Monitoring, Evaluation and Incentive Mechanisms in support of Sustainable Banking Regulatory Frameworks

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“YOU CAN PRINT MONEY TO BAIL OUT A BANK BUT YOU CAN’T PRINT LIFE TO BAIL OUT A PLANET”

– ENTREPRENEUR AND AUTHOR PAUL HAWKEN
Presentation Overview

• **Evolution** of Sustainable Banking
• Sustainable Banking
• **Transformation** from Conventional Banking to Sustainable Banking
• Sustainable Banking Regulatory Framework - Bangladesh Perspective
• Sustainable Banking - Issues in Bangladesh
• Sustainable Banking Status - Bangladesh Perspective
• **Incentive Mechanism** of Bangladesh Bank for Sustainable Banking
• Bangladesh Bank’s **Internal Initiatives** for Sustainable Banking
• Looking ahead
Evolution of Sustainable Banking

Progress of Civilization & Socio-Economic Development

Evolution of Environment

Environmental Degradation

Threat in Biodiversity

Adverse impact of Climate Change

- Decay of Ozone Layer
- Global Warming & Natural Disaster
- Environmental Imbalance
Sustainable Banking

- social and environmental impacts of lending and overall business activities of a bank.
- sustainability of society, environment and the bank itself.
Transformation from Conventional Banking to Sustainable Banking and Green Banking

**Conventional Banking**
- Only Profit
- Economic Benefit
- Operational Efficiency
- Institutional Profit
- Organizational Commitment
- Financial Stability

**Green Banking**
- People, Planet & Profit
- Social Benefit
- Allocation Efficiency
- Community Profit
- Ethical, Human and Social Commitment
- Financial and Social Stability
Sustainable Banking Regulatory Framework-Bangladesh Perspective

• Since its inception in 1972 immediately after the bloodshed liberation war of 1971, Bangladesh Bank has been working for the growth and development of the country.

• In 90’s, awareness was started to grow for the need of banking practices for environmental conservation and social protection.

• But, in last half a decade witnessed the remarkable progress in the sustainable banking regulatory framework of Bangladesh.
Sustainable Banking - Issues in Bangladesh

Sustainable Banking covers the following areas of banking activities:

- Corporate Social Responsibility,

- Green Banking and Environmental Risk Management (ERM),

- Financial Inclusion
Sustainable Banking Regulatory Framework-Bangladesh Perspective

• Since 2008, Bangladesh Bank continuously-
  □ formulated policies and regulations for promoting sustainable banking
  □ structured incentive window for widening sustainable finance on
    ❖ Corporate Social Responsibility,
    ❖ Green Banking and Environmental Risk Management,
    ❖ Financial Inclusion.

• The policy initiatives from Bangladesh Bank on Sustainable Banking are discussed as follows.
Corporate Social Responsibility

• June 2008: Comprehensive circular titled ‘Mainstreaming Corporate Social Responsibility (CSR) in banks and financial institutions in Bangladesh’.

• Bangladesh Bank anticipated from banks-
  ○ *Embracing CSR in the management attitude and regular operations along with broad-based initiatives and exhaustive stakeholder involvement would fetch strategic longer run competitive advantage for banks and financial institutions in Bangladesh.*
Corporate Social Responsibility

• Reporting on the CSR initiatives of banks-
  o Bi-annual regulatory reporting,
  o Appendage to annual reports of banks.

• Bangladesh Bank publishes CSR review report annually since 2010.

• Four issues of the report have come into light- April 2010, July 2011, July 2012 and August 2013.
Green Banking and ERM

• BB has introduced detailed Guidelines on Environmental Risk Management (ERM) in 2011 with a view to encouraging banks and financial institutions to consider the environmental factors through a structured fashion in the overall credit appraisal process.
**Green Banking and ERM**

- In the same year, BB issued Policy Guidelines for Green Banking to promote and mainstream green banking into banking business.

- Observing the responses from banks, a uniform reporting format was designed and issued to banks in 2012.

- In 2013, Policy Guidelines for Green Banking was replicated for FIs and banks scheduled in 2013.
Green Banking and ERM

• Policy Guidelines on Green Banking is segregated into three phases:
  
  o Phase-1: Policy and Governance, Incorporation of ERM in CRM, In-house Environment Management, Green finance, Climate Risk Fund, Green Marketing, Online Banking, Training, R&D;

  o Phase-2: Sector Specific Environmental Policies, Green Strategic Planning, Green Branches, Bank Specific Environmental Risk Management Plan;

  o Phase-3: Innovative Products, GRI.
Green Banking and ERM

- Phase-1: ERM has been implemented.
- Environmental Due Diligence - the core process of credit appraisal system.
- Banks’ credit portfolio - from conventional finance to green finance,
- Sustainability into core strategic vision – some banks.
- Converting the environmentally risky industries into environment friendly industry - recent initiative of ship recycling.
Green Banking and ERM

- Bangladesh Bank is working in collaboration with IFC to upgrade the ERM framework. The targeted outcomes will be:
  - Upgraded ESRM framework by incorporating Social Risk,
  - A rigorous quantitative monitoring tool,
  - Sector Specific Environmental Policies for at least 12 sectors,
  - Framework for bank specific ERM plan.
Financial Inclusion

- Inclusive Agricultural Credit policy and program on annual basis,
- Annual SME credit policy and program,
- Policy for expanding Rural bank branches and Agricultural/SME bank branch in 2009,
- Instructing banks to open No-Frill Bank Accounts for unbanked people since 2010-Farmers, Freedom Fighters, Beneficiaries under Social Security Program, Small Life Insurance Policy Holder, Hardcore poor, RMG Workers, City Cleaners
- Guidelines on Mobile Financial Services in 2011,
- Policy on School Banking in 2013,
- Guidelines on Agent Banking in 2014.
Monetary Policy

• In line with the inclusive economic growth strategy of Government, Bangladesh Bank has been formulating monetary policy by incorporating sustainable banking issues since 2009.

• Most recent Monetary Policy Statement (January-June 2014) clearly emphasized on financial inclusion.

• Strengthening financial inclusion and diversification is considered as one of the major dimension for effective transmission of monetary policy.
Sustainable Banking Status-
Bangladesh Perspective

• Banks are obligated to report their activities/initiatives regarding the aspects of sustainable banking to Bangladesh Bank in regular manner.

• Bangladesh Bank conducts its off-site monitoring and evaluation of sustainable banking practices on the basis of the reports of the banks.

• On-site monitoring is conducted on annual basis which is pursued under comprehensive bank inspection module of central bank.
## Corporate Social Responsibility - Status Update

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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</thead>
<tbody>
<tr>
<td>Humanitarian &amp; Disaster Relief</td>
<td>127.70</td>
<td>58.60</td>
<td>125.10</td>
<td>460.41</td>
<td>188.03</td>
<td>788.37</td>
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<tr>
<td>Education</td>
<td>14.30</td>
<td>30.50</td>
<td>94.80</td>
<td>400.79</td>
<td>612.48</td>
<td>983.69</td>
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<td>Health</td>
<td>68.60</td>
<td>112.10</td>
<td>245.50</td>
<td>689.07</td>
<td>520.42</td>
<td>435.43</td>
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<tr>
<td>Sports</td>
<td>2.70</td>
<td>49.80</td>
<td>1.20</td>
<td>265.23</td>
<td>359.07</td>
<td>183.85</td>
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<tr>
<td>Art &amp; Culture</td>
<td>0.00</td>
<td>0.80</td>
<td>0.30</td>
<td>328.91</td>
<td>171.52</td>
<td>213.31</td>
</tr>
<tr>
<td>Environment</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>59.78</td>
<td>138.07</td>
<td>140.23</td>
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<tr>
<td>Others</td>
<td>13.10</td>
<td>158.90</td>
<td>86.90</td>
<td>125.58</td>
<td>198.73</td>
<td>301.81</td>
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<tr>
<td>Total</td>
<td>226.40</td>
<td>410.70</td>
<td>553.80</td>
<td>2329.80</td>
<td>2188.33</td>
<td>3046.69</td>
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</tbody>
</table>
# Green Banking and ERM - Status Update

## Environmental Due Diligence of Banks

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Projects Rated</td>
<td>4,394</td>
<td>12,088</td>
<td>31,183</td>
</tr>
<tr>
<td>No. of Projects Financed after Rating</td>
<td>4,315</td>
<td>11,165</td>
<td>27,677</td>
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<tr>
<td>Amount Disbursed to the Rated Projects (BDT in million)</td>
<td>270,951.14</td>
<td>703,633.21</td>
<td>1,567,589.57</td>
</tr>
</tbody>
</table>
Green Banking and ERM- Status Update

Direct and Indirect Green Finance

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct Green Finance BDT in million</th>
<th>Indirect Green Finance BDT in million</th>
<th>Total BDT in million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>11,821.48</td>
<td>259,100.05</td>
<td>270,921.53</td>
</tr>
<tr>
<td>2013</td>
<td>29,682.63</td>
<td>318,442.86</td>
<td>348,125.49</td>
</tr>
</tbody>
</table>

Trend of Green Finance (BDT in million)
Financial Inclusion- Status Update

• No. of cumulative no-frill accounts as November 2013 for different targeted groups:
  - Farmers – 9,637,145;
  - Beneficiaries under Social Safety Net – 2,692,409;
  - Freedom Fighters – 114,211;
  - Micro Insurance Policy Holder- 9,402;
  - Other – 801,537.

• Upto December 31 2013, a total of 2,86,479 school banking accounts have been opened by banks.
Financial Inclusion- Status Update

• Coverage of mobile banking (upto December 2013):
  o No. of mobile banking subscriber- 13.18 million;
  o No. of mobile banking agents - 1,88,647.
  o No. of transactions- 95,74,382
  o Total amount of transaction- BDT 23.20 Billion.
Incentive Mechanism of Bangladesh Bank for Sustainable Banking

• To broaden the financing avenue for green products like solar energy, bio-gas plant and effluent treatment plant, etc., Bangladesh Bank (BB) constructed a revolving refinance scheme amounting to Tk. 2 billion from its own fund for six green products in 2009.

• Under this scheme, banks can claim refinance facility from BB at the bank rate (5%) against their direct finance at 9% for green products and 11% in case of financing through MFI linkage.

• BB has introduced 10 green new products in July 01, 2013 and now banks may claim refinance facility from BB for a total of 16 green products.
## Incentive Mechanism for Sustainable Banking-Bangladesh Bank

<table>
<thead>
<tr>
<th>Green Product Category</th>
<th>Jun-10</th>
<th>Jun-11</th>
<th>Jun-12</th>
<th>Jun-13</th>
<th>Dec-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bio gas</td>
<td>1.95</td>
<td>50.24</td>
<td>133.22</td>
<td>113.62</td>
<td>94.84</td>
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<td>Solar Home System</td>
<td>0.00</td>
<td>59.37</td>
<td>10.49</td>
<td>40.18</td>
<td>13.15</td>
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<tr>
<td>Solar Irrigation Pump</td>
<td>3.08</td>
<td>12.39</td>
<td>8.40</td>
<td>0.00</td>
<td>17.90</td>
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<tr>
<td>Effluent Treatment Plant</td>
<td>0.00</td>
<td>10.78</td>
<td>22.19</td>
<td>57.40</td>
<td>10.00</td>
</tr>
<tr>
<td>HHK Technology in Brick Kiln</td>
<td>0.00</td>
<td>0.00</td>
<td>55.00</td>
<td>172.19</td>
<td>50.00</td>
</tr>
<tr>
<td>Solar Assembly Plant</td>
<td>0.00</td>
<td>0.00</td>
<td>248.80</td>
<td>122.72</td>
<td>49.64</td>
</tr>
<tr>
<td>Total</td>
<td>5.03</td>
<td>132.78</td>
<td>478.10</td>
<td>506.11</td>
<td>235.54</td>
</tr>
</tbody>
</table>
Incentive Mechanism for Sustainable Banking-Bangladesh Bank

Trend of Refinance for Green Product (in million Taka)

Shares of Green Products in Refinancing

- Bio gas: 29%
- Solar Home System: 9%
- Solar Irrigation Pump: 3%
- Effluent Treatment Plant: 7%
- HHK Technology in Brick Kiln: 21%
- Solar Assembly Plant: 31%
Incentive Mechanism of Bangladesh Bank for Sustainable Banking

• For efficiency improvement of the brick kilns of the country and for setting up environment friendly brick kiln, BB constructed another refinancing window for banks and FIs amounting to Tk. 50 million USD supported under Asian Development Bank (ADB) Fund Facility in 2012.

• This scheme is targeted for conversion of Fixed Chimney Kiln (FCK) to improved Zigzag kiln and construction of high efficiency project such as VSBK (Vertical Shaped Brick Kiln), HHK (Hybrid Hoffman Kiln, Tunnel Kiln).

• Upto December 2013, USD 9.62 million has been disbursed from the fund.
BB’s Preferential Treatments for Green Banking for Banks and FIs

- Points on Management component of CAMELS rating for compliant banks
- Top 10 Banks in the BB website
- Priority in opening new bank branch
- SME branch subject to installation of solar panel in place
- Weight assignment for Environmental Risk in computing Adequate Capital
Bangladesh Bank’s Internal Initiatives for Sustainable Banking

- Business Process Automation
- Installation of 20 kilowatt solar power system
- Online Credit Information Bureau
- Bangladesh Automated Clearing House
- Enterprise Data Warehouse
- National Payment Switch
- Refinance program
- Enterprise Resources Planning
- E-recruitment

- Initiatives to convert 30 storied BB Building to Green Building with rain water harvesting, waste water recycling and motion sensor energy efficient bulbs supported by window based solar panels
Bangladesh Bank’s Internal Initiatives for Sustainable Banking

• Bangladesh Bank formed a fund for direct CSR activities by its own in 2013.

• The fund has been named as “Bangladesh Bank Disaster Management and Social Responsibility Fund”.

• This fund is targeted to the institutional capacity building in the area of disaster management and social responsibility.

• The size of the fund is BDT 50.00 million.
Looking Ahead

• Carbon footprint measurement model for banks and FIs
• Waste Management Policy for banks and FIs
• Green Branch Policy for banks
• Incorporation of Sustainable Governance in the Corporate Governance of banks and FIs
• Framework for Green Strategic Planning
• Framework for GRI
• Comprehensive Financial Inclusion Strategy
• Widening the refinance scheme for green product and green project
• Measuring carbon footprint of Bangladesh Bank
Thank You!