Perspectives: Exploring Bangladesh Bank’s Catalytic Green Banking Ventures

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Through a series of questions and inputs by various resources, the issue brief highlights Bangladesh Bank’s contribution to the cause of green infrastructure development in the Asian country and brings to the fore how banks and financial institutions can be engaged into finance-strategic projects and programs that support climate smart, economic and infrastructure development.

Q: As a central bank, ensuring macroeconomic stability is among the primary responsibilities of the Bangladesh Bank, alongside supporting agenda of inclusive economic growth. How does the Bank maintain balance between these two activities?

A: Since the last decade, development-oriented central banking has been driving Bangladesh Bank’s mandates, putting effort to ingrain sustainability and inclusivity in its mainstream monetary management and financial sector supervision. Thus, the central bank has been making the macro-monetary structure and financial system stable, sustainable and inclusive.

Bangladesh Bank is the central bank and regulatory body for the country’s monetary and financial system. Established in Dhaka in 1971, the Bank has ten offices in Bangladesh with a total manpower of 5,807 officials.

Despite insignificant share of greenhouse Gas emission, Bangladesh falls into the group of most climate change vulnerable countries. Keeping this in mind, Bangladesh Bank has set its priority in formulating policy for socially responsible, inclusive and sustainable financing. It has already gained global attention with facilitation steps for green transition notably, refinancing facility of fifty products and formation of a Green Transformation Fund.

Featuring Bangladesh Bank

Bangladesh Bank has targeted this approach by incorporating social and environmental issues in mainstream banking business; both through Corporate Social Responsibility (CSR) and Green Banking. The central bank has instructed banks and financial institutes to undertake environmental risk management, climate risk funding, and carbon foot printing, encouraging banks and financial institutions in Bangladesh to be resource and energy efficient. The Bank is now upgrading its Environmental Risk Framework to Environmental and Social Risk Management Framework, which will be in place by February, 2017 and will also be issuing a Sustainable Finance Policy early 2017.

Bangladesh Bank has several mechanisms in preparation to deal with some of the challenges related to macroeconomic instability. These include policy intervention in money market, liquidity management through open market operation, and altering different monetary policy rates.

Q: What does the Green Banking Policy for financial institutions and banks in Bangladesh entail? What are the main components of it and what are the roles and responsibilities of different entities involved in it, including those of Bangladesh Bank?

A: Bangladesh Bank introduced a Green Banking Policy in 2011, to integrate green banking and green finance into core business operation of banks and financial institutions. The incentives to practice the policy
include an improved rating by the Central Bank, possibility of being ranked as one of the top ten banks in
the country, and receiving permission from Bangladesh Bank when requesting opening for a new branch. It
also integrates an assessment of green management when awarding ratings under the CAMELS system).

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Further to Green Banking Policy, Bangladesh Bank is planning on preparing standards for Green Bonds to overcome some of the limitations of green finance that banks face. Since private commercial banks disburse the highest amounts under green financing, to achieve an equitable response and support of other banks to encourage them to increase their disbursements, Bangladesh bank is also responding through appropriate policy interventions to provide appropriate monetary and regulatory incentives.

Appropriate environmental standards introduced by Department of Environment and Sustainable and Renewable Energy Development Authority (SREDA), and continued leadership from Bangladesh Bank - through appropriate legislations, regulations and engagements - deliver an enabling environment whereby all the stakeholders, banks and financial institutes work together to attain Bank’s targeted goals on green financing.

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1 The CAMELS rating system is a recognized international rating system that bank supervisory authorities use in order to rate financial institutions according to six factors represented by the acronym “CAMELS”, Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity.
Despite these enablers, banks still face a number of challenges that hinder uptake of green financing. Bangladesh Bank is working on introducing financial education initiatives and capacity building programs for borrowers and bankers to address some of the barriers related to awareness, legal barriers, and lack of capacities to design or asses green projects.

**Q: How does the bank rate the pace of developing green finance mechanisms and what are some of the most immediate steps to be undertaken to enhance the availability of finance for green initiatives?**

The rate of developing green finance around the world needs boosting through: enthusing private sector to be engaged in sustainable business, reshaping the policy and regulatory landscape, innovating appropriate financial instruments, and providing monetary and fiscal incentives.

Bangladesh Bank has introduced green financing mechanisms in Bangladesh through refinancing windows, setting consultative green finance targets for banks and financial institutions and introducing environmental risk assessment of financing.

Mobilizing private investment and finance is crucial, and engaging the sector on green investments is imperative as they are the driver of growth engine of the country. The Bank intends to engage the private sector further through consultative dialogues. Moreover, Bangladesh Bank is engaging banks and financial institutions on accessing and disbursing climate finance available internationally, particularly through the Green Climate Fund (GCF).

**Q: What is the refinancing scheme offered by Bangladesh Bank, the sectors covered by it presently and the mechanism in place to ensure fund utilisation by end beneficiaries?**

Bangladesh Bank offers a refinance scheme supported by its own sources and one refinances window supported by the Asian Development Bank which is a USD 50 million revolving fund. For the former, the Bank has a revolving fund which is applicable on 50 products, including those pertaining to climate action. These refinancing schemes have disbursed about 3 billion BDT (approximately 38 million USD) to date in seven sectors.

Identification and selection of suitable products to the refinancing scheme is done by a technical advisory committee, headed by Deputy Governor of Bangladesh Bank. This committee also makes policy suggestions pertaining to the refinancing fund, based on discussions in an open group on proposals made by the green banking department.

To ensure that funds routed through the refinance scheme reach the end beneficiary and are properly utilized, the Bank manages both on-site and off-site supervision mechanism.

**Q: When developing protocols or products on green financing for instance related to clean energy and energy efficiency investments, refinancing scheme, green banking policy, or the Green Transformation Fund started by Bank of Bangladesh, which government institutes do you coordinate with?**

Primarily, this interaction is important to have supporting environmental policies in place to help green financing activities achieve the desired outcomes particularly to address environmental risk to overall credit management and to diversify investment opportunities for banks and financial institutes.

Although other key ministries like Ministry of Industry, Department of Urban Development, Ministry of Land and Ministry of Water resources do not have a direct role in ongoing efforts of the Bank, future dialogues with these institutes is in the plans, especially because of the Bank’s plan to create an alternative investment fund for solid and liquid waste management. Moreover, banks and financial institutes have to follow standards set by these government institutes when selecting potential borrowers.

### Green Transformation Fund (GTF), managed by Bangladesh Bank

GTF is a Foreign Currency Fund of 200 million USD, developed to support green transformation of export oriented textile and leather industries. The funds are loaned for 5 to 10 years, with 1 year grace period for import of capital machinery and accessories for implementing green initiatives the likes of:

- a) Water use efficiency in wet processing
- b) Water conservation and management
- c) Waste management
- d) Resource efficiency and recycling
- e) Renewable energy
- f) Energy efficiency
- g) Heat and temperature management
- h) Air ventilation and circulation efficiency
- i) Work environment improvement initiatives

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The Climate & Development Knowledge Network aims to help decision-makers in developing countries design and deliver climate compatible development. We do this by providing demand-led research and technical assistance, and channelling the best available knowledge on climate change and development to support policy processes at the country level. For more details, visit: [http://cdkn.org/](http://cdkn.org/)

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