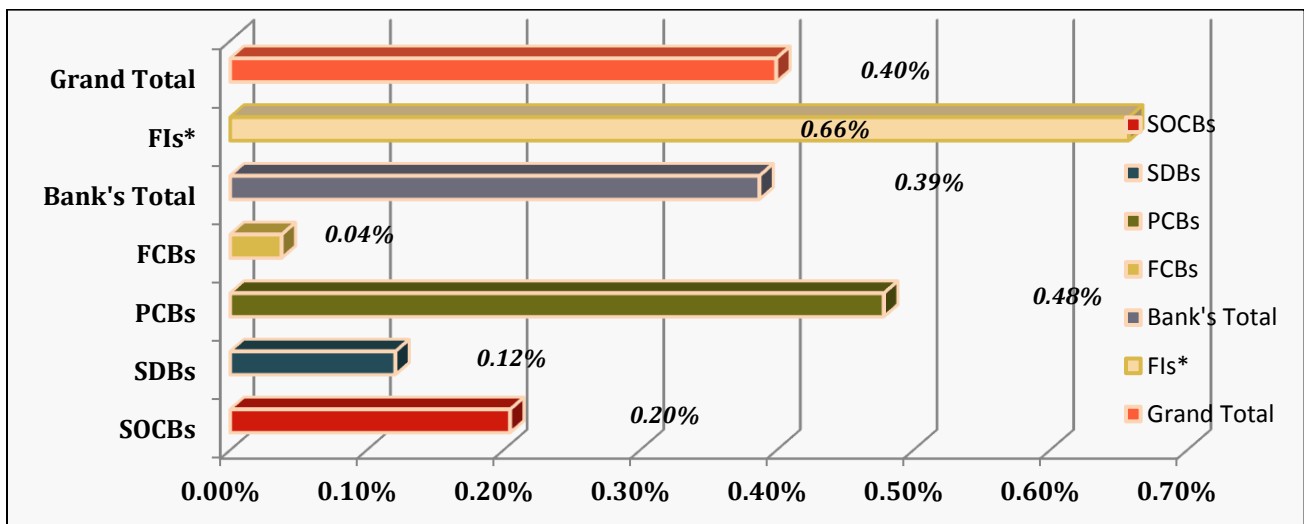
Table-6: Green Finance (in million Taka)

| Type of Bank/FI | Direct Green Finance | Indirect Green Finance | Total Green Finance |
|--------------------|----------------------|------------------------|---------------------|
| SOCBs (06) | 947.92 | 814.87 | 1,762.79 |
| SDBs (02) | 25.90 | 0.00 | 25.90 |
| PCBs (40) | 6,572.30 | 103,151.00 | 109,723.30 |
| FCBs (09) | 37.44 | 25,489.76 | 25,527.20 |
| Total | 7,583.56 | 129,455.63 | 137,039.19 |
| FIs (33) | 613.46 | 1,822.37 | 2,435.83 |
| Grand Total | 8,197.02 | 131,278.00 | 139,475.02 |

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

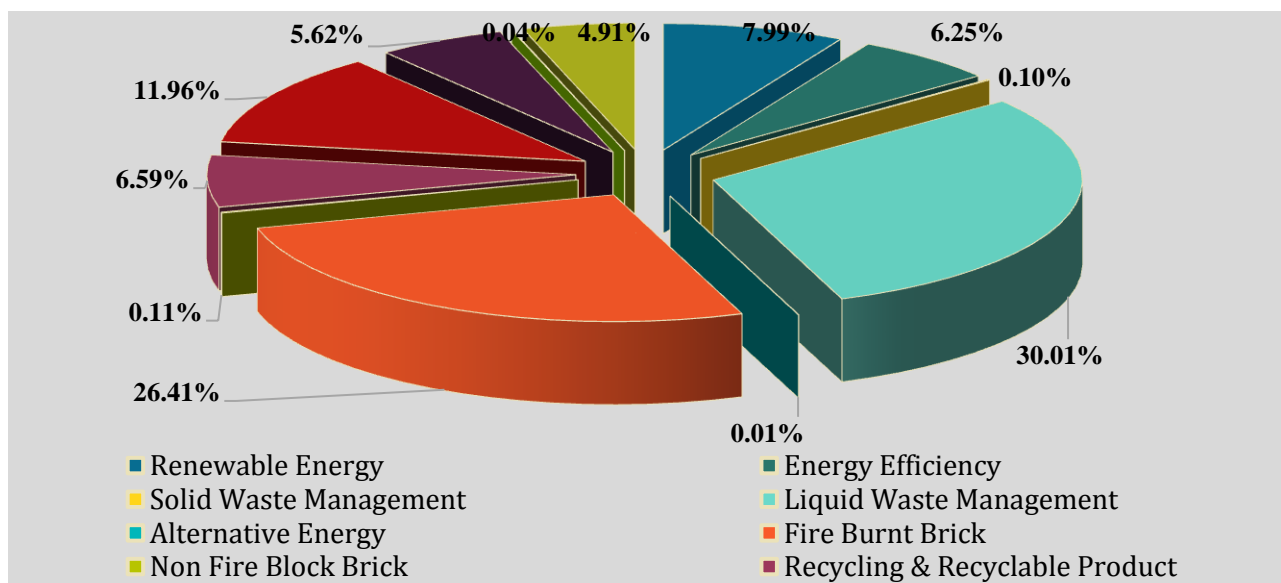
| Type of Bank/FI | As % of Total Green Finance | As % of Total Funded Loan Disbursement |
|--------------------|-----------------------------|--|
| SOCBs (06) | 53.77% | 0.20% |
| SDBs (02) | 100.00% | 0.12% |
| PCBs (40) | 5.99% | 0.48% |
| FCBs (09) | 0.15% | 0.04% |
| Total | 5.53% | 0.39% |
| FIs (33) | 25.18% | 0.66% |
| Grand Total | 5.88% | 0.40% |

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 0.39% of total loan disbursement.

Figure-4: Direct Green Finance across All Categories



2.6. Online Banking:

56 Banks out of 57 have at least one online branch and 46 banks have introduced internet banking facility up to September, 2017. Slight progress (72.65% to 78.47%) has been observed in the expansion of online branches in the previous quarters. But SMS/mobile banking and internet banking facility has been observed a decreasing trend (20.70% to 18.76%) than the previous quarter (Figure-5).

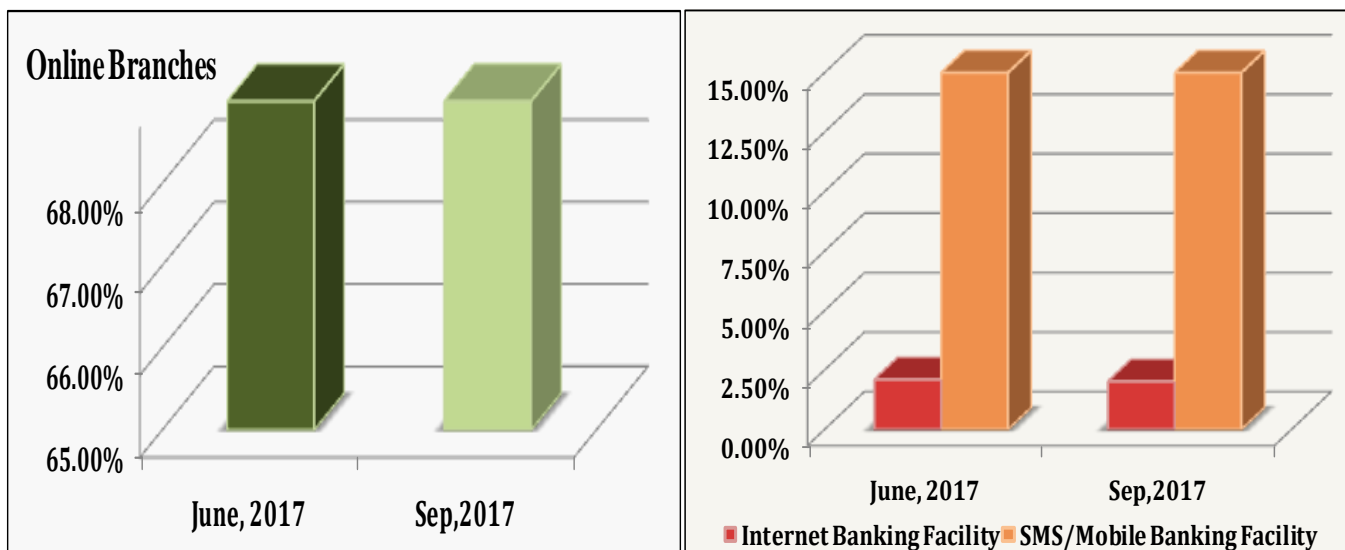
Table-8: Online Banking (on September 30, 2017)

| Type of Bank | No. of ATM | | No. of Total Branches | No. of Branches with online coverage | % of Online Branches |
|--------------------|--------------|----------------|-----------------------|--------------------------------------|----------------------|
| | Own | Shared | | | |
| SOCBs (06) | 193 | 14,688 | 3,731 | 3,004 | 80.51% |
| SDBs (02) | 0 | 0 | 1,410 | 70 | 4.96% |
| PCBs (40) | 8,934 | 82,337 | 4,669 | 4,610 | 98.74% |
| FCBs (09) | 169 | 4,207 | 66 | 66 | 100.00% |
| Grand Total | 9,296 | 101,232 | 9,876 | 7,750 | 78.47% |

Table-9: Internet and Mobile/SMS Banking (on September 30, 2017)

| Type of Bank | No. of Total Accounts | % of Accounts facilitated with | | No. of Accounts facilitated with Mobile/SMS Banking | % of Accounts facilitated with Mobile/SMS Banking |
|--------------------|-----------------------|--------------------------------|------------------|---|---|
| | | Internet Banking | Internet Banking | | |
| SOCBs (06) | 42,019,517 | 61 | 0.00% | 194,934 | 0.46% |
| SDBs (02) | 13,273,628 | 0 | 0.00% | 0 | 0.00% |
| PCBs (40) | 43,333,650 | 1,809,907 | 4.18% | 18,175,399 | 41.94% |
| FCBs (09) | 421,173 | 186,512 | 44.28% | 207,294 | 49.22% |
| Grand Total | 99,047,968 | 1,996,480 | 2.02% | 18,577,627 | 18.76% |

Figure-5: Quarterly Comparison of Online Banking



2.7. Training, Promotion and Disclosure:

33 Banks out of 57 have arranged 149 training programs concerning green banking where total number of participants was 4,218. On the other hand, 4 FIs out of 33 have arranged 6 training programs concerning green banking where total number of participants was 775. A snapshot on training in July -September, 2017 quarter is given below:

| Type of Bank/FI | No. of Programs | No. of Participants |
|--------------------|-----------------|---------------------|
| SOCBs (06) | 12 | 188 |
| SDBs (02) | 13 | 381 |
| PCBs (40) | 121 | 3504 |
| FCBs (09) | 3 | 145 |
| Total | 149 | 4,218 |
| FIs (33) | 6 | 775 |
| Grand Total | 155 | 4993 |

11 Banks and 2 FIs have arranged Green Events in July-September, 2017 quarter. Upto September, 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. 17 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 July-September, 2017:

| Issue | Bank | FI |
|---|--------------|-----------|
| Number of banks/FIs having Sustainable Finance unit | 56 | 33 |
| Number of banks/FIs having Green banking policy | 56 | 33 |
| Number of banks/FIs having Green office guide | 56 | 33 |
| Number of environmental risk rated projects | 19,171 | 672 |
| Number of environmental risk rated projects and financed | 16,064 | 1,137 |
| Amount disbursed against rated projects (in million Taka) | 1,288,734.33 | 23,857.84 |
| Number of solar powered branches | 502 | 2 |
| Number of solar powered ATM/SME units | 215 | 0 |
| Online branches (as % of total branches) | 78.47% | N/A |
| Amount disbursed as green finance (in million Taka) | 137,039.19 | 2,435.83 |
| Direct green finance as % of total funded loan disbursement | 0.39% | 0.66% |
| Amount utilized for climate risk fund (in million Taka) | 256.97 | 0.84 |
| Amount utilized for green marketing, training and development (in million Taka) | 12.47 | 0.56 |

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 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 34 banks and 19 Financial Institutions have signed participation agreement with Bangladesh Bank so far. Taka 20.00 million has been disbursed for green industry under BB refinancing scheme during July-September quarter.

3.2. ADB Supported Financing Brick Kiln Efficiency Improvement project:

“Financing Brick Kiln Efficiency Improvement Project” has been established in Bangladesh Bank funded by 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. Up to September, 2017, Bangladesh Bank has released total USD 16.21 million (BDT 125.95 crore) to 5 PFIs against their financing for 8 sub projects.

4. Concluding Remarks:

The green banking activities of Banks and FIs in the quarter ended September 30, 2017 evidences downward trend in total green finance for both Banks and FIs. Total green finance has been decreased by 12% in this quarter compared to the previous one. On the other hand, direct green finance has been decreased by 5.05% 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.

-----0-----