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Socially Responsible Financing: Guidance Note Drafting Initiative

A collaborative research by

Bangladesh Bank and Economic Research Group

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Foreword

It was sometime in July 2017 that Economic Research Group (ERG) agreed to undertake drafting a guidance note on socially responsible financing (SRF). The idea was initially mooted in a presentation made by the undersigned on ethical banking. General concerns, following the global financial crisis, with regards to wrong-doings in the financial (particularly, the banking) sector, soon got submerged under alternative packaging of socially responsible banking (SRB)/SRF. Subsequently, over several exchanges, the assignment got reduced to an operational level whereby 'social responsibility' was narrowly confined to inclusive financing (IF) and green financing (GF).

The review of experiences in the banking system, drawing upon secondary sources, was done. Several brainstorming and stakeholder consultation sessions were also convened during August-October 2017. Yet, the drafting fumbled, partly due to lack of motivation fuelled by reports of worsening governance in the banking sector, and partly due to difficulties in aligning researchers' interests with a truncated focus within a domain of IF and GF, some aspects of which lack sound basis for wider acceptance among practitioners. In spite of all the inertia, perseverance of the professional colleagues at the Research Department in the Bangladesh Bank prevailed. We remain grateful for the trust put on us and for the patience shown.

This submission is a revised version of a June 2018 draft and has benefited from comments and suggestions received from anonymous reviewers in Bangladesh Bank. It has two major parts, first of which deals with the researchers' reflections on the subjects, socially responsible banking & financing, as well as on inclusive and green financing. It draws upon reviews as well as in-depth consultations done in 2017, presented under two segments: (i) analytical issues, and (ii) experiences in promoting IF and GF in the country and elsewhere. The second part is a stand-alone piece listing all 'Dos' and 'Don'ts', with an introduction to highlight the symbiotic relations between the regulator and the regulated. The second part also attempts to identify the stakeholders presumed as objects of such instructions. It is expected that regulators at BB will reflect on all the issues raised in (first part of) this paper, prior to indulging in Dos and Don'ts listed in the second part.

ERG's journey with SRB/SRF began out of social interest where Anika Anjum joined hand with the undersigned. Subsequently, Iqbal Hossain and Shakibul Huq, during their short adventure outside the banking profession, helped us in organizing the consultation meetings and by providing insights into nitty-gritty of banking operations. The report is the result of efforts put in by all. However, the key researcher remains responsible for all omissions and/or out-of-box speculations. We sincerely hope that the intent of initiating exchanges on the subject will be realized.

Sajjad Zohir

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Summary

In line with the government's SDG initiatives, Bangladesh Bank (BB) has been promoting inclusive and green financing (targeting SME, agriculture and green initiatives) with a view to foster a socially responsible financing (SRF) ethos in the financial sector. BB's Monetary Policy Statement of January-June 2017 also mentions of an initiative to formulate Guidance Notes on the do's and don'ts of SRF to foster social cohesion, promote entrepreneurship, create more and better jobs, and protect environment. The present exercise, undertaken by the Economic Research Group (ERG), is the background exercise to that initiative. The study is based on review of literature and stakeholder consultations convened during August-October 2017. Subsequently, there were follow-ups, culminating in submission the report.

The report has five sections, the first of which provides the background and objectives of the assignment. The second section describes the setting in which a regulator, such as BB, faces in formulating and enforcing regulations and policies. It is found that there are several tiers of regulators, within the BB as well as in national and global spheres. These agencies are either horizontally or vertically linked and define combinedly the regulatory canvas. The study assesses current perspectives on inclusive financing (IF) and it is argued that exclusion from markets of newly introduced financial products/services, arising from advancements of FinTech, deserves separate attention. The second section also proposes a broader understanding of green financing (GF) couched in terms of externalities in production and consumption. The regulators may like to consider these when regulations for green financing are made. Both IF and GF programs have elements that reflect global urge to expand credit which are being implemented at country levels. It is therefore suggested that as a representative of the sovereign, BB finds the right balance between external partnerships, politically powerful market agents and its mandates mentioned in its mission statement.

Bangladesh experiences with regards to IF and GF are discussed in the third section. In BB, all IF programs (under FID) are identified, and importance of MFS (under PSD) and agent banking (under BRPD) in promoting IF is noted to emphasize the need for inter-departmental coordination involved in formulating regulations. Furthermore, the report notes that the two programs of SRF– inclusive financing and, green financing and green banking, are both project activities involving refinancing schemes, in which BB acts as an implementing agency. Experiences of practitioners in Bangladesh may be summarized as follows:

- ❖ BB's directives to reach out to mSMEs, backed by refinancing and/or provisioning schemes, had encouraged the traditional bankers to engage pro-actively with a new group of clients. Bank accounts for farmers and women had initial successes – but failed to pick up. Accounts of workers under employers who cash out large bill payments at regular intervals have prospects. However, currently those satisfy the workers' transfer needs only; and the challenge of inducting these new clients into savings and other products remains.

- Bank accounts with small balance facilitate government to public (G2P) transfers under social security/safety net programs, and banks are yet to find those useful entry points for IF.
- GF is run by BB under refinancing scheme and the PCBs found such schemes less attractive when the deposit rates and cost of funds were on decline, as was the case during the study period. Concerns for customer-relationship management (CRM) and other factors dominated Banks' lending decisions, and seeking GF refinancing was a *post-facto* act, availed more by banks with better data management capability.
- Bankers are comfortable with simplified operational definitions, within the parametric bounds of which, they prefer to carry out the *ex-post* accounting exercises. Concerns however arise when the principles of lending deviate from those set out under CRM. In addition, programs to distribute benefits to 'target groups' can potentially give rise to rent-seeking behavior (and erosion in professionalism) among implementers as well as those who are in monitoring.
- Targeting is an important area of concern since definitions of SEs, mSEs, or SMEs in terms of value of assets or size of employment are not easily observed. Difficulties are further accentuated when social groups, such as, farmers (or, marginal, rural, etc.), are targeted for easy finance. Ensuring clarity in operational definition of any target population is a must, and inclusion and exclusion principles need to be clearly spelled out as done in other fields.

Some of the other issues flagged in the third section addressed include: (i) Instructions of BB are not always uniformly understood across all banks, (ii) The policy of 'one shoe fits all' may not be appropriate, (iii) Engaging 3rd parties in accomplishing program-specific tasks create problems in enforcement, (iv) There are evidences elsewhere to suggest that banks may not be restricted from engaging in polluting environment, (v) Roles of the Board and Senior Management Team (SMT) are important, (vi) Inadequate attention to collect, compile and analyze data and lack of coordination among relevant wings within Bangladesh Bank, both of which are critical for effective monitoring and feedbacks to program design, and (v) Care should be taken so that concerns with anti-money laundering (AML) and combating financing of terrorism (CFT) do not jeopardize efforts towards IF.

Section IV tables a few suggestions for the Regulators, deemed essential first step towards outlining the Dos and Don'ts to promote SRF. Those are briefly mentioned below:

- Avoid piece-meal approach: An ideal guidance note may avoid micro-management and monitoring of too many indicators.
- Rethink targeting: Avoid *ad hoc* target setting through circulars – and *ad hoc* decisions to withdraw or waive interest rates to one or the other sector, or businesses (Tannery, big defaulters). Operational definitions of target population should be in terms of easily measurable observables.
- Cluster financing: It is needed coordination meetings under the District Commissioner (DC). Cluster financing should look beyond financing individuals within a cluster, and therefore viable contracts (of liabilities for loan repayment) need to be identified.

- Accountability of operators on regulator's side: Response to submission from stakeholders (banks and NBFIs) should be quick and time-bound. The culture/practice of imposing fines without adequate explanations and clear breakdowns should be abandoned.
- Role of MRA can be strengthened in spheres where MFIs play key roles in promoting SRF.
- Purposes of audit need to be revisited.
- Discussion of ethical issues in Board meetings and in meetings of Risk Management Committee and submission of minutes to BB should be made mandatory.
- Information collection and their timely processing for quick feedbacks to decision process: Various regulatory authorities/departments within BB should jointly develop unified set of questionnaires for the banks to report on SRF and few other related issues. Those should be inputted in usable formats, and responsible departments ought to have the ability to analyze those and use output for quick decision-making.
- The product list within IF can be reduced, and this may be negotiated with international partners (e.g., AFI– Alliance for Financial Inclusion). Target setting and/or mandatory requirements on low balance accounts should be withdrawn. It is important to ensure that NO person can be refused to open an account with a minimum deposit (say, for example, Tk. 100 for no interest, no cheque account, and Tk. 100 or more for savings account where other service charges may apply). It is also worth mentioning that no fanfare be permitted with opening of such small balance accounts!
- Consider merging school banking with institutional banking within a single guideline. While the characteristics of the target clients are different, for all practical purpose, school banking follow the principles of institutional banking since several transactions within the institutions are interlinked (eg., payments of tuitions, student loans, account for parents of students, etc.).
- BB needs to seriously re-examine its current role of marketing agent for machines (technology) and consider reverting to financing viable projects where the responsibility of monitoring and/or promoting technology adoption should lie with non-bank agencies (or, specific GOB departments).
- Like any other regulator, BB may consider the Board and the SMT accountable for all undertakings. In this regard, regulations on eligibility of board directors in countries such as India (by the Reserve Bank of India) are worth looking into. In addition, BB may consider introducing mandatory requirement of having ethical and social responsibility issues formally discussed in every Board meeting, and to ensure that the minutes on those as well as from the meetings of ethical committee of individual banks are conveyed on time to the regulators.

Glossary of selected terms

Ethical Banking:[1]Although banking emerged in history as a matter of usury, the scope of 'banking' varied widely. The call for Corporate Social Responsibility (CSR) later brought attention to social, and subsequently environmental (Carroll, 2008) ramification of a business entity's actions (in the context of industrial England). However, since banks were not manufacturers with a considerable carbon footprint or emission, they were not direct targets for scrutiny. From the 1970s onwards, banks have been under pressure of social groups, development NGOs, etc., to be accountable for the projects they finance. According to the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA, or 'Superfund') in the US, banks can be 'held directly responsible for the environmental pollution of clients and obliged to pay remedial costs' (Jeucken & Bouma, 1999).Ethical banking can be viewed to be one which acts in the betterment of society, the environment, and the economy as a whole.

Like any other 'ethical business', one may coin an alternative meaning to 'ethical banking' – some actions not driven by profit-seeking motive, but adhere to 'ethical norms'. Standardising ethical practices is difficult since the dilemmas managements (or, actors) may face are context-specific. That is, what may sound non-ethical in one context may be justified on ethical ground in another context. In this alternative paradigm, ethical practices reflect value systems within persons to whom ethical dilemmas arise normally, and each finds ways to resolve those with different degrees of success or compromises. We avoid, in this paper, this alternative perspective on ethical banking.[2]

Sustainable Finance (synonymous to **responsible finance**):[3] Incorporating environmental, social, and governance (ESG) factors as assessment criteria of lending decisions (Vavrek, 2017). Swiss Sustainable Finance (n.d.) describes sustainable finance as 'one that ensures and improves economic efficiency, prosperity, and economic competitiveness both today and in the long-term, while contributing to protecting and restoring ecological systems, and enhancing cultural diversity and social well-being.'

Green Banking (also known as **environment-friendly banking**):[4] A part of ethical banking and subsequently of sustainable banking. Green Banking is a means of promoting environment and resource conservation by reducing consumption of resources (e.g., electricity, water, moving away from paper-based transactions, etc.) through its operations (Hossan, 2012).Banks aiming to green themselves adopt cleaner energy sources such as solar

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[1] Sources: (i) Jeucken, M. H. A. &Bouma, J. J. (1999). The changing environment of banks, SMI Theme Issue: Sustainable Banking: The Greening of Finance. (ii) Carroll, A. B. (2008). A history of corporate social responsibility: concepts and practices. The Oxford Handbook of Corporate Social Responsibility, Chapter 2. Oxford University Press: pp. 19-46.

[2] Manikutty's book on *Being Ethical*may be rephrased in this regard: instructive discourse on ethics is unnecessary to those who are ethical, and will not be paid heed to by those who are not into ethical practices.

[3] Sources: (i) Swiss Sustainable Finance. (n.d.) What is sustainable finance? Retrieved from www.sustainablefinance.ch/en/what-is-sustainable-finance-_content---1--1055.html on 14.08.2017. (ii) Vavrek, E. (2017). ESG in emerging markets depends on better data and disclosure. Financial Times.

[4] Sources: (i) Hossan, F. (2012). Green Banking.The Daily Star.Retrieved from www.thedailystar.net/news-detail-257872 on 14.08.2017. (ii) Chen, T. (2011), Green Banking for Small Businesses. Business Insider.

power. Green banking encourages 'environment-friendly initiatives everywhere' (Chen, 2011) by incorporating the spirit of green banking in its financing decisions as well, leading to greening in other sectors.

Green Financing:[5] A part of Green Banking would be to promote the usage of greener technology in other sectors through its lending products. Green Financing refers to banks' lending to projects which reduces negative externality or promotes positive externality within the scope of the environment, thus endorsing or supporting green initiatives through financial instruments of the bank. However, there seems to be no consensus in literature as to which products or which end-goals constitute green financing – some definitions include the creation of number of jobs, which is not directly related to the environment.

Financial Inclusion (synonymous to **Inclusive Financing**):[6] Refers to the availability of financial services at an affordable price and through accessible infrastructure. (UN, n.d.)

Unbanked: People who do not have an account at a financial institution and are not getting reasonable banking services and credits that they may need, for reasons of poverty, cost, travel and/or documentation requirements, etc.

Block-chain is essentially a distributed ledger that records transactions in sequential blocks, creating encrypted data that can be shared between several parties through the supply chain, updating these instantly, without risk of fraud. It has a wide range of applications in the financial as well as in insurance sectors.

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[5] Sources: (i) IFC and GIZ (2017). Green Financing. Retrieved from https://www.ifc.org/wps/wcm/connect/48d24e3b-2e37-4539-8a5e-a8b4d6e6acac/IFC_Green+Finance+-+A+Bottom-up+Approach+to+Track+Existing+Flows+2017.pdf?MOD=AJPERES on 14.08.2017. (ii) Capithome, B. (2014). The spread of green banking paves the way for clean energy investments. *Environmental Defense Fund.*Retrieved from https://www.edf.org/blog/2014/05/13/spread-green-banking-paves-way-clean-energy-investments on 14.08.2017.

[6] Source: UN (n.d) Department of Economic and Social Affairs, Financing for Development**,** Inclusive Finance, Retrieved from http://www.un.org/esa/ffd/special/inclusive-finance.html on 14.08.2017.

I. Preamble -- Objectives, Methods, Outline of the Report

I.1 Background

The regulator who grants banks the authority to engage in such exclusive (and privileged) activities as fractional banking and asset trading, may choose to give directives that the banks must abide by. Traditionally, such directives were aimed at restricting banks from engaging in practices that cause financial instability and/or go against desired market norms. In at least three other areas, directives from the central bank (to the banks and NBFIs) have increasingly emerged important. Promoting growth in the real sector of the domestic economy is one, which also counters excessive speculative engagements by financial institutions that are perceived to be at the root of financial instability and subsequent adverse effects on real economy. The second set of directives addresses redistribution to promote social justice (relations among humans), while the third relates to externalities in the spheres of relations between humans and nature, in the guise of environmental sustainability. While social responsibility of financial institutions in general and banks in particular is defined in a larger canvas of operations, the current exercise has a narrow focus where the last two sets of directives are relevant.

Spatial distribution of growth and resource allocations across sectors has always been considered relevant for attaining social objectives. Thus, historically, loan disbursements to one or the other region or sector have been encouraged through appropriate interest rate incentives or targeting of loan disbursement. Considering access to credit and other financial services as a pre-requisite to establishing social justice in the financial market took us much beyond the traditions, and Bangladesh is rightly credited for being the birthplace of such innovative ideas. A fallout of that is the widely accepted agenda of financial inclusion (or, inclusive financing), which is one of the two components under study in the present exercise. The second element, environment-friendly banking, had been addressed in the codes of conduct (for management and employees) in many private banks across the globe. This has however got fine-tuned and further expanded to differentiate between green financing and green banking. While externalities are at the centre, as will be elaborated later, there are biases[7] while formulating the operational guidelines.

In practice, Bangladesh Bank currently urges the scheduled banks under its wing to cater to their social responsibility through three instruments: (a) CSR, (b) Inclusive Financing, and (c) ‘Green Financing’ (and green banking). Issues pertaining to CSR and Green Financing are attended to by the Sustainable Finance Department of the Bangladesh Bank, whereas Inclusive Financing has its own department, namely, Financial Inclusion Department[8].CSR activities are common to all (bank and non-bank) companies, and are undertaken outside the

[7]As will be discussed later, policies have generally focused on externalities in production and that often is confined to promoting containment (of adverse environmental effects) technology.

[8] Inclusive Finance has termed as such instead of Financial Inclusion (in line with the BB department) to avoid confusion when abbreviated. FI generally refers to Financial Institution in literature.

regular operations of the banks[9].In contrast, IF and GF are to be pursued within the mainstream banking operations. Thus, guidance note on socially responsible financing is further confined to those two issues.

The concern is aptly captured in the Bangladesh Bank's MPS of January-June 2017 quoted below:

> *"In line with the government's SDG priorities of an inclusive, environmentally sustainable growth, BB is for quite some years now promoting inclusive, green financing (targeting SME, agriculture and green initiatives), fostering financial sector wide a socially responsible financing ethos. BB has now taken up a consultative initiative of formulating Guidance Notes on the do's and don'ts of socially responsible financing to better foster social cohesion, with output initiatives that promote entrepreneurship, create more and better jobs, and protect environment."*

I.2 Objectives

The following objectives were mentioned in the Terms of Reference:

i) Stock-taking and review of past and recent cross-country experiences with different approaches in promoting socially responsible business and financing ethos, involving the banking system, drawing upon secondary sources;

ii) Convening brainstorming and stakeholder consultation sessions with prior concurrence of the BB core group, moderating and keeping summarized records of proceedings of the sessions;

iii) Based on inputs from i) and ii), draw up a report, commencing with a preface explaining the rationale for socially responsible financing, followed by a set of proposed operational guidelines for the major strands of inclusive and green financing[10].

I.3 Outline of the Report

The first two tasks identified in the previous sub-section had been completed in 2017, and those are the basis for addressing the third task. Instead of two, we divide the presentation into three segments. The next section deals with selected conceptual issues at a generic level, as well as for specific contexts of IF and GF. Section III identifies the major operational instruments to promote SRF, drawn from Bangladesh Bank's guidelines, policies and directives, as well as from consultations. The experiences in the fields of IF and GF are also summarized in this section. Discussion in sections II and III may be perceived as dilemmas of a regulator on purposes and instruments before finalizing a draft instruction on IF and GF for the banks and NBFIs. Those two sections, in a way, provide the background for discussion and drafting of a guidance note by the relevant authorities within Bangladesh Bank. The

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[9]On the side, one may note that renewed efforts are being made in the non-financial sector to articulate CSR beyond philanthropic supports. BB may like to review those to revisit their own CSR policy. Under the emerging view, one may justify investments on innovative ways to promote financial inclusion or GF.

[10]ERG is expected to underscore crucial factors in the form of dos and don'ts. The guidelines will be finalized by the BB core group, after obtaining feedbacks on the first draft in a round of website based public consultation.

section IV proposes a set of operational guidelines, limited to only the essence and concluding remarks outline in section V.

II. Selected Issues in Social Responsibility in Banking and Socially Responsible Financing

II.1 Several Perspectives

There are several issues one needs to resolve before proposing operational guidelines for SRB or SRF. The very first one involves identifying the two groups, regulator and the regulated, and to have prior assessment of the relation between the two entities. The second relates to broader concerns with socially responsible banking and financing, which we touch only superficially since it was kept outside the scope of the present exercise. We do however get into details within IF and GF, which constitute the narrow sphere of SRB, as well as of SRF, and discuss the criteria that may be upheld for financing in order to promote such financing. The three are discussed in separate sub-sections.

II.2 Regulators as a chain of actors and their non-neutrality

Regulations presume existence of regulators, and independence of the latter is considered a sign of sovereignty. Thus, historical changes in regulations provide an additional perspective on the scopes of and limits to roles that regulations can play. This sub-section briefly highlights those drawing upon the literature expressing renewed interest in regulations, particularly in developed countries.

A 2008 paper by Giandomenico Majone[11], describes how strategic adaptation (in Europe) in response to 'increasing international competition and deepening economic and monetary integration within the European Union', resulted in a 'reduced role for the positive, interventionist state and a corresponding increase in the role of the regulatory state', with rule-making replacing taxing and spending. The author noted that 'the institutional and intellectual legacy of the interventionist state is (was) a major impediment to the speedy adjustment of governance structures to new strategies', and was quick to recognize at the same breadth that 'international competition takes place not only among producers of goods and services but also, increasingly, among regulatory regimes'.

The 1970s for (western) Europe was a phase of moving out of protected economies (and sovereigns) to a more integrated regional economy. For last 40+ years, we had seen proliferation of international standards and regulations; and many weaker nations have made every effort to methodically implement those to prove their worth as a competent global partner. Only since recent past, the tide in intellectual discourse appears to be turning; and a regulatory regime with different norms to support an emerging sense of sovereign is in upswing[12]. Desirability of regulations turning into authoritative rules issued by the state, and the lawyers' urge to confine the meaning of regulation to the rules of delegated legislation,

[11] "From the Positive to the Regulatory State: Causes and Consequences of Changes in the Mode of Governance", online, https://doi.org/10.1017/S0143814X00003524.

[12] The assertion applies mostly to countries considered developed and to fast-growing newly industrializing countries.

are now questioned by the critics.[13]Given the historical changes briefly narrated above, purpose of a guidance note as well as the criteria of selecting items to be addressed in a guidance note remain conditional upon clear identification of the Regulator, and the values the latter uphold in a changing global environment.

The move towards standard regulatory practices across borders was possibly most visible in the case of banking.[14] This is aptly captured in the following quote[15] from the ANU book, which also raises questions, reflecting the concerns of the emerging sovereigns.

> *"Businesses such as banks were required to have compliance units that met particular standards—standards that, as in the case of banking regulation, were increasingly coming from international organizations such as the Basel Committee on Banking supervision. Would these bodies keep the world's financial system safe from crisis? States were signing on to free-trade agreements that were long and complex and seemed to go well beyond dealing just with the movement of goods. Why did these agreements contain standards that strengthened patent monopolies? This seemed inconsistent with the goal of free trade. The publics of states began to learn that their states could be sued directly by foreign investors. Consumers were taking a lot of interest in labels to do with standards relating to fair trade and forest stewardship. Who set those standards? Who checked for compliance? Regulation was changing in many different ways."*

To think that there is a single regulator may not be the most appropriate approach to take[16]. The same may apply in cases of entities to be regulated. One may suggest that a central bank in a country, either independently, or as a follow-up on a global consensus, regulates the banks and the NBFIs. There is no ambiguity in such statement as long as the set of variables over which regulations apply can be defined for each of the bank entity. For example, a bank's advance to deposit ratio, percentage of annual disbursement to a pre-defined sector, non-performing loan as a percentage of outstanding loans, etc. are some such variables. However, on at least two counts, a code of conduct may not be adequately defined for business organization, particularly for banks. First, while an organization may be penalized for failure to comply, individuals responsible for such failure may not be brought to task unless the details are addressed in the Rules of business. Second, as a principle, ethical (and socially responsible) codes of conduct are meant to apply to one or more actors within

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[13] Initiative of the Australian National University is worth mentioning in this regard, which got articulated in a book titled, *Regulatory theory: foundations and applications*, edited by Peter Drahos, ANU 2017.

[14]Many view the process of globalization in the real economy to be intimately tied to increasing centralization of control over various forms of money, and banks have been key players in markets of those.

[15]pp. xxvii-xxviii, Preface, Drahos (2017).

[16]The concept of vertically tiered market is consistent with multiple regulators. Two examples may be cited, Basel Accord under the Bank of International Settlement (BIS) and the Anti-Money Laundering and Anti-Terrorism initiatives. The Basel Committee - initially named the Committee on Banking Regulations and Supervisory Practices - was established by the central bank Governors of the Group of Ten countries at the end of 1974, presumably after the oil shock.Similarly, "the fight against money laundering has come a long way since the initial adoption of the Bank Secrecy Act (BSA) of 1970. The global initiatives of the Financial Action Task Force (FATF) in conjunction with the full support of the WB and the IMF had subsequently strengthened the adoption of Anti Money Laundering (AML) laws around the world". See Anderson & Anderson (2015) for the latter.

banking organization, shareholders controlling the board, senior executives and the general staff.

In summary, there are several tiers of regulators – specific department within the central bank, horizontally and/or vertically linked various tiers of authorities within the central bank, other in-country agencies such as the banking division of the Ministry of Finance and political authorities in the guise of (say) parliamentary committees and offices of higher political authority. One may assume that the central bank is the Regulator, and individual departments, such as, the Sustainable Finance Department (SFD) and Financial Inclusion Department (FID), are implementing bodies which also monitor to provide feedback for desired changes in regulations. It is presumed that the central bank has to accommodate concerns of global partners as well as in-country political pressures, but it does those without compromising its mandate, as revealed in its mission statement (see Box 1).

Information revealed over the course of consultations suggests that the ideal setting rarely exists. The actors who constitute the body of regulators are susceptible to threats and allurements, or a mix of both. Often the allurements packaged in projects lead to uncritical acceptance and implementation of ‘global’ agendas. Greater threat however arises from captivity of financial market in few hands (primarily, the borrowers of large funds). Recognizing these dilemmas faced by a regulator in BB, the guidance note is purposively confined to a minimum set of issues.

Box 1: Excerpts from Bangladesh Bank’s Mission Statement

The Bangladesh Bank mentions of its mission statements for diverse broad stakeholder groups.

For **the Nation**, “Catalyze and support socially responsible and environmentally sustainable development initiatives, inter alia including fuller financial inclusion of under-served productive sectors and bringing in needed new dimensions in financial markets and institutions; to facilitate broad based growth in output, employment and income, for rapid poverty eradication and inclusive economic and social progress.”

For the **business community, including farm and non-farm SMEs**, ensure “adequate credit flows at market driven flexible interest rates for all productive economic activities, including in sectors like agriculture and SMEs where markets have not been very responsive.”
For **depositors in banks and financial institutions, and investors in financial assets**, “ensure safety of deposits in licensed banks and financial institutions with on-site and off-site supervision of their activities and with adequate financial information disclosure requirements, besides insuring small deposits.”

For **banks and financial institutions in Bangladesh**, “provide precise prudential regulatory, risk management and disclosure framework to protect solvency and liquidity of individual institutions and stability of the overall financial system, acting as lender of last resort if and when needed. ...issue regulations and enforce compliance therewith inter alia on capital adequacy, asset classification, income recognition and provisioning, large exposure and risk management; through open consultative processes.”

II.3 Socially responsible banking and socially responsible financing

There are two sequentially linked themes to take note of. It is important to recognize that concerns with socially responsible banking and SRF, as the latter are traditionally understood, are addressed in the prudential guidelines of BB. The two items, IF and GF, as those are pursued currently, constitute only a part of those concerns. Secondly, beyond the prudential guidelines, the two initiatives (IF and GF) are of recent vintage and have common roots in global consensus, which need localization for ensuring effective outcomes. This section further elaborates the two themes.

Irresponsibility in banking may be perceived in terms of contract failure.[17] Banking institutions, granted the privilege of fractional-reserve banking by the state, are inherently placed in a position above the rest of the society by dint of receiving the license. Social contract theory[18] implies that assuming such a position comes with certain obligations and duties to act for the betterment of others. *Responsibility* of the banks can be defined in terms of an obligation that banks have towards rest of the actors they engage with, due to the nature of power they possess

The banks' engagements ('contracts') with various stakeholders may be captured in the following bilateral relations:

a) The regulator and the bank,
b) The clients and the bank,
c) The financial industry and the bank,
d) Others/indirect[19] agents and the bank,
and finally, within a bank–
e) The bank and the banker

Relations involved in each of these (except perhaps *(d)*) can further be classified into two: (i) implicit contract, comprising the obligation to act responsibly due to their higher position, and (ii) explicit contract, comprising the spelt-out duties and obligations specified upon deciding to engage. Breach of an implicit contract at any stage can be termed as an 'irresponsible' action, whereas any action that contributes to or leads to a breach of an explicit contract can be termed as an illegal (and therefore, irresponsible) action, or a failure to comply, which calls for penalty or more extreme form of punishment.

Figure 1, further elaborates the various stakeholders and markets that the banking system connects with, and where codes of conduct may apply to counter wrong-doings from allurements, and/or, to check potential damages arising from pro-active/aggressive financing. While prudential guidelines and ethical and/or responsible codes of conducts deal with above-mentioned responsible banking, SRF -- packaged in the guise of IF and GF -- gained greater attention only after the financial crisis of 2008-09. An important element in both types of financing is the urge to expand credit, which, if not scrutinized, may worsen the financial health of a banking system. At the same time, involvement of regulators with the nitty-gritty of expanding credit may adversely affect governance in the banking sector. The issue takes

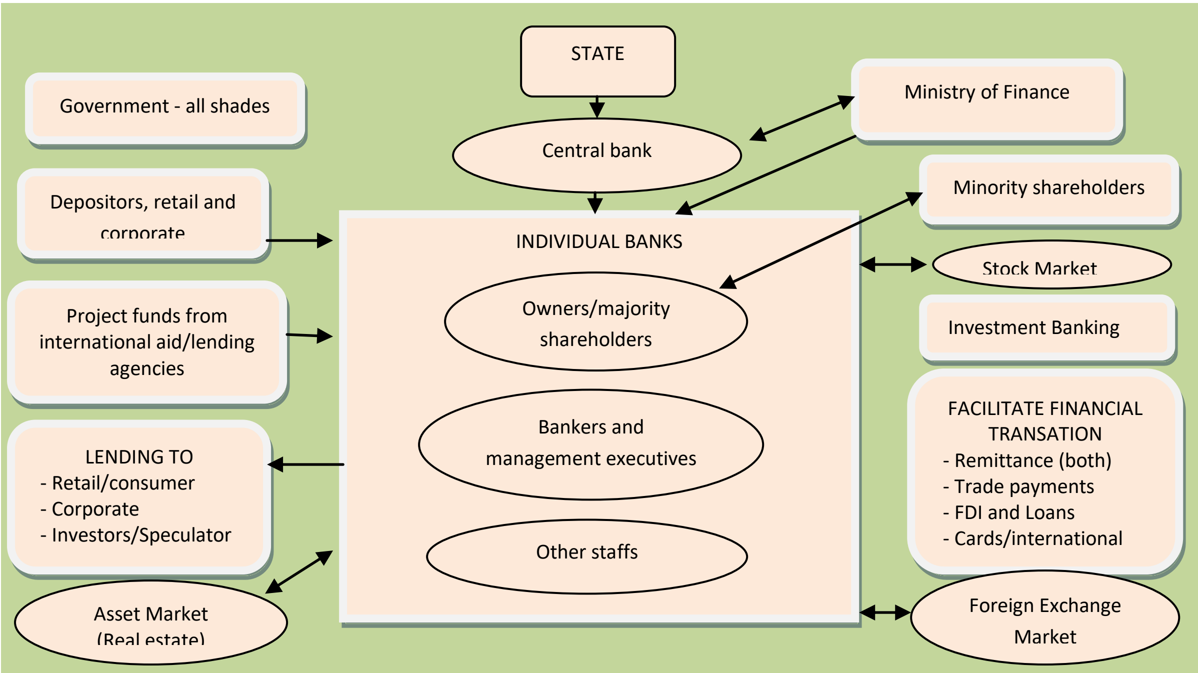
[17] The term 'contract failure' has been defined in certain disciplines as the situation where the consumer has no means of or otherwise is unable to evaluate the quality of a good/service they are receiving, which allows the good/service provider to get away with producing low quality goods/services. [See: Powell, W W& Steinberg R (2006). The Non-profit sector: a research handbook. *Yale University Press.*] However, for all intents and purposes, we use the term here to mean the inability to honour a contract, which is synonymous with a breach of contract. The reference is to social contract that may include non-competitive price setting, lack of communication with customers, or inadequate monitoring of financed projects.

[18] Friend, C. (n.d.) Social Contract Theory. *Internet Encyclopaedia of Philosophy.* Retrieved 12.03.2017 from http://www.iep.utm.edu/soc-cont/

[19] An example of an indirect could be the environment which is affected by actions of the banks.

one back to one of the settings of regulatory hierarchy mentioned earlier, where a so called regulatory agency turns into an implementer of regulations formulated by higher regulatory authorities! For a sovereign, finding a right balance between external partnerships and politically powerful market agents is important, and needs due reflections prior to formulation of regulations and codes of conduct.

Figure 1: Banks and the Stakeholders



II.4 Conceptual framework to address SRF through IF and GF

From here on, the focus is only on financing, and that also will confine to intended undertakings in the fields of IF and GF. The discussion is sequenced in that order. The basic suggestion is to formally incorporate the concept of externality in cases of GF and in some of the targeted financing programs. It is also suggested that 'inclusion' maybe rearticulated with increased number of differentiated financial products whose delivery is now possible due to Fin-Tech.

II.4.1 Inclusive Financing

With the initial advent of microcredit and more recent progresses in Fin-Tech[20], it is now widely recognized that there can be innovations in delivery mechanism to extend financial services to wider segments of the population. While success in microcredit proved that poor are bankable, wide acceptance of mobile-based connectivity and rapid expansion of MFS paved the way for introducing differentiated financial products to allow inclusion of a wider segment of the population.

[20]Financial technology (Fin-Tech) is the emerging technology that is delivering financial solutions in new and innovative ways utilising myriad technologies and platforms especially Information Technology platforms and applications. Many Fin-Tech applications are now provided over mobile phone platforms.

With the expansion of financial markets, the concept of IF in the banking sector has evolved over the years. During the early years of MFIs and subsequent integration of MFI clients into the formal banking system, the primary objective had been to bring the non-banked population (poor and those residing in distant places) within the net of banking services. This was perceived as a social responsibility of the banks, and incentives to encourage banks to finance out-of-net clients have accordingly been justified.[21]The practice continues, even though the relative size of effective exclusion has reportedly decreased and the marginal cost of 'inclusion' with unchanged technology has increased[22]. Over a decade of persuasion in the guise of social responsibility, markets have opened up to allow smooth financial transactions, covering a wider net, between G2B, G2P, B2B, B2P and P2P. Thus, recent vintage of IF means that individuals and businesses have access to useful and affordable financial products and services that meet their needs, such as, those effecting transactions, savings, getting credit and insurance.

With every new product introduced in the market, the concept of who are 'included' may not necessarily be measured with traditional indicators. More importantly, with stringent fiscal measures and enhanced ability of regulatory authorities to connect various sources of information, effective demand to be included in the banking system may not be as intense as one would observe in a regime of slack governance. Thus, the concept of inclusion and inclusive financing needs to be revisited. There may be instances of financial exclusion where removing institutional and/or regulatory obstacles to allow market sizes to expand may be a more worthwhile perspective to uphold than to support rent-seeking and inefficiency in the name of 'socially responsible' action.

The case for an alternative view is extremely posed not to negate the efforts under the guise of SRF. It is suggested that the changes in the financial market and the developments in the banking operations be recognized, and that **a two-track approach towards financial inclusion may be more appropriate**. Thus, activities to be promoted under SRF-type IF can be narrowly defined with adequate justification made by linking access to credit by the erstwhile excluded with expected outcomes of those activities. A second set of activities may be promoted to counter potential exclusion from advancements in Fin-Tech, and to widen the net with reduced cost of financing. And, in many such cases, IF may not have to be tied with SRF!

II.4.2 Green Financing

Green Banking (GB) and Green Financing (GF) are two different concepts. Sustainable Finance Department (SFD) of BB, in the context of GB, prescribes *greening* operations that

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[21]Preliminary estimates from HIES 2016 data suggest that only about one-third of all households borrow (from formal and informal sources), and the proportion is same across extreme poor, moderate poor and non-poor households! While less than 3 percent of all HIES households reported of borrowing from banks, almost 24 percent reported of borrowing from MFIs. Unfortunately, the survey did not seek information on whether the 70+% non-borrowing households are interested to borrow from the formal sources (banks and MFIs) or not.

[22]It is argued that technological advancement and financial inclusion have non-linear relations. While the marginal cost, under ceteris paribus condition, increases, the innovations backed by large scale capital investments however reduces the additional cost of inclusion in some spheres. The new technology however brings new products/services in the market and defines new groups excluded from those services.

involves, amongst others, using less resource (i.e. water, electricity, paper, etc.). There is a long list of items under GB for which the SFD in BB expects the banks to set targets and insist on achieving those (see Annex B). These are meant to curtail or reduce negative externalities from regular banking operations. In contrast, the GF addresses externalities, on physical environment, arising from projects and activities financed by banks.

Table 1: Financing Products – broad categories in terms of GF

Activities	Examples	Remarks
Financing projects which cause negative externalities in the process of production	A leather-processing enterprise is financed. The enterprise has poor waste-treatment habits and causes negative externalities.	
Financing projects which aim to reduce the negative externalities it creates in the process of production.	A dyeing plant is lent to, in order for them to be able to adopt environment-friendly approaches to treat waste.	SRF
Financing projects whose output, when consumed, cause negative social externality	An arms-manufacturing plant or Methamphetamine-production initiative is financed.	
Financing projects whose output, when consumed, decreases positive externalities derived from its substitutes	Lending to an enterprise producing ineffective 'alternative' medicine that is being used as a cheap substitute for Chickenpox vaccines.	
Financing projects which cause or enhances positive externalities in its production or replaces technology that were producing negative externalities	Examples of such projects could be that of a tree plantation, an establishment or instrument run on solar power, etc.	SRF
Financing projects which reduces negative externalities created by others	Financing projects running on renewable energy, or a mill which collects and recycles paper.	SRF
Financing projects whose output, when consumed, cause positive or enhance positive social externalities	Lending to a microbiology research agency developing vaccines against rabies.	SRF
Financing projects whose output, when consumed, decrease negative social externalities	Lending to a green equipment manufacturer.	SRF

Source: Authors' compilation

Without delving into the backward linkages of undertakings financed by banks, Table 2 suggests classification of financing in terms of implications (positive or negative externality) of undertakings at two levels, during production of financed projects and externalities from output produced in those projects.

Table 2: Financing Consumption – broad categories in terms of GF or Targeted SRF under IF

Activities	Examples	Remarks
Facilitating and/or financing consumption of goods or services which cause or enhance positive social externalities	Loans for women education.	SRF
Facilitating and/or financing consumption of goods or services which decrease positive externalities	Financing occupation of erstwhile common space (say, a playground or park) and convert it to residential plot	
Facilitating and/or financing consumption of goods or services which cause or increase negative externalities	Bank has loan products for automobiles, where they are interested to finance consumption of luxury cars (i.e., with larger ticket-size) which tend to use more petrol /congestions	
Facilitating and/or financing consumption of goods or services which reduce negative externalities	Bank has loan products for those purchasing green equipment, financing green building that uses materials prepared with reduced carbon emission	SRF

Source: Authors' compilation.

Externalities in consumption are rarely addressed in case of financing, other than, possibly, in cases of expenditures on durables and services. However, as one may note in Table 3, policies are often set that may go against the spirit of GF. An example in hand is the car loan, which may produce negative green output. There are instances of SRF where presence of positive social externalities is duly considered. Targeted financing programs, such as, for women entrepreneurs, is a case in hand, which readily fits in under IF.

III Bangladesh Experience

This section is structured to highlight the major instruments used in BB-led SRB/SRF, followed by a presentation of experiences of the practitioners who implemented those. The last part summarizes the observations to suggest changes in BB's approach through FID and SFD. Annex A, details all relevant circulars (the dos and don'ts) for promoting IF and GB/GF.

III.1 Major Instruments of Bangladesh Bank's SRF

III.1.1 Instruments used by FID for Financial Inclusion

With a view to "further the objectives of broadening financial access and achieve inclusive economic growth ... and better coordinate the financial inclusion initiatives in the central bank and of other public and private sector stakeholder", Bangladesh Bank established the Financial Inclusion Department (FID) in July 2015. Based on the various functions listed and drawing upon consultations, a list of various programs and/or financial products promoted by FID are listed in Table 3. It is generally recognized that much of the initiatives under the FID have roots in the global agenda pursued under the umbrella of the Alliance for Financial Inclusion (AFI). While BB has owned most of those, regular review of their relevance is deemed necessary.

Table 3: Various Programs/Financial Products of BB to promote IF

Item	Description
Targeting specific social groups engaged in production	
FARM	Product for Farmers (including landless, disaster-affected, marginal, etc.)
RMG	Product for RMG Workers
LTHR	Product for Leather and Tannery Workers
SWC	Product for Street- and Working Children
CCCW	Product for City Corporation Cleaning Workers
ENCLV	Product for residents of former-enclaves
Targeting freedom fighters, beneficiaries of Safety Net Programs, etc with low balance accounts	
AC10TK	Products with initial balance of TK 10
AC50TK	Products with initial balance of TK 50
AC100TK	Products with initial balance of TK 100
Targeting other groups, with or without the requirement of minimum initial deposit	
SCHOOL	School Banking, or other products directed towards school-going children
WOMEN	Women-specific products (both depositor and borrower groups)
DIFABLE	Products for the differently abled
ILLIT	Special provisions for the non-literate (e.g., thumbprint instead of signature)
ACSBLT	Special provisions for the differently abled

Notes:
1. We came across at least one bank that offered zero opening balance for one such special group.
2. School banking only refers to banking products whereby students or children maintain the account.
3. FINLIT = Financial Literacy programs. Banks are required to report on undertakings of such programs.

There are two special delivery channels, Mobile Financial Services (MFS) and Agent Banking (AB), which play significant roles in promoting financial inclusion in cases of most financial services. These are however common platforms that facilitate financial transfers, and are beyond the jurisdiction of the FID. MFS is overseen by the Payments Systems Department (PSD)[23], and the latter needs to coordinate with the Bangladesh Telecommunication Regulatory Commission (BTRC) which regulates the Mobile Network Operators (MNOs).Agent Banking is a close substitute of branch banking, which widens the prospects of bringing non-banked population within the net of the banks. As a part of general banking, AB is regulated by the BRPD. Thus, we leave aside both MFS and AB from the scope of the present paper.

III.1.2 Instruments used by SFD for Green Financing

With "a view to develop sustainable banking (i.e. Green Banking and CSR) framework and to integrate it into core business operation of banks and FIs", Bangladesh Bank established SFD in July 2015. Our focus is not on CSR, and BB's Green Banking (GB) Wing attends to both GB and GF.[24]Of the three functions mentioned for the GB Wing, two appear to be project activities. Those are, BDT 2.00 billion Bangladesh Bank Refinance Scheme for renewable energy and green products; and a USD 50 million ADB supported Refinance Scheme for Brick Kiln Efficiency Improvement. If interest rates are rightly negotiated, refinance schemes lower costs of fund to participating banks and are expected to encourage them to lend more to sectors pre-specified in the scheme. The only other function of the GB Wing is stated as follows:

> *"Policy formulation and monitoring of different aspects of Green Banking (green finance, environmental risk management, in house environmental management, climate risk fund, green marketing, online banking, green branch, green product innovation, green strategic planning etc) activities of banks and Financial Institutions (FIs)."*

The above captures both GB and GF as defined in this paper, and the regulations come in the form of do's and don'ts. However, as will be discussed shortly, compliance is not strictly enforced in Bangladesh – the instructions appear to be more instructive.

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[23] The PSD segment in BB website may be quoted here (retrieved on 26 May 2018): "The rapid growth of mobile phone users and countrywide coverage of mobile operator's network has made their delivery channel an important tool-of-the-trade for extending banking services to the unbanked/banked population, especially to expedite faster delivery of remittances across the country. From legal and regulatory perspective, only the bank-led model is allowed to operate in Bangladesh."

[24]One may note discrepancy in the definitions of GB and GF. The statements from SFD referred to in this paper suggest that GF is a part of GB. Consultations with stakeholders in the banking sector and review of literature led us to define (see Section II.4.2) GB in terms of greening banking operations only and tagged GF with environmental sustainability of projects financed by bank loans.

III.2 Assessment of Past BB initiatives – findings from consultations

III.2.1 Findings on Financial Inclusion

We faced dilemmas in arriving at objective assessments about the successes and failures with on-going BB initiatives in the fields of IF. We were unable to access requisite data, nor could we consider reported data to reveal actual progresses made in any one field. Reported data are often ex-post compilation to satisfy reporting requirements, most of which were found to be rarely followed through.

Information compiled from bank-specific websites and subsequently refined with inputs from stakeholders participating in consultation meetings have been summarized in Tables 4 and 5. The figures express percentages of banks reporting of specific IF (inclusive finance) products – percentages of banks within a particular group (category) of banks, followed by percentages of all banks (total). Following several consultations with the banking community, a number of issues and observations are highlighted below, which the BB may like to take into cognizance while reformulating their policies and practices to promote IF.

- ❒ Leaving aside the two delivery modes (MFS and AB) and banks' initiatives to enhance financial literacy, all programs/products can be broadly grouped into: (i) targeted segments that are large in population size, Farmers and Women. (ii) Large groups of workers (in RMG and Leather & Tannery) who live in clusters, and receive wages & salaries in cash from their employers at regular intervals. (iii) Relatively scattered groups, smaller in size, and less attractive targets for commercial banking. The group includes Street Working Children, City Corporation Cleaning Workers, Differently-abled people, and not-literate people.[25] (iv) Low-balance accounts that come in different names – Tk. 10, Tk.50 and Tk. 100 accounts.
- ❒ BB's directives to reach out to mSMEs, backed by refinancing and/or provisioning schemes, had nurtured the traditional bankers to engage pro-actively with a new group of clients. Similarly, insistence on opening on opening bank accounts for farmers and women had initial successes – but only to a limited extent. Reportedly, a more attractive opening is seen with workers under employers cashing out large bill payments at regular intervals. In some instances, however, banks end up satisfying the workers' transfer needs only; and the challenge of inducting new clients into savings and other products remain.
- ❒ The banks have little interest in the other two sets of instruments/programs that BB imposes for financial inclusion. It is mostly the state-owned commercial banks and few private banks which mention of low balance accounts. A plausible reason is the government to public (G2P) transfers under social security/safety net programs, which are mostly channeled through these banks.

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[25]Though official documents mention of 'illiterate', we find such usage politically incorrect.

Table 4: Products on websites addressing special target groups with minimum balance accounts

Name of Bank	FARM	RMG	LTHR	SWC	CCCW	ENCLV	AC10TK	AC50TK	AC100TK
All Scheduled Banks									
% of total	31.6	16.7	13.0	9.3	3.7	3.7	20.4	3.7	18.5
State-owned Commercial Banks (SOCBs)									
% of SOCB	50.0	16.7	16.7	33.3	0.0	0.0	50.0	0.0	33.3
% of total	5.6	1.9	1.9	3.7	0.0	0.0	5.6	0.0	3.7
Specialized Banks (SBs)									
% of SB	0	0	0	0	0	0	0	0	0
% of total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private Commercial Banks (PCBs)									
% of PCB	33.3	20.5	15.4	7.7	5.1	5.1	17.9	2.6	17.9
% of total	24.1	14.8	11.1	5.6	3.7	3.7	13.0	1.9	13.0
Foreign Commercial Banks (FCBs)									
% of FCB	11.1	0.0	0.0	0.0	0.0	0.0	11.1	0.0	22.2
% of total	1.9	0.0	0.0	0.0	0.0	0.0	1.9	0.0	3.7

Note: The TK 10/50/100 Accounts are to be provided to the groups mentioned in the table – they are not mutually exclusive categorisations. See Table 3 for variable/program description.
Source: Bangladesh Bank

Table 5: Other target groups and special delivery channels/mechanisms advertised on the website

Name of Bank	SCHOOL	WOMEN	DIFABLE	MFS	AGENT	ILLIT	ACSBLT	FINLIT
All Scheduled Banks								
% of total	63.0	61.1	11.1	25.9	14.8	5.6	1.9	3.7
SOCBs								
% of SOCB	16.7	16.7	16.7	16.7	16.7	33.3	0.0	16.7
% of total	1.9	1.9	1.9	1.9	1.9	3.7	0.0	1.9
SBs								
% of SB	50	0	0	50	0	0	0	0
% of total	1.9	0.0	0.0	1.9	0.0	0.0	0.0	0.0
PCBs								
% of PCB	69.2	79.5	12.8	30.8	17.9	2.6	2.6	2.6
% of total	50.0	57.4	9.3	22.2	13.0	1.9	1.9	1.9
FCBs								
% of FCB	55.6	11.1	0.0	0.0	0.0	0.0	0.0	0.0
% of total	9.3	1.9	0.0	0.0	0.0	0.0	0.0	0.0

Note: See Table 3 for description of programs/column heads.
Source: Bangladesh Bank

III.2.2 Findings on Green Financing

Reporting on green banking and green financing are more regular, and the research team was able to access some of those. All banks reportedly have board/regional head approval of green banking policy, have climate risk fund, have introduced Green Office Guide or included GF-related guidance on Generation Instructions, Table 6 summarizes banks' reporting on their involvements with GB and GF. Claims are generally higher among state-owned banks, though their actual participation in GF is found to be rather insignificant.

Table 6: Summary Statistics on Participation in GB and GF (% of banks in each group)

Activity/Description	SOB	SB	PCB, 1-2	PCB,3	PCB,4	PCB,I	FCB
Introduced green banking products	83.33	50.00	61.54	90.00	25.00	50.00	44.44
Disclosed green banking activities in annual report?	83.33	50.00	100.00	90.00	75.00	100.00	33.33
Disclosed green banking activities in website?	100.00	100.00	92.31	70.00	50.00	62.50	66.67
Disclosed green banking activities in other media	16.67	50.00	53.85	40.00	0.00	50.00	11.11
Prepared an independent green banking and sustainability report	16.67	0.00	15.38	20.00	0.00	25.00	22.22
Have formulated sector specific environment policy	50.00	0.00	53.85	50.00	12.50	37.50	55.56

Note: PCB, n = Private Commercial Banks of n-th generation.
Source: Bangladesh Bank

Relative shares of different bank groups in total disbursement under GF are presented in Table 7, while GF as a percentage of total disbursement in each bank group is shown in Table 8. One finds that share of SOCBs has increased only in recent past, though as a share of their total disbursement GF remains very insignificant. FCBs, which generally are less visible otherwise, have more than one fifth of their disbursement shown under GF. The PCB, Islamic is next in order. An earlier ERG study on mSME credit related policies of BB found that incentive schemes are more effectively availed by banks which has organized (computerized) data that an easily be compiled under purposes for which financial (or other) incentives are offered. This is true in case of GF as well – percentage of projects financed having ETP is a case in hand (see Table B.3 in Annex B). In-depth discussion during consultation sessions revealed that ex ante, the incentives had very little effect on banks' actions, and concerns for CRM and other factors dominated. Since many tannery and RMG (particularly, washing & dyeing) factories were being financed, banks with better data management capability, were able to report GF for availing fund from refinance scheme at lower cost (interest rates). In addition, during the period of study, deposit rates were on decline, and more vibrant PCBs found refinancing scheme less attractive.

Table 7: Share in total loan disbursed by all under Green Finance (col %)

Bank Groups	FY 2015	FY 2016	FY 2017
State-owned Banks	4.45	6.20	15.30
Specialized Banks	1.76	1.11	3.00
PCB, commercial	61.47	55.12	50.18
PCB,C - 1 & 2	33.81	29.02	28.89
PCB,C - 3	22.29	22.36	18.38
PCB,C - 4	5.37	3.74	2.90
PCB, Islamic	25.29	29.95	24.97
Foreign Commercial Banks	7.03	7.63	6.55
All Banks	100	100	100

Source: Compiled from data of BB.

Table 8: Share of Green Finance in loan disbursed by each bank group

Bank Groups	FY 2015	FY 2016	FY 2017
State-owned Banks	1.38	0.92	0.68
Specialized Banks	0.10	0.05	0.01
PCB, commercial	6.34	7.15	6.08
PCB,C - 1 & 2	5.91	8.94	7.35
PCB,C - 3	6.83	5.77	4.74
PCB,C - 4	6.98	1.50	1.96
PCB, Islamic	8.88	10.50	12.41
Foreign Commercial Banks	16.17	17.99	22.38
All Banks	7.34	8.51	7.72

Note: Compiled from data of BB.

III.3 Observations on BB's SRF – summary and further notes from consultations

Discussion below is structured around a number of questions and issues, which the regulators in the banking sector may like to reflect on before proceeding to define a set of Dos and Don'ts.

What is the essence of SRF commonly understood and put into practice?

In all our consultation meetings, we had posed a simple question on what the individual (banker) thought SRB and SRF meant. Initially, there were few who associated social responsibility with CSR. When the latter was left out, some related it with sound banking and referred to CRM, several referred to appropriate code of conduct involving proper services to clients, and there were others who associated 'pro-people' banking with 'pro-small', 'pro-weak' or 'pro-development' agenda. Once BB's instructions on the subject were sought, all groups identified IF and GF (beside CSR) as the core elements of SRF.[26]

Several observations may be made: (i) Bankers are comfortable with simplified operational definitions, within the parametric bounds of which, they prefer to carry out the *ex-post* accounting exercises. (ii) Stepping out of corporate banking by engaging in SME banking created a new set of banking cadres who had to be motivated to engage with weaker segments. At a professional level, the segmentation remained, and it is apprehended that the new segment soon lost the sense of purpose with increased engagements in banking operations that often deviated from core banking principles. (iii) Programs to distribute benefits to 'target groups' can potentially give rise to rent-seeking behavior (and erosion in professionalism) among implementers as well as those who are in charge of monitoring.

What is meant by Inclusive Financing?

Current formulation on IF broadly distinguishes between 'products', and delivery channels. The latter includes, (i)'Agent Banking', which is a close substitute of branch banking, (ii) Mobile banking, which involves availing the services of MFS operators, and to a limited extent, (iii) Cluster financing, often pursued with a Lead Bank. Lending to SMEs was once

[26]There is clearly a disjoint between commonly perceived idea of 'socially responsible' activity and global initiatives on 'socially responsible' banking or financing. It appears to be another instance where words with wider and socially relevant connotations are hijacked to serve a narrow interest!

the core activity for expanding financial inclusion, which now is within the jurisdiction of a separate department in BB. The FID, however, mentions of lending to micro and cottage industries. What remains in the jurisdiction of FID has already been identified. Discussion on concepts also suggests that the activities touch upon two broader themes – redistributive justice in the financial sector by reaching out to segments that are otherwise left out (e.g., street working children, factory workers, tenant farmers, etc.), and positive social externality (e.g., reaching out to women).

Generally speaking, not all segments of financial inclusion are addressed by the FID. It is also important to recognize that large-scale expansion of the banking net (and access to credit) was first made possible with the introduction of group-based microcredit model. The latter may be considered a major innovation in delivery channel, and the change agents (MFIs) were subsequently brought under the regulatory authority of MRA. Those who joined the MFI fold may be considered as net addition to the financial net. The same may not apply to subsequent innovations in delivery channel facilitated by ICT where substitutability is perceived to have dominated (i.e., one regulated mode substituting another regulated mode of financial inclusion). More importantly, in instances where a new delivery channel successfully displaces a traditional channel and fails to embrace all clients of the old channel (often highlighted in discussion on digital divide), a second type of concerns arise with regards to financial inclusion. The discourse on IF is yet to formally acknowledge this aspect, and as a concerned stakeholder BB may like to take this into account while formulating its IF policies.

Troubles with Targeting

Geographic as well as industry-specific targeting of fiscal or financial incentives had long been practiced in the country. The observables get diffused as one tries to target such segments as SEs, mSEs, or SMEs, since their definitions in terms of value of assets or size of employment are not easily observed. Difficulties are further accentuated when social groups, such as, farmers (or, marginal, rural, etc.), are targeted for easy finance. Clarity, operational definition of any target population is a must, and inclusion and exclusion principles need to be clearly spelled out as done in other fields.

Conveying clearly discernible message

In several consultations, it appeared that many of the BB instructions were not read uniformly by all stakeholders. For example, do the IF and GF apply to FCBs? Or, is opening 10 taka account mandatory? Should engaging with large depositors (or, awareness building) by banks be considered ‘community activities’?

Why miss out on CSR?

Sectors for which CSR can be used and organizations to which the CSR money can go, has undergone changes. While IF and GF are considered SRF, CSR is left out in all dealings with SRF. Many feel that part of CSR money could be directed towards attaining IF and GF, instead of being directed to projects that are politically sponsored. One could easily argue for its usage for forestation that help environment, or for health & sanitation, and women development, which are linked to financing specific weaker segments of the population.[27]

Should we have 'one shoe fits all' policy?

When instructions (or, guidelines) are put into prints, those appear to be meant equally applicable for all. Yet, regulators agree that they apply discretions recognizing differences in capacity in various banks and progresses made in relevant spheres. This is particularly true for target setting. Since discretions deter enforcements and promote rent-seeking practices, grouping of the banks and different target settings (and policies where needed) for different groups may be more appropriate.

How to ensure enforcement of basics when engaging 3rd Party?

It is alleged that obtaining clearance from the Department of Environment (DOE) of the government for getting certification of a 'green project', is only a matter of setting a price tag to it. If there were many providers to certify, healthy competition could ensure (to some extent) accountability. In the absence of competitors and with no mechanism in place to make DOE accountable for errors in certification, the BB is said to depend on inspection by a third party consultant (said to be BUET faculty).With groups having active interests in the technology market, it is expected that specific technologies will be tied to finance.

Should BB confine its incentive package for GF tied to promoting one or the other technology only?

Many we had consulted raised a pertinent question: should the regulators engage in micro specification (in case of technology choice) and micro management (in case of inclusive financing)? There are allegations of pressures to buy one or the other equipment (technology), which a client may not always find to be the right choice for them. If one recalls the experience with tying irrigation equipment with finance during the 1980's and the benefits subsequent liberalization brought in, one may like to revisit the issue with regards to GF as well. More importantly, one wonders if such decisions should at all be within the scope of BB functions. Ideally, BB may choose to return to its earlier-played roles, without getting involved in monitoring adoption of a technology.

Can we really restrict the banks from engaging in polluting environment?

The section on methods had identified several areas where banks lend that continue to pollute environment, but so does any attempt towards economic growth. Globally, the trends do not lend support to any form of optimism with regards to banks' roles in saving environment. In a recently published article in the Guardian[28], it is reported that "bank holdings in "extreme"[29]

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[27]There may always be conflicts in priorities of a corporate sector place with those a representative government considers important. In an ideal setting, those may be sorted out with reasons and evidence with a view to facilitate best possible social choice. Unfortunately, there are hearsay suggesting imposed channeling of CSR funds to projects run by individuals favored by political regimes. Data could not be availed to make any assessment of such assertions.

[28]'Extreme' fossil fuel investments have surged under Donald Trump, *The Guardian*, 28 March 2018.

[29]Fossil-based energy sources are dubbed "extreme" because of their contribution to global emissions.

fossil fuels skyrocketed globally to $115bn during Donald Trump's first year as US president, with holdings in tar sands oil more than doubling ... This included an 11% hike in funding for carbon-heavy tar sands, as well as Arctic and ultra-deepwater oil and coal. Following Trump's declaration to withdraw from Paris agreement, JPMorgan Chase increased its coal funding by a factor of 21, and quadrupling its tar sands assets. We are also reminded that "Royal Bank of Canada and Toronto Dominion remain the biggest tar sands backers, with $38bn of holdings between them". The bulk of new "extreme" investments in Canada came in a doubling of loans and bonds to Canada's government-backed tar sands industry; and Bank funding for tar sands production and pipelines is said to have more than doubled last year – compared to the 2015-16 period.

Role of the Board and Senior Management Team (SMT)

Corporate bankers generally have little interest in the relatively smaller disbursements under the heads of SRF. However, practices in delegating social responsibility is part of institutional culture within a bank that is largely influenced by the quality of Board members and members of SMT[30]. Everyone we had consulted seemed to have agreed that a select group of Board members mattered most and the vices of power may have further accentuated with depletion of senior executives who would value their professionalism more than the financial package that come with the job. There is a consensus among those consulted that there has been a failure in ensuring entry of ethically balanced persons in the cohort of (de facto) owners! Clearly, enforcing a contract (say, with borrowers) is difficult in a country like Bangladesh, and litigations are unduly lengthy. In such situations, prevention through right selection of persons would be a second-best choice. Since it is almost impossible to undo the wrongs, a reformist approach would be to incentivize good directorship in the banking sector.

Data use and Lack of Coordination among various wings within Bangladesh Bank

It is alleged that huge amount of data are collected, but those are rarely put into use. Increasing defaults under refinancing of GF is alleged and the information is not acted upon to find proper banking solutions, or, to abandon financing certain technologies.

There also appears to be lack of coordination among various wings within BB. In particular, points raised at various meetings suggested that the programs of SFD and FID may not be fully aligned with the core policies of BRPD.

AML and CFT measures need to be contextualized

It is commonly recognized that anti money laundering and countering financing of terrorism measures often hinder initiatives towards financial inclusion.

[30]Cross-country literature on governance structure and socially responsible banking generally refer to a wider definition of social responsibility, and none could be found specific to the narrow domain of SRF. The former addressed size of board (number of board members), presence of female directors (Anderson and Anderson 2015), tenure of board members (Sarkar and Sarkar 2018), etc. to assess the implications for disclosure and/or other banking performance. It is recommended that individual-level data on bank directors available with the BB be sued to assess performance of banks and NBFIs in the fields of SRF.

IV Suggested List of Do's and Don'ts for Promoting SRF

The concluding section is meant to be only suggestive, since the substance has already been discussed. It could be divided into two segments; for the regulators, and a second one to highlight issues that the regulators may like to impose on the banking sector in order to promote the narrowly defined SRF. However, the second can only be done once the first is adequately fleshed out and consensus is reached within policymaking body of BB. Thus, we conclude this section with suggestions for the Regulators, deemed essential first step towards outlining the Dos and Don'ts to promote SRF. The issues are listed below:

1. Avoid piece-meal approach –need for a general policy framework addressing product vs. technology approach: Often directives are given to promote coverage under a given financial product, driven by a host of indicators that are passed on from global (multi-country) entities. Those bypass country-level formulation of policy framework. An ideal guidance note may avoid micro-management and monitoring of too many such indicators. Instead, a policy guideline on the niches available in the product-technology (delivery mechanism) canvass, drawing upon critical thinking of the issues may be more instructive.

2. Rethink targeting; avoid ad hoc target setting through circulars –and ad hoc decisions to withdraw or waive interest rates to one or the other sector, or businesses (Tannery, big defaulters). Operational definitions of target population should be in terms of observables.

3. For cluster financing – it is needed coordination meetings under the District Commissioner (DC). Going a step further, cluster financing should look beyond financing individuals within a cluster, and therefore viable contracts (of liabilities for loan repayment) need to be identified.

4. Bindings on regulators – the culture/practice of fines without adequate explanations and breakdowns should be abandoned.

5. Role of MRA can be strengthened in spheres where MFIs play key roles in promoting SRF.

6. Purposes of audit need to be revisited.

7. Discussion of ethical issues in Board meetings and in meetings of Risk Management Committee and submission of minutes to BB should be made mandatory.

8. Scope to experiment with CSR fund - not giving away to appease political leadership. Mentions have already been made in footnote 27. Clearly, the banks may be encouraged to pilot alternative ways to promote SRF with its CSR fund, and guidelines may be developed accordingly.

9. Design a unified set of questionnaire for the banks to fill in for reporting on SRF and few other related issues. More importantly, have provisions for having those inputted in usable formats, and responsible departments ought to have the ability to analyze those and use output for quick decision-making. Current practices in information

collection and absence of their timely processing may be critically examined as first step towards ensure benefits out of the costs (and efforts) incurred on data compilation.

10. The product list within IF can be reduced, and this may be negotiated with international partners (e.g., AFI). Target setting and/or mandatory requirements on low balance accounts should be withdrawn. Depositors are willing to open those accounts only if their receipts of transfers (G2P or P2P) are expected through such accounts. Or else, those are unattractive from both ends. It is important to ensure that NO person can be refused to open an account with a minimum deposit (say, for example, Tk. 100 for no interest, no cheque account, and Tk. 100 or more for savings account where other service charges may apply). It is also worth mentioning that no fanfare is permitted with opening of such small balance accounts!

11. It may review merging school banking with institutional banking within a single guideline. While the characteristics of the target clients are different, for all practical purpose, school banking follow the principles of institutional banking since several transactions within the institutions are interlinked (eg., payments of tuitions, student loans, account for parents of students, etc.).

12. Like any other regulator, BB may consider the Board and the SMT accountable for all undertakings. In this regard, regulations on eligibility of board directors in countries such as India (by RBI) are worth looking into. In addition, BB may consider introducing mandatory requirement of having ethical and social responsibility issues formally discussed in every Board meeting, and to ensure that the minutes on those as well as from the meetings of ethical committee of individual banks are conveyed on time to the regulators.

V Conclusion

The report has been prepared based on stock-taking and review of past and recent cross country experiences with different approaches in promoting socially responsible business and financing ethos. The paper highlights the pursued policies of BB based on ‘Dos and Don’ts’ addressing the issues inclusive financing and green financing. It is observed that much of the BB’s initiatives under the IF and GF have roots in the global agenda and align with the international best practice to foster social cohesion, promote entrepreneurship, create more and better jobs, and protect environment in the country. The study also critically analyses stakeholders/experts opinions obtain inputs from rounds of brainstorming sessions. The study finds that practitioners are well known with the policies and in practice following those accordingly. It is argued that exclusion from markets of newly introduced financial products/services, arising from advancements of FinTech, deserves separate attention.

As the study was confined to ‘Dos and Don’ts’ focusing IF and GF only, the study could not assess accounting standard and disclosure framework, price structure and interest rate components based on international best-practice. Due to the same reason, the study also could not analyse potential modality of supervision structure and CSR activities of BB in detailed. These issues are left for further research. Finally, the report recommends that a prudential policy guideline for socially responsible financing is needed to protect environment and Bangladesh Bank may prepared a guideline accordingly.

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Annex A: Bangladesh Bank's Instructions on Inclusive and Green Financing

LTC – Loan Terms and Condition
R – Reporting
INC – Incentive (e.g., Refinancing)
INS – Instruction
ADC – Additional Delivery Channel (e.g., Agent banking, Mobile Financial Services, mobile bank counter, etc.)
G – Guidelines
LE – Loan Eligibility
RR – Rules Relaxation (e.g., to accommodate the unbanked)
  RR-B – Rules Relaxation for Banks or FIs (i.e., Regulator's rules for Banks)
  RR-C – Rules Relaxation for Clients (i.e., Bank's rules for the Clients)
T – Target
  T-R – Target set by the regulator (imposed on the banks of FIs)
  T-B – Target proposed (to the regulator) by the banks or FIs
FM – Fund Management
SCA – Social and Community Activities

Sl.	Reference	Type	Items - excerpts translated, where applicable	
1	FID L01/2017 28.02.2017	INC	Following the disbursement of loans (with interest) to small, marginal, landless or disaster-affected farmers, low-income earning, or marginal, small businesspeople, either directly from the banks or through MFI-linkages, banks are advised to seek incentive rebate from BB.	
		LTC	1.1	If the bank lends directly, the bank shall charge no more than 9.5% interest from the borrower.
		LTC ADC	1.2	If the bank lends through an MFI, the bank shall charge no more than 7% interest from the MFI.
		LTC ADC	1.3	If the bank lends through an MFI, the MFI shall charge no more than 9.5% interest from the borrower.
		LTC	1.4	Should the bank lend directly, the bank shall calculate interest through reducing balance method.
		LTC ADC	1.5	Should the bank lend through an MFI, the bank shall calculate interest as simple interest.
2	SFD L04/2017 08.08.2017	INS	Banks advised to engage in activities (under CSR) to provide education, vocational education, or financial education to street- and working-children, in order to bring them into the mainstream beneficiaries of conventional financial services.	
3	SFD 03/2017 16.03.2017	INC	Banks advised to seek refinancing from BB for loans for 50 listed environment-friendly products under green initiatives.	
		LTC	3.1	Participating bank is to lend at base rate + margin. Should the final repayment be scheduled within five years of loan disbursement, the margin shall be at most 3%. For loans to be repaid within five to eight years the margin shall be 3.5% at most; and for loans over eight years, the margin shall be 8% at most.
		LTC	3.2	Loans towards solar irrigation pumping system are to be disbursed at most 2% interest.
		LTC ADC	3.3	In case where the Bank, through MRA-accredited MFIs, agents, or otherwise outsources to package loans, monitor, or recollect loans, or engages in credit wholesaling, a commission or a fee of this secondary entity is applicable. In this case, the interest charged to the borrower shall be none greater than base rate + participating bank's

Sl.	Reference	Type		Items - excerpts translated, where applicable
				margin + MFI/agent/outsourcing fee. If the schedule is less than five years, this commission or fee shall be no greater than 1%. For 5-8 years, it shall be 1.5% at maximum, and for 8 or longer, it shall be 2% at most.
		LTC	3.4	he bank may not impose any hidden expenses and may not, in addition to those mentioned in of the SFD 03/2017 Annex-4, charge any additional service charge, loan-processing fee, risk premium, etc.
4	SFD 02/2017 02.02.2017	G	Guidelines on Environmental and Social Risk Management for Financial Institutions in Bangladesh. These guidelines are applicable for agriculture, retail, trade, microfinance, SME, corporate finance, and project finance.	
		LE	4.1	In case of the agriculture sector, if a loan application involves farming or crop production activities, poultry, or dairy, then in addition to the exclusion list, the application is to be checked with the ESDD checklist (in Annex 2 of SFD 02/2017), to determine if there is any environmentally or socially adverse agricultural practices involved such as the use of pesticides, agro-chemicals leading to top-soil depletion, ground water contamination, use of nitrogenous fertilisers instead of organic fertilisers leading to nitrous oxide emissions, etc. However, agribusinesses involving sorting, packaging, distribution, and sales are exempt from this screening.
		LE	4.2	For SME, a loan application, involving a list of activities stated in §4.1-4.8 of SFD 2017/02, worth above BDT 1.00 million will be subject to due diligence using the generic ESDD checklist (Annex 2) in addition to the Exclusion List (Annex 1)
		LE	4.3	All loan applications for Corporate Finance will have to undergo E&S due diligence process using the generic ESDD checklist and where applicable, sector-specific ESDD checklist.
		LE	4.4	For all trade, retail, and microfinance, only the exclusion list will be consulted, terminating any application in the exclusion list.
		LE	4.5	For all project finance, in addition to exclusion list and generic/sector-specific checklists as mentioned thus far, an additional external Environment and Social Impact Assessment has to be completed. The FI must ensure that the third party maintains the standard as set by the Bangladesh Bank in this purpose.
		LE	4.6	All relevant E&S permits, consents, licences, and monitoring of E&s parameters as per the national regulations are considered as mandatory compliance requirements for evaluation of a loan application.
5	SFD 02/2016 01.12.2016	INS	Banks to establish a Sustainable Development Unit, Department, Cell, or Division. In addition, Green Banking Cell/Unit and CSR Desk/Unit are to be maintained, comprising of five persons, at least one of whom shall rank no lower than a senior officer (or equivalent). She or he (‘Focal Point Officer’) shall be responsible for communication with the Bangladesh Bank (in whose absence there shall be an assigned ‘Fall-back Person’).	

Sl.	Reference	Type	Items - excerpts translated, where applicable	
6	SFD 01/2016 11.05.2016	INS	6.1	Any new establishment of banks and FIs shall have solid waste management system and rain water harvesting.
		INS	6.2	The banks and FIs shall ensure that the new establishments/buildings they expand to (on rent or leased) shall have solid waste management system, rain water harvesting, and solar panels.
		INS	6.3	The existing establishments of the banks and FIs (self-owned) shall have to be equipped with Solid Waste Management System, Rainwater Harvesting, and Solar Power Panels by December 31, 2018 (and December 31, 2020 for state-owned banks).
		INS	6.4	Banks and FIs are to ensure that the beneficiaries of the loans equip the establishments the loans are taken for with solid waste management system and rainwater harvesting. In addition to this, the banks and FIs are to make sure these (new) establishments are equipped with solar power panels in case the loans have been refinanced by the Bangladesh Bank.
		INS	6.5	Banks and FIs are to provide grants (or finance at lower interest rates) for establishing solid waste management system, rainwater harvesting, and solar power panels at establishments of government educational institutions (schools and colleges), hospitals, and underprivileged social groups, and not-for-profit organisations providing education or healthcare services.
7	FID L04/2016 11.05.2016	R	Participating financial institutions of the Bangladesh Bank 200 Crore Taka Refinancing Scheme for TK 10 Accounts asked to report to Bangladesh Bank each quarter in a common (given) format.	
8	FID L03/2016 14.02.2016	RR-C	8.1	Should a street- or working child have known biological parents, the child may maintain the bank account with either of her or his parent, with the aid of a representative of an NGO.
		RR-C	8.2	Should an NGO cease its operation in a certain region, or its project period expires, or otherwise it is unable to extend this support to the street- or working child, the nominated parent (as mentioned in §8.1) and the child may operate the account. In case there was no known or nominated biological parent, the account shall be closed and the deposit returned to the child.
		R	8.3	Upon closing an account belonging to street- or working child, the bank and the NGO shall both store a copy of the document (signed by both the bank and the NGO).
9	FID L02/2016	T-B	9.1	Scheduled banks are to set a target (for the next calendar year) every December, and send a letter, signed by the Managing Director, to the Financial Inclusion Department, BB.

Sl.	Reference	Type	Items - excerpts translated, where applicable	
	26.01.2016	SCA	9.2	At least once a year, scheduled banks shall engage in activities promoting financial literacy at educational institutions (school, college, madrasa, vocational training centres, etc.) in their areas of operation.
		INS	9.3	Scheduled banks to provide services to facilitate payment of tuition fees, and other fees and charges, and provide other services pertaining to an educational institution. If possible, mobile financial services may be availed to increase the processing speed of such services. The availability of these banking services shall be promoted at these educational institutions along with financial literacy.
		INS ADC	9.4	The banks that open school banking accounts shall regularly (at least once a month) set up a mobile counter at these institutions.
10	FID L01/2016 20.01.2016	RR-B	10.1	Scheduled banks may, at their discretion, schedule instalments (principle plus interest) for loans to TK 10 A/C-holding small/marginal/land-less farmers or natural disaster-affected low-income generating workers or marginal/small businesspeople that have been refinanced by the Bangladesh Bank.
		RR-B	10.2	Loans under the refinancing scheme, up to 50 thousand taka (individual), may be lent without CIB report.
11	FID 02/2015 03.08.2015	RR-B	Banks are to open accounts at minimum deposit of TK 10 for the 111 newly incorporated enclaves, including *Antarpata* and *Dahagram*.	
12	GBCSRD 04/2015 26.07.2015	INS	Banks and FIs to create a Climate Risk Fund to participate in activities concerning environmental sustainability and pollution reduction, disaster management (prevention and rehabilitation), reduction of carbon emission, etc.	
		LTC	12.1	Banks and FIs may both provide grants and loans at a lower interest from this fund.
		FM	12.2	Banks and FIs may use this fund to engage in effective, short-term activities/events with regard to the environment, disaster management, etc. For example – (a) Environment, climate, and disaster-related promotion, seminars, rallies, workshops, etc., would count as such events, and (b) Engaging in construction of a dam, or cyclone shelter at the coastal region.
		FM	12.3	Only those loans, bearing an interest lower than the institution's weighed average cost of funds, may be financed from this fund.
13	GBCSRD L05/2015 09.04.2015	INS	Banks and FIs are to avail the aid of environmental auditors or auditing firms (or equivalent) registered with the internationally accredited Association of Energy Engineers (AEE). Reputed energy auditing firms'/energy auditors' credibility is to be verified by the banks and FIs in means they deem	

Sl.	Reference	Type	Items - excerpts translated, where applicable	
			appropriate, and audit reports prepared by fully local energy auditing firms must be approved by specialists from public universities (and the likes)	
14	GBCSRD 02/2015 03.03.2015	INS	14.1	Banks are to open accounts of minimum balance Tk 10, Tk 50, and Tk 100, for groups generally excluded from conventional financial services, e.g., farmers, beneficiaries of SSN, working and street-children, etc.
		RR-C	14.2	These deposit accounts shall bear the highest rate of interest or profit amongst the available products of banks.
15	GBCSRD L02/2015 12.02.2015	ADC	The bank shall assess the credibility and eligibility of NGOs (i.e., verifying their registration, experience working with children belonging to such demography, etc.) willing to mediate account opening and maintaining of street and working children.	
16	GBCSRD 01/2015 21.01.2015	INS	Banks to ensure banking services to the differently abled (vision and other physical disabilities) by adopting alternative or additional measures.	
		ADC	16.1	Banks to have a focal person at every branch to ease banking transactions for differently abled clients.
		RR-C	16.2	Banks to use fingerprints for identification purposes and special PIN instead of signatures (for cheques) for clients with vision imparity.
		RR-C	16.3	Banks to allow Tk 10 accounts to be opened for differently abled clients, requiring only their national IDs. These accounts to be maintained without any fee.
		LTC	16.4	Banks to prioritise differently abled clients as entrepreneurs. The loans will be refinanced by the Bangladesh Bank Fund, and shall be disbursed at bank rate + 5%. Loans to be refinance may be Tk 10 thousand at the least and Tk 5 Lakh at most.
17	GBCSRD 05/2014 17.09.2014	INS	In context of reducing usage of paper, banks and FIs shall use e-tendering system for its procurements.	
18	GBCSRD 04/2014 04.09.2014	T-R	18.1	From January 2016 onwards, scheduled banks and FIs shall lend at least 5% of its portfolio towards green financing.
		INC	18.2	Banks and FIs shall be rewarded with points in CAMELS should they achieve the target.
19	GBCSRD 02/2014 03.06.2014	G ADC	Guidance note and operational manual on agent banking released vide POS 05/2013 to reach to groups unattended by conventional branch banking.	
		INS	19.1	The bank shall assign one of its branches/offices to be responsible for the agent operating in the designated area of the bank.
		INS	19.2	The bank shall brand agent banking business in clear manner so that the customer can realise that the agent is providing services on behalf

Sl.	Reference	Type	Items - excerpts translated, where applicable	
				of the bank.
		INS	19.3	The bank shall only be allowed to undertake agent banking service with approval from the Bangladesh Bank. Approval must be sought with full details of services including tentative implementation schedule. Banks shall have to submit copies of agreements/MOUs signed between banks and their agents to the Bangladesh Bank before launching the product.
		INS	19.4	Transaction currency shall be Bangladeshi taka only.
		R	19.5	Banks will submit a list of agents selected by the bank to the respective department of the Bangladesh Bank. Further, the Bank shall submit overall report on agent banking annually to its board as well as to the Bangladesh Bank.
		INS	19.6	Banks and their partners shall abide by the Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) related laws. Bank shall follow the Know Your Customer (KYC) of all customers and agents. Banks shall develop and IT-based automated system to identity suspicious activity/transaction report before introducing services. Banks shall immediately report to AML Department of Bangladesh Bank regarding any suspicious, unusual, or doubtful transactions likely to be related to money laundering or terrorist financing.
		INS	19.7	Banks shall establish internal policies, procedures, systems, and controls to support agent banking at all stages, consistent with Bangladesh Bank Guidelines on ICT Security of Scheduled Banks and Financial Institutions.
		INS	19.8	The bank shall ensure that all adequate measures for customer protection, awareness and dispute resolution are in place. The bank must run a call centre to receive and process disputes 24 hours a day via telephone, SMS, IVR, and mail. Each of the disputes received by the centre must be resolved within 3 working days.
		R	19.9	The bank should widely publicise the dispute/grievance redressal mechanisms through electronic and print media and will submit reports to the same to the Bangladesh Bank at a regular interval.
20	GBCSRD 07/213	G	With a view to enhancing financial inclusion of the country by ensuring the participation of school students in the economic viz-a-viz banking activities through savings and creating savings attitude among students through involving them in the modern banking service and technology, all scheduled banks are advised to introduce School Banking.	
		RR-C	20.1	School banking accounts shall bear no fees/charges except the government fees. If an ATM card is issued against school banking

Annex A (contd.)

Sl.	Reference	Type	Items - excerpts translated, where applicable	
				accounts, the same shall hold for the card issuance and renewal fee.
		INS	20.2	Banks can collect monthly fee of students on behalf of educational institutions (by having understanding with educational institutions) through such accounts.
		ADC	20.3	Concerned bank branches may establish separate school banking counters/desks, in additional to which banks may open a booth in the premises of the educational institutions (upon having their consent.)
		INS	20.4	Concerned banks may provide education insurance facility to these accounts as such if any student faces financial crisis to run her/his education due to family/natural causes.
		R	20.5	Banks shall submit a progress report (in a given format) of their school banking activities to the respective department of Bangladesh Bank on a quarterly basis. Besides this, the bank shall disclose the updated information on school banking activities in their annual report and website.
		INS	20.6	Whenever an account holder turns 18, the bank shall convert these into saving accounts with full KYC and other declarations with transaction profile.
21	GBCSRD 06/2013 26.09.2013	INS RR-C	Banks instructed to open accounts, with minimum deposit of Tk 100, for workers of Small Footwear and Leather Products' Industries under LSBPC (Lecture Sector Business Promotion Council). Maintenance fees or average account balance floors cannot be set.	
21	GBCSRD 05/2013 17.09.2013	INS RR-C	Banks instructed to open accounts, with minimum deposit of Tk 100, for workers of Ready Made Garments industry. Maintenance fees or average account balance floors cannot be set.	
22	GBCSRD 04/2013 11.08.2013	G	Policy Guidelines on Green Banking issued as a response to the global call for environment sustainability.	
		INS	22.1	Banks to adopt measures that show general commitment to environment-friendly practices through in-house environment management and encouraging such practices amongst stakeholders of the bank, e.g., avoiding printing whenever possible, printing on both sides of a paper whenever print is necessary, installing energy-saving builds, adopting virtual meeting/video conferencing, etc.
		INS	22.2	Banks to encourage environment-friendly practices amongst employees, e.g., encouraging employees to buy fuel-efficient cars.
		SCA	22.3	Banks to disseminate knowledge and raise awareness, e.g., encouraging environment-friendly practices amongst clientele through awareness training programmes for clients and community, using environment-friendly causes for marketing to raise awareness.

Sl.	Reference	Type	Items - excerpts translated, where applicable	
		INS	22.4	Banks are to encourage lending to projects and programmes running on or proposed to run on environment-friendly resource management or waste treatment facilities, at the same time, reducing loans for certain activities harmful to the environment. Give preference to eco-friendly and energy efficient industries. - Encourage environmental infrastructure such as renewable energy project, clean water supply project, wastewater treatment plants, solid and hazardous waste disposal plant, bio-fertiliser plant, etc. - Fund activities in flood-, cyclone-, and drought-prone areas at the regular interest rate without charging additional risk premium. - Create a Climate Risk Fund to soak any potential loss from lending to activities in the areas mentioned. - When lending to manufacturing plants, assess the environmental risk associated therewith by taking aid of external consultants if need
23	GBCSRD 03/2013 25.07.2013	INS RR-C	Banks instructed to open accounts, with minimum deposit of Tk 10, for workers of Cleaning Staffs of Dhaka North and Dhaka South City Corporation. Maintenance fees or average account balance floors cannot be set.	

Source: Bangladesh Bank

Annex B: Statistical Tables on Green Finance and Banking

Table B.1: Share in total utilized Climate Risk Fund (in %)

Group of Banks	FY 2015	FY 2016	FY 2017
State-owned Banks	1.55	2.87	0.29
Specialized Banks	0.00	0.00	0.00
PCB, commercial	37.91	41.79	26.33
PCB,C - 1 & 2	16.36	32.81	17.22
PCB,C - 3	21.01	8.42	8.69
PCB,C - 4	0.54	0.55	0.43
PCB, Islamic	43.51	42.95	67.69
Foreign Commercial Banks	17.02	12.39	5.69
All Banks	100.00	100.00	100.00

Source: Bangladesh Bank

Table B.2: Summary Information on Due Diligence in environmentally sensitive projects

Fiscal Year/ Description	SOB	SB	PCB, C	PCB, C - 1&2	PCB, C-3	PCB, C-4	PCB, I	FCB	All Banks
FY 2017									
Rated Low as % of projects for environmental due diligence	92.90	45.00	81.90	76.11	94.84	89.71	83.21	76.12	82.27
Rated Moderate as % of projects for environmental due diligence	3.66	25.00	1.94	1.82	2.10	5.01	11.42	0.84	4.37
Rated High as % of projects for environmental due diligence	0.28	0.00	0.38	0.14	0.91	0.83	1.06	0.48	0.55
% of projects for environmental due diligence, which were rated	96.84	70.00	84.22	78.06	97.85	95.55	95.69	77.44	87.19
% of high rated projects financed	60.00	-	30.67	33.93	28.83	50.00	14.10	46.15	23.27
% of moderate rated projects financed	52.31	60.00	36.21	48.19	13.00	30.56	23.35	8.70	27.76
% of low rated projects financed	12.14	100.00	26.12	34.48	11.01	19.53	22.86	27.47	25.00
FY 2016									
Rated Low as % of projects for environmental due diligence	83.98	36.73	82.27	77.70	92.41	90.16	64.60	89.81	79.22
Rated Moderate as % of projects for environmental due diligence	5.43	44.90	2.40	2.20	2.73	5.94	12.00	1.45	4.34
Rated High as % of projects for environmental due diligence	1.90	0.00	0.51	0.36	0.79	2.46	1.48	0.52	0.74
FY 2015									
Rated Low as % of projects for environmental due diligence	62.60	78.53	83.37	79.39	91.42	90.09	69.67	73.20	79.69
Rated Moderate as % of projects for environmental due diligence	13.72	21.47	3.47	3.24	3.98	0.47	21.93	1.94	6.42
Rated High as % of projects for environmental due diligence	2.82	0.00	0.39	0.21	0.76	0.94	2.96	0.53	0.87

Source: Bangladesh Bank

Annex B

Table B.3: Summary Statistics on Green Financing

Fiscal Year/ Description	SOB	SB	PCB, C	PCB, C-1 & 2	PCB, C-3	PCB, C-4	PCB, I	FCB	All Banks
2016-17									
Loan disbursed for ETP installation as % of total GF loan disbursed	1.40	0.00	3.44	3.30	1.97	31.39	0.64	0.02	1.64
% of rated projects financed having ETP	4.07	0.00	4.57	1.85	7.84	47.89	4.99	23.14	5.20
Loan disbursed for bio-gas plants as % of total GF loan disbursed	0.17	4.88	0.01	0.01	0.02	0.03	0.01	0.00	0.01
Loan disbursed for solar panel/renewable energy plant as % of total GF loan disbursed	0.49	17.75	0.67	0.07	1.56	9.37	0.30	0.33	0.45
Loan disbursed for bio-fertilizer plants as % of total GF loan disbursed	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00
Loan disbursed to hybrid Hoffman Klin as % of total GF loan disbursed	3.52	73.98	0.42	0.15	0.57	7.89	1.73	0.00	0.91
2015-16									
Loan disbursed for ETP installation as % of total GF loan disbursed	0.46	0.00	0.82	0.74	0.45	12.93	0.83	0.31	0.74
% of rated projects financed having ETP									
Loan disbursed for bio-gas plants as % of total GF loan disbursed	0.42	0.66	0.04	0.04	0.03	0.17	0.02	0.00	0.03
Loan disbursed for solar panel/renewable energy plant as % of total GF loan disbursed	0.93	0.00	0.43	0.07	0.65	12.02	0.20	0.25	0.32
Loan disbursed for bio-fertilizer plants as % of total GF loan disbursed	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Loan disbursed to hybrid Hoffman Klin as % of total GF loan disbursed	29.94	97.34	1.01	0.91	0.55	16.35	1.43	0.00	1.20

Source: Bangladesh Bank

Annex C: Selection for Consultations

Out of the 57 scheduled banks currently operating in Bangladesh, we identity 21 banks, out of which at least eight (two from each generation) will be consulted. The list of banks can be found in Table 2.

Rationale for stratifying across generations:

The sizes of portfolios differ across generations and so do their managerial structures and capacity. Hence, the banks face different operational and regulatory challenges that we would like to capture.

Due to portfolio complexities, the priority given to SRF initiatives differs by generations.

The manager-level staff of the newer generation of banks are populated by comparatively younger age groups who are likely to have a more enthusiastic outlook on implementing innovative (such as GF and IF) products, and therefore success of implementation might vary.

Segmenting banks by generations would also help us understand to what extent the incentive mechanism (i.e. offering refinancing for GF) would prove desirable for which segment banks.

Due to the similarity in the size of the portfolios and client bases, banks belonging to the second and third generations have higher cross-selling opportunities within and across the two generations. Scopes for collaboration and competition, therefore, arises differently within these two particular generations and it would be worthwhile identifying the generations of the banks during consultation.

Within the generations, the banks were either selected based on contacts from our network or, where there were no established contacts, randomly picked. Some banks, such as AB Bank Ltd., BRAC Bank Ltd., Bank Asia Ltd., etc., were selected for their initiatives in Green Financing or Inclusive Financing products. An attempt has been made to cover banks of all types of ownership (State, Private, and Foreign) and modes of operation (Conventional and Islamic).

Annex C

Table C.1: List of banks to be approached for consultations

Sl.	Name of Bank	Type[1]	Gen.		Rationale for selection
1	Janata Bank Ltd.	SOCB	1		Random, SOB representation
2	Sonali Bank Ltd.	SOCB	1		Random, SOB representation
3	AB Bank Ltd.	CPCB	1		Contact-based
4	IFIC Bank Ltd.	CPCB	1		Special ownership structure
5	Islami Bank Bangladesh Ltd.	IPCB	1	IF	Islamic Bank representation
6	The City Bank Ltd.	CPCB	1		Contact-based
7	United Commercial Bank Ltd.	CPCB	1		Contact-based
8	Uttara Bank Ltd.	CPCB	1		Contact-based
9	Dutch-Bangla Bank Ltd.	CPCB	2		IF initiative – product: DBBL Rocket
10	Eastern Bank Ltd.	CPCB	2	GF	GF initiatives
11	Prime Bank Ltd.	CPCB	2		Contact-based
12	Bank Asia Ltd.	CPCB	3	IF	IF initiatives – pioneer in Agent banking
13	BRAC Bank Ltd.	CPCB	3	IF	IF initiatives – product: bKash; Generally IF-oriented
14	Mutual Trust Bank Ltd.	CPCB	3	GF	IF initiatives; GF initiatives
15	Premier Bank Ltd.	CPCB	3	GF	Contact-based
16	Trust Bank Ltd.	CPCB	3		Contact-based
17	Midland Bank Ltd.	CPCB	4		Random
18	NRB Bank Ltd.	CPCB	4		Random
19	Bank Al-Falah Ltd.	FCB			Contact-based
20	HSBC	FCB			Level of engagement is higher than most FCBs
21	Standard Chartered PLC.	FCB			Level of engagement is higher than most FCBs

[1]: SOCB – State-owned Commercial Bank; CPCB – Conventional Private Commercial Bank; IPCB – Islamic Private Commercial Bank; FCB – Foreign Commercial Bank

Annex D: List of persons consulted/interviewed

Name	Designation and Affiliation
Ferdousi Begum	Head of Retail, IFIC Bank Ltd.
Mahfujul Islam	Head of Branch (Banani), Lanka-Bangla Finance Ltd.
Mohsinur Rahman	Head of SME, United Commercial Bank Ltd.
Ritanti Talukder	Head of SME, Trust Bank Ltd.
T I M Rowshan Zadeed	Head of SME, IFIC Bank Ltd.
S A A Masrur	Chief Executive, Bank Al Falah Ltd.
Md Mushfiqur Rahman	Head of Retail Banking, Bank Al Falah Ltd.
Md Kyser Hamid	BRAC Bank Ltd.
Mohammad Mahfujul Islam	Lanka-Bangla Finance Ltd.
Mashiul H. Chowdhury	AMD, Midland Bank Ltd.
Nayeemul Kabir	DMD, Midland Bank Ltd.
Sarwar	Sustainable and GF, Midland Bank Ltd.
Mohammed Mahbub-Un-Nabi	Mutual Trust Bank Ltd.
TarekReaz Khan	Head of Retail & SME, Mutual Trust Bank Ltd.
Imran Ahmed	Chief Operating Officer, NRB Bank Ltd.
Milton Roy	NRB Bank Ltd.
Rahat Shams	NRB Bank Ltd.
Mohammad Shamim Murshed	Head of Retail Business, Premier Bank Ltd.
Mishael Abu Imam	Standard Chartered Bank
Alamgir Hossain	The City Bank Ltd.
Quazi Mortuza Ali	The City Bank Ltd.
Subir Kumar Kundu	The City Bank Ltd.
M K Rasedul Hasan	The City Bank Ltd.
Mohsinur Rahman	Senior Manager, SME-CRM, UCB Ltd
Azizur Rahman	AB Bank Ltd
Muhammad Abu Saleh	AB Bank Ltd
Shahadat Hossain	AGM, Risk Management & Development, Sonali Bank Ltd
Morshed Alam Khandker	DGM, Financial Inclusion, Sonali Bank Ltd
Shaymal Kanti Nath	Financial Inclusion, Sonali Bank Ltd
Mahbubur Rahman	MD, Dhaka Bank Ltd
Mortaza Ali	Former Bank Asia Ltd
Imranul Islam	Head of SME, Meghna Bank Ltd
Omar Khyam	EVP and Head of SME, Prime Bank

Annex E: Core Group of Bangladesh Bank

Name	Designation & Department
Md. Akhtaruzzaman, PhD	Executive Director (Resaerch)
Abu Farah Md. Naser	Executive Director
Manoj Kumar Biswas	Executive Director
Md. Abdul Awwal Sarker	General Manager, Research Department
Asish Kumar Dasgupta	General Manager, Research Department
Md. Habibur Rahman, PhD	General Manager, Governor’s Secretariate
Md. Juhas Uddin	General Manager, Monitary Policy Department
Md. Ezazul Islam, PhD	General Manager, Chief Economist Unit
Md. Abul Bashar	General Manager, Financial Inclusion Department
Md. Abdul Wahab	Deputy General Manger, Research Department

Annex F: Terms of Reference (TOR) of the study (contd.)

Socially Responsible Financing (SRF): Guidance Note drafting initiative

Background: Dispersal patterns of finance across diverse economic sectors have substantial distributional and social consequences. Underdeveloped financial markets of developing economies typically tend to leave swathes of economic activities and population segments in financial exclusion, weakening growth, equity and social cohesion. Even the well developed markets of advanced economies have behaved much the same way after the 2008-2009 global financial crisis, prolonging growth slowdown. In abrupt reversal from their pre-crisis imprudent risk taking binge to post-crisis extreme of risk aversion, banks opted to sit idle on piles of QE funds meant for stoking growth. Unresponsive to financing needs of small and startup businesses, they have been withdrawing from rather than expanding into financial services for rural and small town communities on pleas of de-risking and cost-cutting. Physical infrastructure investment needs in their economies fared no better either, remaining largely unmet.

Socially responsible inclusive ‘green’ financing for rapid transition to environmentally sustainable output practices and lifestyles is a key requisite for pursuing the nationally and globally embraced sustainable development goals. Turning the financial sector around from myopic focus on near term financial returns towards financing decisions based on longer term financial, social and environmental costs and returns entails a major shift in institutional culture anchored by socially responsible ethos, akin to ethical codes in the medical profession. Besides mainstreaming inclusive green financing, socially responsible financing ethos will act as preventive safeguards against greed driven governance lapses and malaises that triggered the last global financial crisis and still persist in varying degrees in many financial sectors including our own.

Inclusive and green financing propositions often are not immediate business cases and entail significant immediate costs of making inroads into new clientele groups and investment bases, to be recouped out of future income therefrom. Durable embedding of a socially responsible financing ethos for such forward looking leaps of faith requires sustained motivation drive above and beyond regulatory exhortations and transient policy supports partly allaying upfront costs. Besides broader global efforts of multilateral and non-government platforms (e.g., UN Global Compact, Global Sustainability Reporting Initiative) for instilling socially and environmentally responsible ethos in businesses and other formal organizations; Bangladesh Bank is by now well acknowledged as among central banks in the forefront of this effort in their financial sectors.

The Guidance Notes drafting initiative: BB's financial sector wide motivational drive for mainstreaming socially responsible financing needs to percolate down to functionaries in individual banks/financial institutions, for each institution to work out and adopt coherent strategies and action agenda adapted to their specific business segments and internal circumstances. The Guidance Notes drafting initiative intends to aid these institution level processes, chalking up operational guidelines for the major strands of inclusive and green financing thrusts, underscoring the dos and don'ts crucial for success. Besides taking stock of experiences elsewhere with various alternative approaches, the guidelines drafting process will also obtain inputs from rounds of brainstorming sessions and stakeholder consultations with subject experts, client segments and financing practitioners.

BB intends to engage a local think tank/consultant firm for expert assistance to a BB core group assigned with this task. The think tank/consultant will be responsible for:

i) Stock-taking and review of past and recent cross country experiences with different approaches in promoting socially responsible business and financing ethos;

ii) Convening on BB's behalf the brainstorming and stakeholder consultation sessions with prior concurrence of the BB core group, moderating and keeping summarized records of proceedings of the sessions;

iii) Based on inputs from i) and ii), drawing up the first draft of a report, commencing with a preface explaining the rationale for socially responsible financing, followed by a set of proposed operational guidelines for the major strands of inclusive and green financing. Crucial success factors will be underscored in the form of dos and don'ts. The guidelines will be finalized by the BB core group, after obtaining feedbacks on the first draft in a round of website based public consultation.
