

Quarterly Review Report

on

Green Banking Activities of Banks & Financial Institutions

and

Green Refinance Activities of Bangladesh Bank



July-September, 2020



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/FIs 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 & FIs from July 01 to September 30, 2020 timeline. It covers both green finance/investment by 59¹ scheduled banks and 34² FIs under refinance scheme and also finance/investment for green projects from their own sources.

| | Sep, 2019 | Dec, 2019 | Mar, 2019 | June, 2020 | Sep, 2020 |
|------------------------------------------------|-----------|-----------|-----------|------------|-----------|
| Green Finance by Banks (In million BDT) | 19,104.82 | 33,421.96 | 28,372.12 | 25,021.29 | 23,204.75 |
| Green Finance by FIs (In million BDT) | 1,095.13 | 1,703.50 | 2,139.79 | 356.79 | 826.31 |

¹ According to BRPD Circular Letter No-04/2020 (Date: February 23, 2020), Bengal Commercial Bank Ltd. has been considered as a scheduled bank; but the bank has started their official program from September 24, 2020. For this reason it is not accounted for this quarter.

² After initiation of Strategic Finance & Investment Limited according to the DFIM Circular No.-02/2020 (Date: June 07, 2020), number of total Financial Institutions stands at 34.

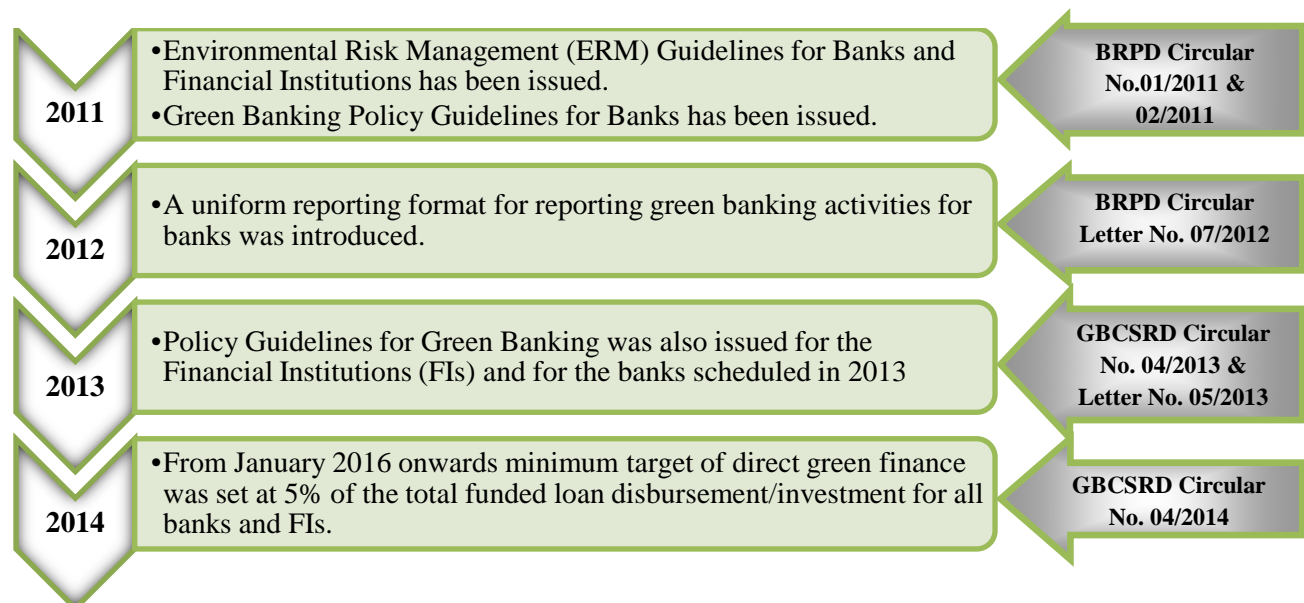
1. Introduction

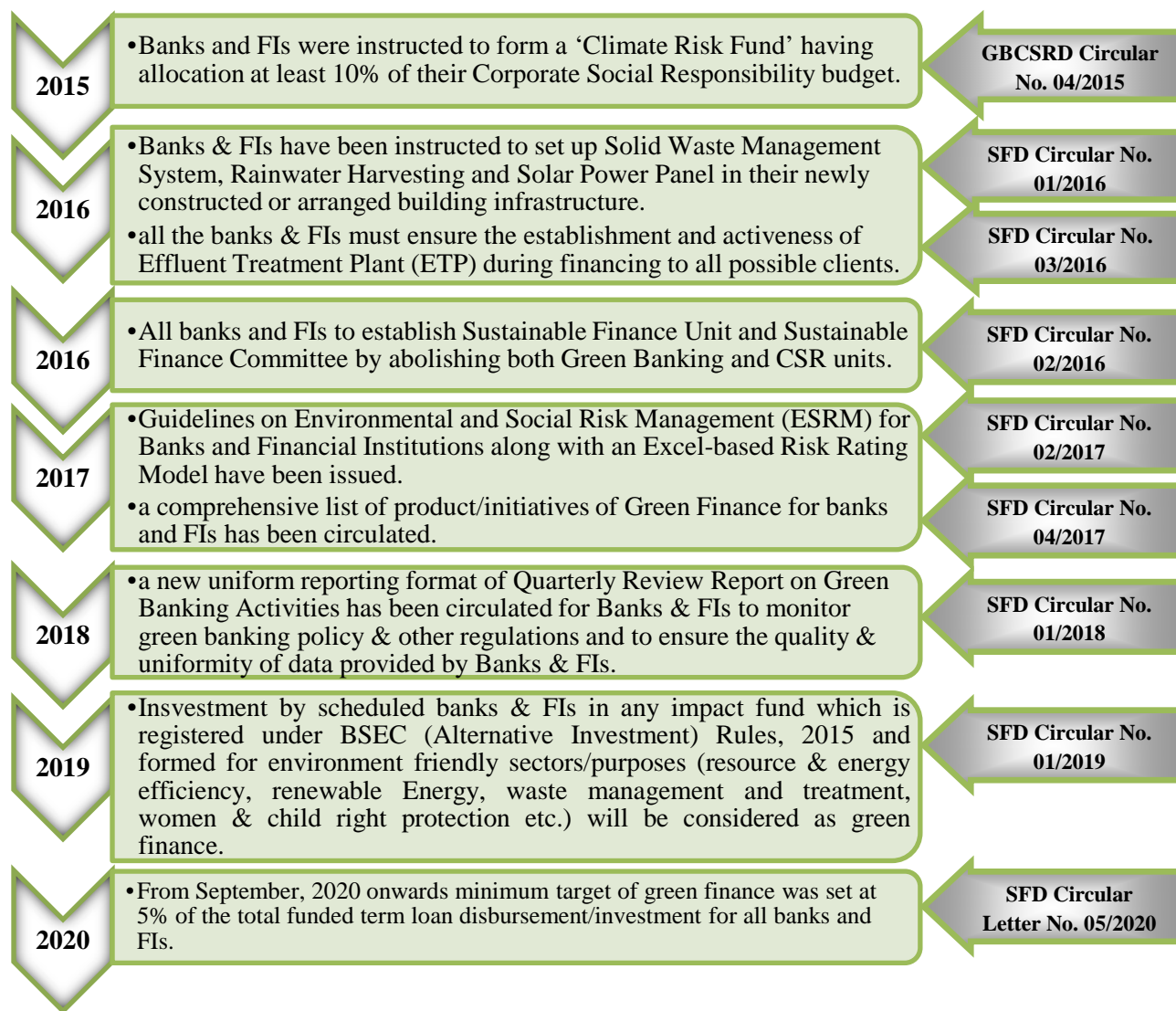
Green banking is a genre of banking practices which considers all the social and environmental/ecological factors with an aim to protect the environment and preserve natural resources. It is also termed as ethical banking or sustainable banking. The banking sector is one of the major sources of financing 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. Bangladesh Bank (BB) has become role model by pioneering green banking initiatives by guiding proactively the banks and NBFIs since 2011. In this context, 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.

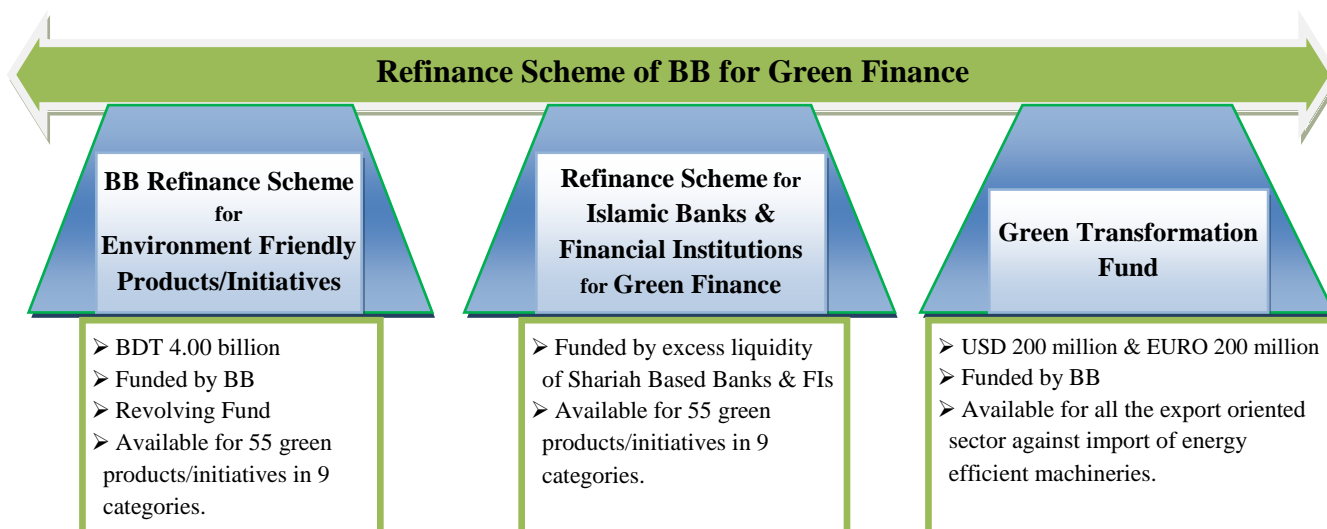
2. Policy Chronology and Support Funding Initiatives of BB

2.1 Policy Chronology:





2.2 Support Funding Initiatives of BB:



3. At a Glance Green Banking of July-September, 2020

3.1 Green Finance:

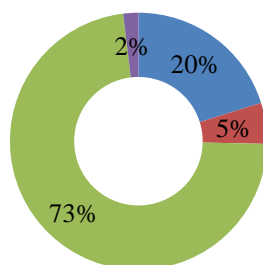
| Issue | Banks | FIs |
|-----------------------------------------------------------|-----------|--------|
| Green Finance (in million BDT) | 23,204.75 | 826.31 |
| Green finance as % of total funded term loan disbursement | 6.07% | 5.94% |

| Green finance in number of Products of different sectors | Renewable Energy (20) | Energy Efficiency (6) | Alternative Energy (1) | Liquid Waste Management (7) | Solid Waste Management (6) | Recycling & Recyclable Product (6) | Green Brick Manufacturing (3) | Green Establishment (3) | Misc. (4) | Total (56) |
|----------------------------------------------------------|-----------------------|-----------------------|------------------------|-----------------------------|----------------------------|------------------------------------|-------------------------------|-------------------------|-----------|------------|
| Banks | 6 | 5 | 1 | 7 | 0 | 5 | 3 | 2 | 2 | 31 |
| FIs | 7 | 2 | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 11 |

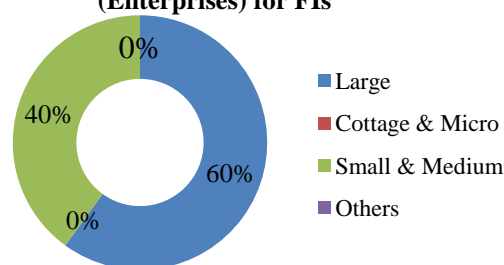
3.2 Number of Borrowers in Green Finance:

| Number of Borrowers in Green Finance (Enterprises) | Large | Cottage & Micro | Small & Medium | Others | Total |
|----------------------------------------------------|-------|-----------------|----------------|--------|-------|
| Banks | 106 | 27 | 382 | 10 | 525 |
| FIs | 9 | 0 | 6 | 0 | 15 |

Number of Borrowers in Green Finance (Enterprises) for Banks

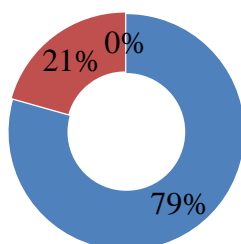


Number of Borrowers in Green Finance (Enterprises) for FIs

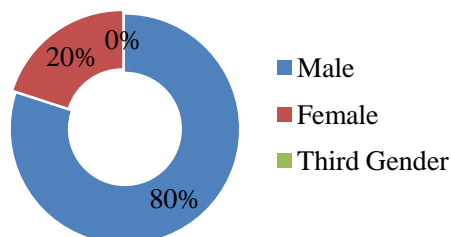


| Number of Borrowers in Green Finance (Individuals) | Male | Female | Third Gender | Total |
|----------------------------------------------------|------|--------|--------------|-------|
| Banks | 77 | 20 | 0 | 97 |
| FIs | 12 | 3 | 0 | 15 |

Number of Borrowers in Green Finance (Individuals) for Banks

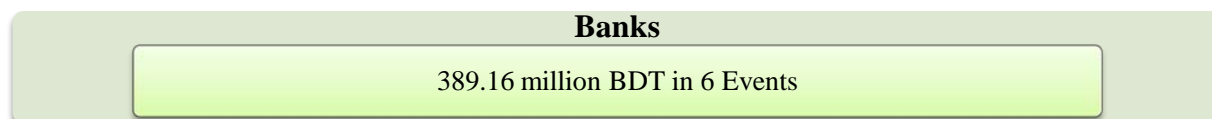


Number of Borrowers in Green Finance (Individuals) for FIs



3.3 Non-performing Loan:

| Comparison of Non-performing Loan (Till September 30, 2020) | | |
|--------------------------------------------------------------------|---------------|------------|
| Issue | Banks | FIs |
| Total Outstanding Loans/ Investment (In million BDT) | 11,410,865.22 | 659,506.37 |
| Total Classified Loans/ Investment (In million BDT) | 954,658.89 | 103,945.97 |
| Outstanding Loans/Investment under ESDD (In million BDT) | 2,459,780.71 | 133,810.62 |
| Classified Loans/Investment under ESDD (In million BDT) | 65,611.56 | 13,512.85 |
| Outstanding Loan/Investment under Green Finance (In million BDT) | 285,296.61 | 32,213.16 |
| Classified Loan/Investment under Green Finance (In million BDT) | 5,744.17 | 2,911.87 |

3.4 Utilization of Climate Risk Fund:**3.5 Environmental & Social Risk Management:**

| Issue | Banks | FIs |
|----------------------------------------------------------|--------------|------------|
| Number of environmental risk rated projects | 17,834 | 827 |
| Number of environmental risk rated projects financed | 13,758 | 751 |
| Amount disbursed against rated projects (in million BDT) | 517,053.10 | 40,112.66 |

3.6 Environmental Conservation in Business Centres:

| Issue | Banks | FIs |
|-------------------------------------------------------|--------------|------------|
| Number of solar powered branches | 610 | 3 |
| Number of Branches with Rainwater Harvesting | 7 | 0 |
| Number of Branches with Solid Waste Management System | 248 | 7 |
| Number of solar powered ATM Booths | 32 | - |
| Online branches (as % of total branches) | 92.21% | N/A |

3.7 Leading Banks & FIs in Green Finance³:

| Name of the Banks | Green Finance (in million BDT) | Name of the NBFIs | Green Finance (in million BDT) |
|------------------------------------|---------------------------------------|--------------------------------------------|---------------------------------------|
| The HSBC Limited | 5,212.53 | Infrastructure Development Co. Ltd. | 706.19 |
| Islami Bank Bangladesh Ltd. | 4,515.66 | Lankan Alliance Finance Ltd. | 49.02 |
| Mutual Trust Bank Limited | 1,885.92 | Hajj Finance Company Limited | 30.00 |
| EXIM Bank Limited | 1,736.04 | | |
| Al-Arafah Islami Bank Ltd. | 1,701.16 | | |
| Dutch Bangla Bank Limited | 1,493.02 | | |
| IFIC bank Limited | 1,353.60 | | |
| NRB Bank Limited | 996.84 | | |
| BRAC Bank Limited | 899.74 | | |
| Bank Asia Limited | 806.46 | | |
| BASIC Bank Limited | 206.70 | | |

³ Banks have had an exposure in green finance $\geq 10\%$ of total funded term loan disbursement. NBFIs have had an exposure in green finance $\geq 5\%$ of total funded term loan disbursement.

4. Review on Support Funding Schemes of BB for Green Finance

| At a glance Funding Schemes of BB for Green Finance in July-September, 2020 | | |
|---------------------------------------------------------------------------------------------------------------------------------------------|--------|-------------------|
| Funding scheme of BB | Amount | Number of Project |
| Disbursement from BB Refinance Scheme for Environment Friendly Products/Initiatives (in million BDT) | 86.32 | 4 |
| Disbursement from Refinance Scheme for Islamic Banks & Financial Institutions for Investment in Green Products/Initiatives (In million BDT) | 16.06 | 5 |
| Disbursement from Green Transformation Fund (GTF) (In million USD) | 22.48 | 2 |

4.1 BB Refinance Scheme for Environment Friendly Products/Initiatives:

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 BDT 2 billion (200 crore) from its own fund for solar energy, Bio-gas and Effluent Treatment Plant (ETP) in 2009. The size of the fund has been increased from BDT 2 billion to BDT 4 billion in view of the growing demand for financing of environment friendly products/initiatives⁴. The product line has been enhanced to 55 under 09 categories. Since inception, total amount of BDT 4,773.39 million has been disbursed as refinance facility from the fund till September 30, 2020. The disbursement scenario of this scheme during July-September, 2020 quarter is furnished below:

| Table-4.1: Sub-category/ Product wise Disbursement | | |
|----------------------------------------------------|-----------------------|----------------|
| SL. No | Sub-category/ Product | BDT in million |
| 1 | Biogas | 0.63 |
| 2 | Green Industry | 85.00 |
| 3 | Vermi compost | 0.40 |
| 4 | Solar Home System | 0.29 |
| Total Disbursement | | 86.32 |

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

Bangladesh Bank has introduced refinance scheme funded by excess liquidity of shariah based financial institutions to facilitate the shariah based banks and FIs in 2014⁵. In 2018 Bangladesh Bank has issued an integrated and comprehensive “master circular”⁶ by revising and incorporating all the existing circular and circular letters related to this refinance scheme. BB has enhanced the product range under this scheme to 51 and segregated these products into 08 categories. During July-

⁴ SFD Circular 02/2020

⁵ GBCSR circular no. 06 /2014

⁶ SFD Circular No.02/2018

September, 2020 quarter Bangladesh Bank has disbursed BDT 16.06 million for “Working Environment and Fire Safety of Factory” and collected BDT 0.20 million profit against this product.

4.3 Green Transformation Fund (GTF):

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 country⁷. 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 September, 2019⁸. Recently, 200 million Euros has been added to the fund⁹. This Euro component of GTF can be used to import not only green machineries but also industrial raw materials (only Buyer’s Credit) used in all manufacturing enterprises including both export oriented and deem exporters. Under the GTF in USD and GTF in Euro schemes, consecutively 19 banks and 11 banks have signed participation agreement with BB. The disbursement from this Fund is 85.79 million USD till September, 2020. In July-September, 2020 quarter disbursement from this fund is 22.48 million USD only in textile sector.

⁷ FE Circular No. 02/2016

⁸ FE Circular Letter No. 14/2019

⁹ FE Circular No. 20/2020

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

5.1 Policy Formulation and Governance:

All scheduled banks have formed their own Sustainable Finance Unit and Green Banking Policy. All the FIs have also formed their own Green Banking Policy.

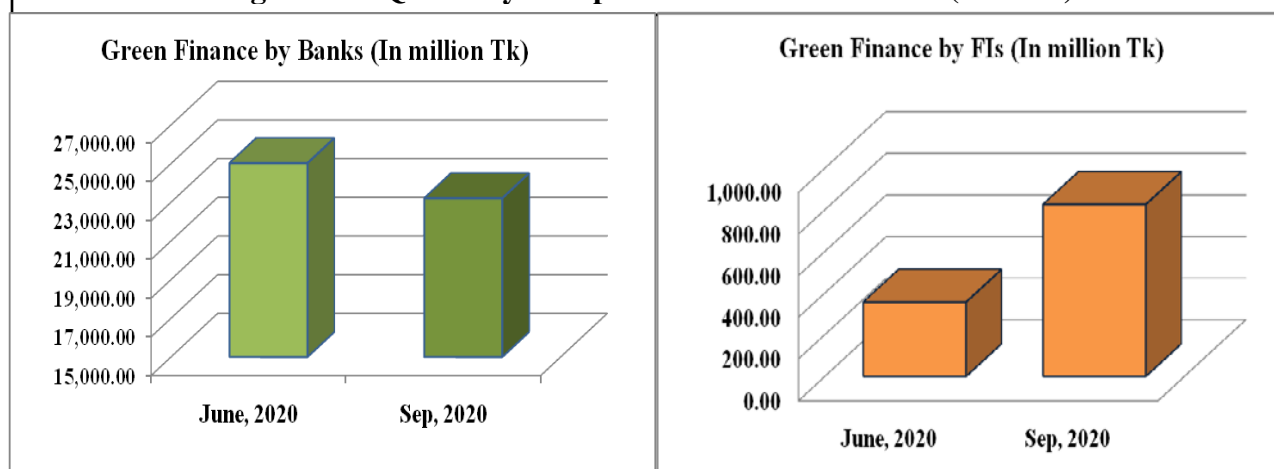
5.2 Overview of Green Finance:

The snapshot of sanction and disbursement of total finance along with green finance by banks and FIs during July-September, 2020 quarter is shown in Table-5.1. The quarterly of Green Finance shift from June 2020 to September 2020 evidences a decreasing trend in case of Banks and an increasing trend in case of FIs (Figure-5.1).

Table-5.1: Sanction & Disbursement of Green Finance (Funded)

| Type of Bank/FI | <i>Total Finance in July-Sep, 2020 (in million Taka)</i> | | <i>Green Finance in July-Sep, 2020 (in million Taka)</i> | |
|---------------------|--------------------------------------------------------------|---------------------|--------------------------------------------------------------|------------------|
| | <i>Sanctioned</i> | <i>Disbursed</i> | <i>Sanctioned</i> | <i>Disbursed</i> |
| SOCBs (06) | 133,574.74 | 125,633.41 | 580.38 | 529.30 |
| SDBs (03) | 30,937.86 | 30,917.86 | 0.38 | 0.38 |
| PCBs (41) | 2,285,299.04 | 1,528,438.04 | 58,775.17 | 17,246.37 |
| FCBs (09) | 398,754.06 | 207,814.82 | 8,029.53 | 5,428.70 |
| Banks' Total | 2,848,565.70 | 1,892,804.13 | 67,385.46 | 23,204.75 |
| FIs (33) | 29,569.99 | 27,278.12 | 2,662.04 | 826.31 |

Figure-5.1: Quarterly Comparison of Green Finance (Funded)



5.3 Green Finance- Category wise:

37 Banks out of 59 and 6 FIs out of 34 have had exposure in green finance in the reporting quarter. Total amount invested as green finance has been BDT 23,204.75 million by banks and 826.31 million by FIs in July-Sep, 2020 quarter. A brief picture of green finance by Banks and FIs is shown in Table-5.2 & 5.3 and Figure-5.2, 5.3 & 5.4:

Table-5.2: Green Finance (in million BDT)

| Type of Bank/FI | Sectors of Green Finance | | | | |
|---------------------|--------------------------|-------------------|--------------------|-------------------------|------------------------|
| | Renewable Energy | Energy Efficiency | Alternative Energy | Liquid Waste Management | Solid Waste Management |
| SOCBs (06) | 1.71 | 0.00 | 0.00 | 149.61 | 0.00 |
| SDBs (03) | 0.28 | 0.00 | 0.00 | 0.00 | 0.00 |
| PCBs (41) | 116.66 | 1,789.04 | 1.30 | 2,385.18 | 0.00 |
| FCBs (09) | 2.02 | 49.81 | 0.00 | 0.00 | 0.00 |
| Banks' Total | 120.67 | 1,838.86 | 1.30 | 2,534.79 | 0.00 |
| FIs (33) | 224.39 | 545.30 | 0.00 | 0.00 | 0.00 |

Table-5.2: Green Finance (in million BDT)- Table Continued

| Type of Bank/FI | Sectors of Green Finance | | | |
|---------------------|--------------------------------|---------------------------|---------------------|---------------|
| | Recycling & Recyclable Product | Green Brick Manufacturing | Green Establishment | Miscellaneous |
| SOCBs (06) | 196.10 | 79.42 | 100.00 | 2.46 |
| SDBs (03) | 0.00 | 0.00 | 0.00 | 0.10 |
| PCBs (41) | 2,394.73 | 1,631.41 | 8,842.88 | 85.17 |
| FCBs (09) | 0.00 | 0.00 | 5,376.86 | 0.00 |
| Banks' Total | 2,590.83 | 1,710.83 | 14,319.75 | 87.73 |
| FIs (33) | 0.00 | 49.02 | 0.00 | 7.60 |

Table-5.3: Green Finance as % of Total Funded Term Loan Disbursement

| Type of Bank/FI | As % of Total Funded Term Loan Disbursement |
|---------------------|---------------------------------------------|
| SOCBs (06) | 1.35% |
| SDBs (03) | 0.00% |
| PCBs (41) | 5.38% |
| FCBs (09) | 42.76% |
| Banks' Total | 6.07% |
| FIs (33) | 5.94% |

Figure-5.2: Green Finance as % of Total Funded Loan Disbursement

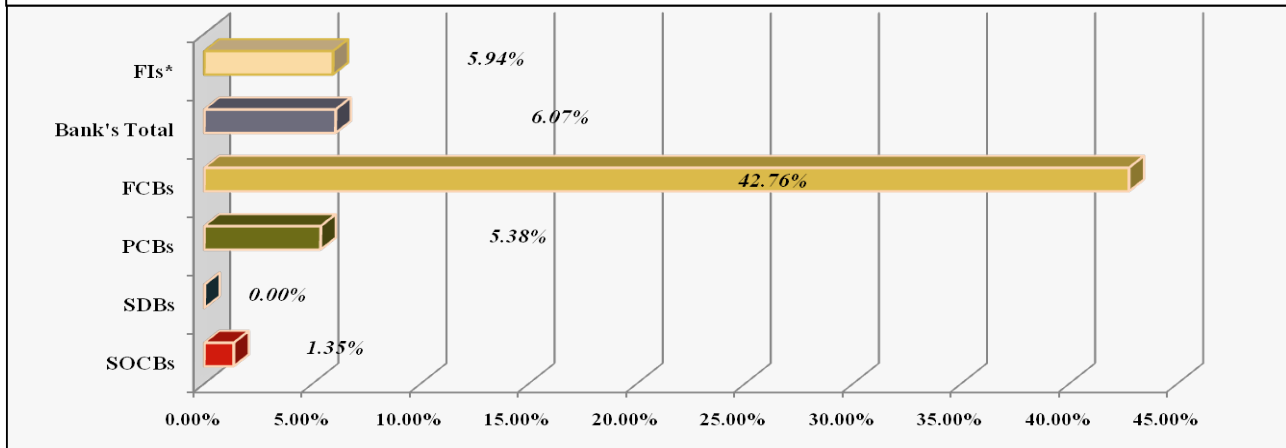


Figure-5.3: Green Finance by Banks in different sectors

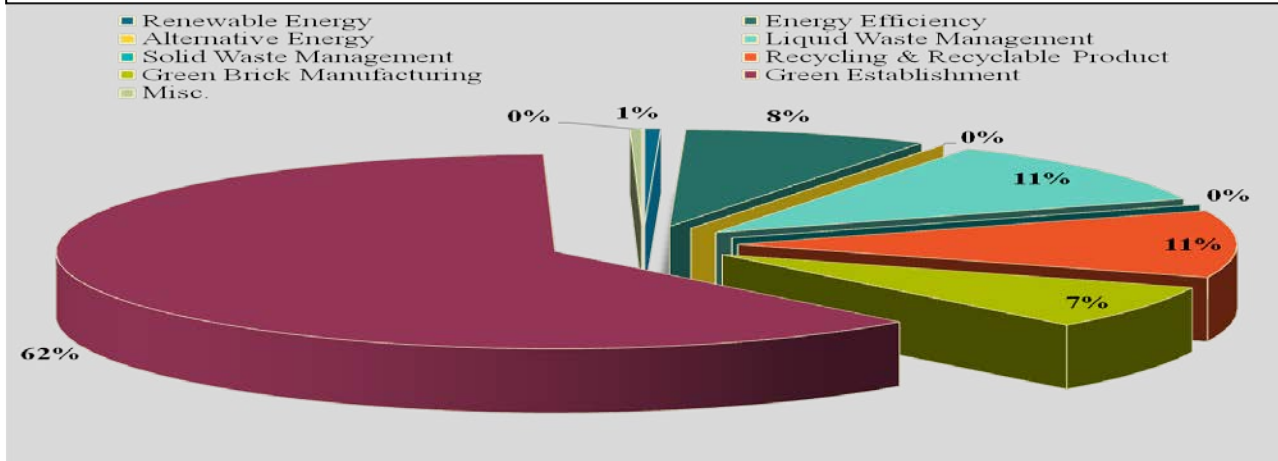
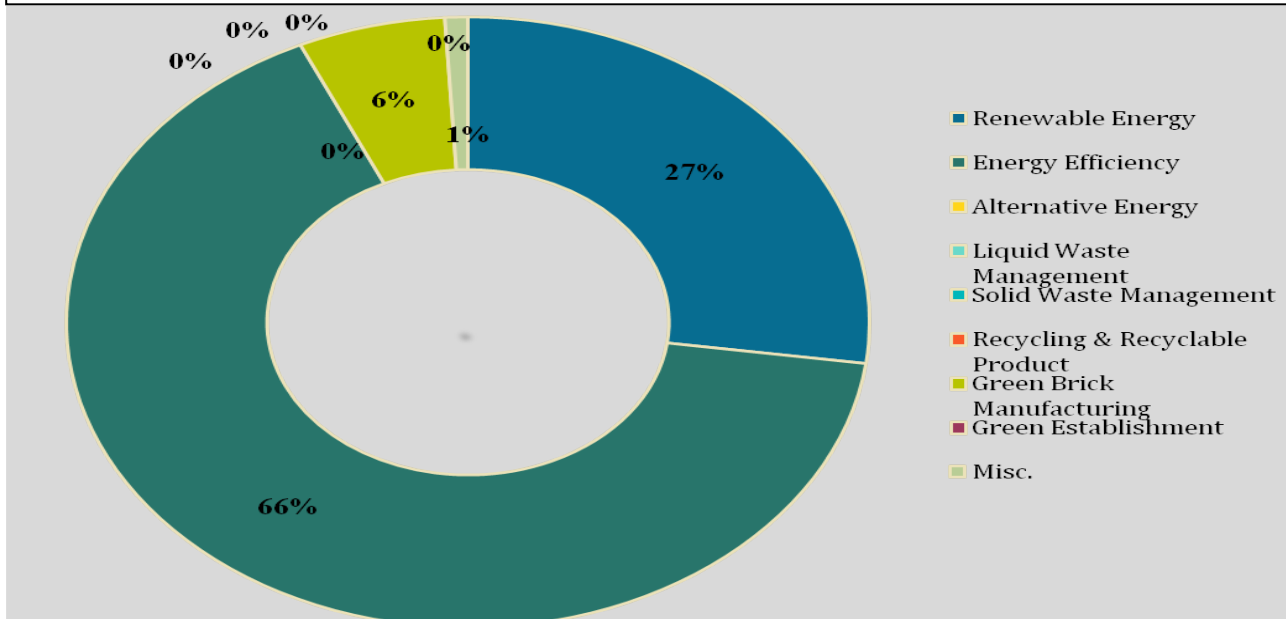


Figure-5.4: Green Finance by FIs in different sectors



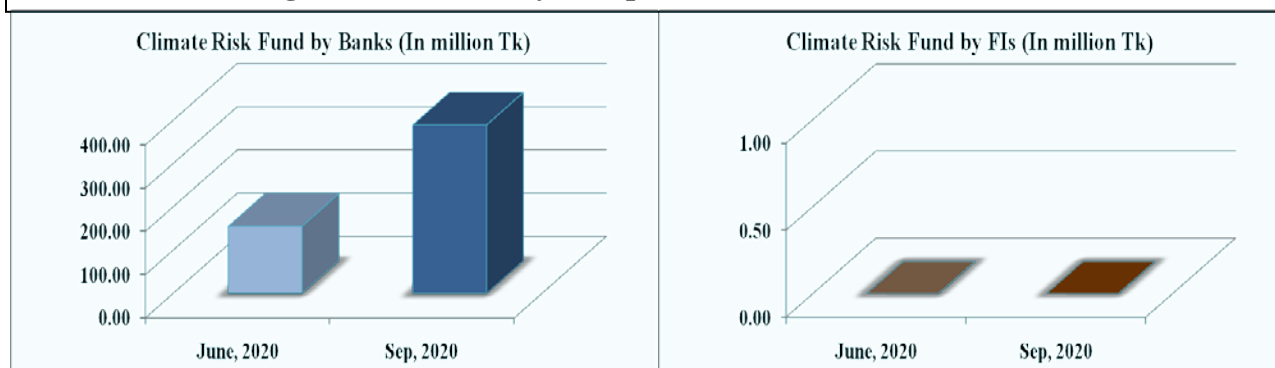
5.4 Climate Risk Fund:

389.16 million BDT has been utilized as grant from climate risk fund by Banks in this quarter.

Table-5.4: Utilization of Climate Risk Fund (in million BDT)

| 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 (41) | 355.00 | 0.00 | 0.00 |
| FCBs (09) | 34.16 | 0.00 | 0.00 |
| Banks' Total | 389.16 | 0.00 | 0.00 |
| FIs (33) | 0.00 | 0.00 | 0.00 |

Figure-5.5: Quarterly Comparison of Climate Risk Fund

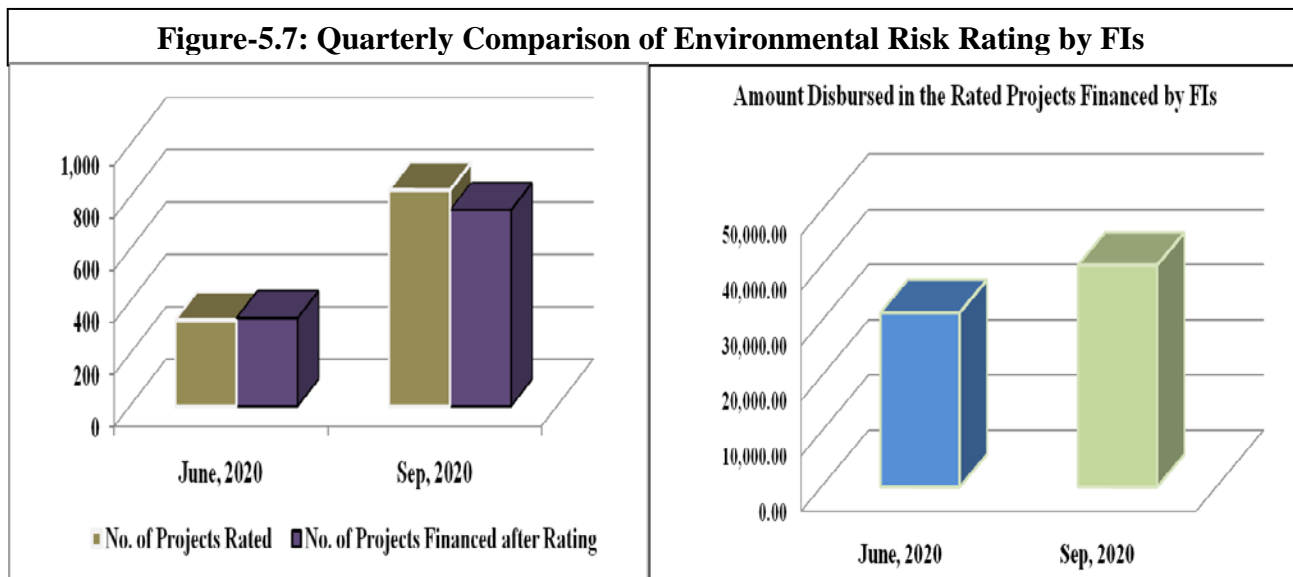
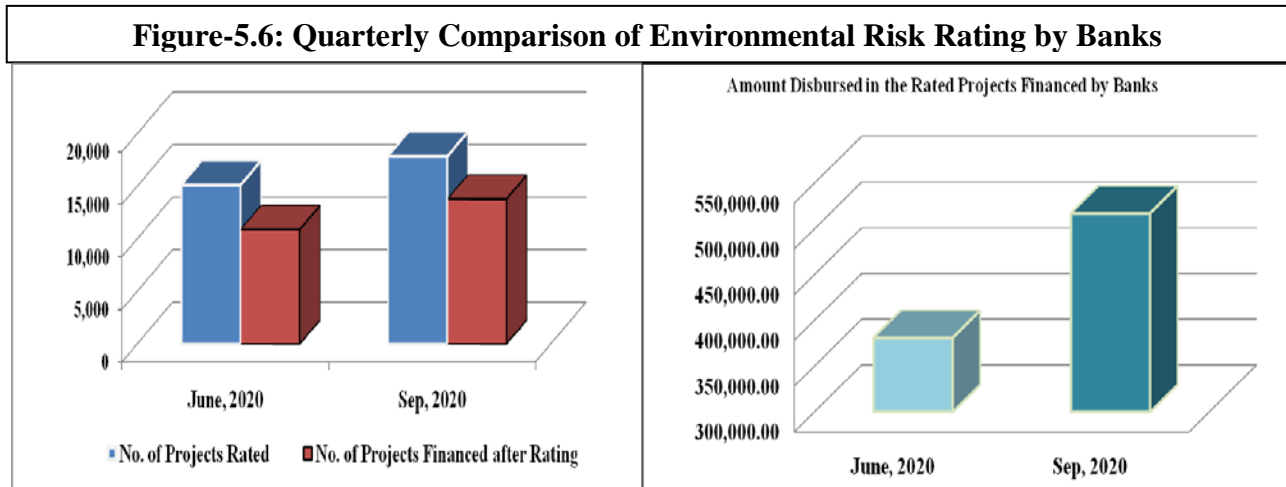


5.5 Compliance Overview of ESRM Framework:

40 banks out of 59 and 8 FIs out of 33 have conducted environmental risk rating in the reporting quarter. The quarterly shift of ESRR by banks and FIs is showing an increasing trend (Figure-5.6 & 5.7).

Table-5.5: Environmental & Social Risk Rating

| Type of Bank/FI | No. of Projects Rated | No. of Rated Projects Financed | Amount disbursed in Rated projects (in million BDT) |
|---------------------|-----------------------|--------------------------------|-----------------------------------------------------|
| SOCBs (06) | 2,174 | 2,254 | 9,468 |
| SDBs (03) | 0 | 0 | 0 |
| PCBs (41) | 15,309 | 11,337 | 482,223 |
| FCBs (09) | 351 | 167 | 25,362 |
| Banks' Total | 17,834 | 13,758 | 517,053.10 |
| FIs (33) | 827 | 751 | 40,112.66 |



5.6 In-house Environment Management:

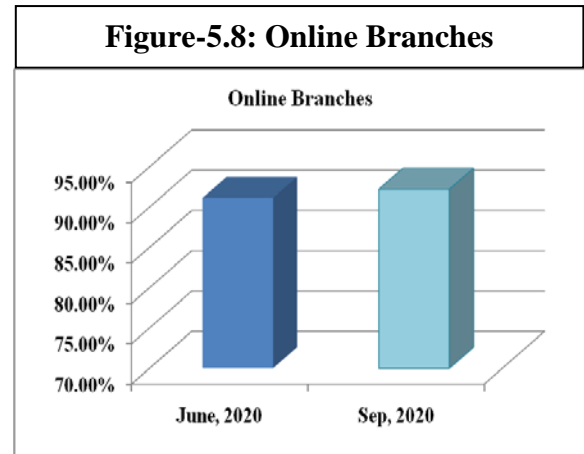
Table-5.6: Environmental Conservation in Business Centers

| 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) | 3,788 | 76 | 252 | 2 | 280 | 0 |
| SDBs (03) | 1,421 | 5 | 6 | 0 | 0 | 0 |
| PCBs (41) | 5,321 | 524 | 7,427 | 20 | 30,571 | 16 |
| FCBs (09) | 66 | 5 | 138 | 10 | 0 | 0 |
| Banks' Total | 10,596 | 610 | 7,823 | 32 | 30,851 | 16 |
| FIs (33) | 280 | 3 | - | - | - | - |

5.7 Online Banking:

58 Banks out of 59 have at least one online branch and 45 banks have introduced internet banking facility up to September 30, 2020. 92.21% automation towards green banking has been observed in the expansion of online branches (Figure-5.8).

| Type of Bank/FI | No. of Total Branches | No. of Branches with online coverage | % of Online Branches |
|--------------------|-----------------------|--------------------------------------|----------------------|
| SOCBs (06) | 3,788 | 3,716 | 98.10% |
| SDBs (03) | 1,421 | 678 | 47.71% |
| PCBs (41) | 5,321 | 5,311 | 99.81% |
| FCBs (09) | 66 | 66 | 100.00% |
| Grand Total | 10,596 | 9,771 | 92.21% |



6. Concluding Remarks:

The green banking activities of Banks and FIs in the quarter ended September 30, 2020 has experienced a bit downward trend in green finance for the financial sector. Green finance by banks has been decreased by 7.26% in this quarter than the previous one; in case of FIs it has been increased by 131.59%. Few institutions have surpassed the target of green finance compared to the total funded term loan disbursement (5%). During the pandemic situation of Covid-19 The HSBC Limited, BASIC Bank Limited, NRB Bank Limited, Al-Arafah Islami Bank Limited, EXIM Bank Limited, IFIC bank Limited, Mutual Trust Bank Limited, Islami Bank Bangladesh Limited, BRAC Bank Limited, Dutch Bangla Bank Limited & Bank Asia Limited have done very well (above 10% of total funded term loan disbursement). Among FIs, Hajj Finance Company Limited, Lankan Alliance Finance Ltd. and Infrastructure Development Co. Ltd. have performed very well. BB is pursuing to boost up the whole scenario by taking appropriate policy initiatives. Refinance support from BB is also playing an important role to incentivize the green banking activities. As the outcome of these initiatives, it is expected that positive impact will be evidenced in the trend of green finance by banks and FIs in gradual manner. We also anticipate rigorous, effective and coherent efforts from banks and FIs in the field of green banking.

Preserve nature & reduce pollution



for the sustainability of human race.....