Sustainable Finance (SF)

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Manuscript
on
Sustainable Finance

Submitted
to

Ms. Laila Bilkis Ara
Secretary General, Institute of Banker's Bangladesh

Submitted

by

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PREFACE

Sustainability is the issue never ever be compromised with anything. Where ever we go, where ever we may be, if we are there, if we exist, if anything persists it is because of sustainability.On that standpoint, we need to take necessary steps for our sustainability in the long run.

In view of the above context, an effort has been made to write this manuscript written on Sustainable Finance based on required aspects those covered in 8 chapters containing Sustainable Finance, Inclusive Deposit Products and Financial Inclusion, CMSME Financing, Agricultural and Rural Financing, Green Banking and Green Financing, CSR and Sustainable Banking, Digital Financial Services&Inclusive Banking and Financial Literacy.

KHONDKAR MORSHED MILLAT

Acknowledgement

I am grateful to the competent authority of The Institute of Bankers' Bangladesh (IBB) and Bangladesh Bank(BB) for giving me an ample opportunity to write the manuscript on hugely demanded issue on globe "Sustainable Finance". I am extending my heartfelt thanks to the reviewing team led by Dr. Toufic Ahmed Choudhury, former Director General BIBM and the Director General of Bangladesh Academy for Securities Markets (BASM). I am really blessed with the time to time guidance of Dr. Toufic Ahmed Choudhury.

KHONDKAR MORSHED MILLAT

Foreword

The Institute Of Bankers, Bangladesh (IBB), established in 1973, has been working for developing the professional skills of the employees of all Banks and Financial Institutions operating in Bangladesh. In this regard, IBB conducts the Banking Professional examination, JAIBB (Junior associate of the Institute Of Bankers, Bangladesh) and AIBB (Associate of the Institute Of Bankers, Bangladesh) usually held twice in a year throughout the country.

The examinations are being conducted under standard syllabus covering various aspects of Banking profession. As banking is ever-evolving discipline, the syllabus for banking Professional examination is also required to be matched with the changing banking conditions. For the same purpose, A committee was formed under the leadership of Dr. Toufic Ahmad Choudhury former Director General, BIBM and comprising of Mr. Md. Ali Hossain Prodhania, Former Managing Director, Bangladesh Krishi Bank, Mr. Abul Kashem Md. Shirin, Managing Director & CEO, Dutch-Bangla Bank Ltd., Dr. Mohammad Haider Ali Miah, Former Managing Director & CEO, EXIM Bank of Bangladesh Ltd., Dr. Shah Md. Ahsan Habib, Professor, BIBM, Mr. Alamgir Morshed, CEO, IDCOL, Mr. Omar Faruque , CFCC Head, Standard Chartered Bank and Laila Bilkis Ara, Secretary General, IBB for updating and upgrading the syllabus of IBB Banking Professional examination.

The committee did the splendid job of formulating the new syllabus for both JAIBB and AIBB, which was later approved by the Syllabus and Examination Committee and Council Chairman of the institute (Honorable Governor, Bangladesh Bank). The same committee has also been entrusted to formulate standard reading materials by the subject matter specialists and practitioners under their (committee members) guidance in order to facilitate the examinees for consulting focused reading materials instead of so many (sometimes also irrelevant) books. This particular reading material on **Sustainable Finance (SF)** has been prepared and compiled by Mr. Khondkar Morshed Millat. We extend our gratitude and thanks to his for taking the trouble of writing the reading material.

All the reading materials of both JAIBB and AIBB will be gradually uploaded in the IBB e-library Web portal. The examinees/readers/users are requested to send their opinion/ suggestion on any reading material and we will consider their opinion with great importance. Besides, the IBB will modify/update the reading materials from time to time as per the requirements of the examinees.

Finally, the Institute Of Bankers, Bangladesh takes this opportunity to express its gratitude to the learned members of IBB Council, the syllabus and examination review committee and reading material preparation committee for preparing syllabus and reading materials for IBB Professional examinations.

Laila Bilkis Ara
Secretary General, IBB

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Chapter 1

Module A: Sustainable Finance

1.1 Conceptual Aspects and Stakeholders

1.1.1Sustainability: Sustainability is a holistic approach that considers ecological, social and economic dimensions, recognizing that all must be considered together to find lasting prosperity. Adopting sustainable practices, whether large or small, can have significant impacts in the long run. A variety of different processes plans and people contributed to the development of the Sustainability. Sustainability is the process of living within the limits of available physical, natural and social resources in ways that allow the living systems in which humans are embedded to thrive in perpetuity. In the broadest sense, sustainability refers to the ability to maintain or support a process continuously over time. Sustainability is the ability to exist and develop without depleting natural resources for the future.Sustainability is often focused on countering major environmental problems, such as climate change, loss of biodiversity, loss of ecosystem services, land degradation, air and water pollution. As concerns about anthropogenic climate change, biodiversity loss, and pollution have become more widespread, the world has shifted to embrace sustainable practices and policies, primarily through the implementation of sustainable business practices and increased investments in green technology.Sustainability is not just environmentalism. In addition to natural resources, we also need social and economic resources. Embedded in most definitions of sustainability we also find concerns for social equity and economic development. Sustainability means meeting our own needs without compromising the ability of future generations to meet their own needs while ensuring a balance between economic growth, environmental care and social well-being. It assumes that resources are finite, and so should be used conservatively and carefully to ensure that there is enough for future generations, without decreasing present quality of life. A sustainable society must be socially responsible, focusing on environmental protection and dynamic equilibrium in human and natural systems. Sustainability and Sustainable development, are closer terms. UNESCO distinguishes the two thus: "*Sustainability* is often thought of as a long-term goal (i.e. a more sustainable world), while *sustainable development* refers to the many processes and pathways to achieve it."

With the climate crisis, there is a current movement towards sustainability as a more appealing priority for businesses, as people begin to live more sustainable lives. It is likely that, in the future, positive impact on climate over the whole value chain, improved impact on the environment, people, and atmosphere, and productive input on society, will be expectations for businesses. Companies will be held accountable for all aspects of industry, and any environmental damage or harmful emissions should be limited or removed from productive processes. It is also expected that resources will be reused to suit the global increase in population in what is commonly referred to as a ‘circular economy’. This change would allow one person’s waste to be another’s resource, in a process that would greatly reduce waste and create a more efficient supply chain.

How the economic dimension of sustainability should be addressed is controversial. Scholars have discussed this aspect under the concept of "weak and strong sustainability". For example, there will always be tension between the ideas of "welfare and prosperity for all" and environmental conservation. Therefore, trade-offs are required. Approaches that decouple economic growth from environmental deterioration would be desirable but are difficult to implement. Still Sustainability is measured by assessing performance of the three main principles altogether, in particular a balanced treatment of all three. These three key principles of the Triple Bottom Line do not provide a measurement system of themselves, but recent methods of measuring sustainability have attempted to measure sustainability through them. Though no official universal measurement of sustainability exists, many organizations are developing industry-specific tools and practices to judge how social, environmental and economic principles function as part of a company.

1.1.2Principles of Sustainability: The principles of sustainability refer to the three core concepts of environmental, social, and economic sustainability–sometimes broken down as "people, planet, and profits." This means that in order to be considered sustainable, a business must be able to conserve natural resources, support a healthy community and workforce, and earn enough revenue to remain financially viable for the long-term.

In business and policy contexts, sustainability seeks to prevent the depletion of natural or physical resources, so that they will remain available for the long term. Many businesses and governments have committed to sustainable goals, such as reducing their environmental footprints and conserving resources. Some investors are actively embracing sustainability investments, known as "green investments." Skeptics have accused some companies of "greenwashing," the practice of misleading the public to make a business seem more environmentally friendly than it is.

1.1.3Types of Sustainability:As outlined in the **report** by the Intergovernmental Panel on Climate Change (IPCC), even if greenhouse gases are radically reduced right now, average global warming will most likely exceed 1.5°C in the near future. Such a temperature increase can have disastrous consequences, like the melting of glaciers, the disappearance of animal and plant species, forest fires and droughts, among others. Hence both people and businesses play a fundamental role in fighting climate change and driving measures that support sustainability. However, sustainability doesn't just refer to the environment, it needs to be implemented **in many other ways too**. In this sense, it is important to note there are various forms of sustainability.

1.1.3A Environmental sustainability: The concept of "environmental sustainability" adds greater emphasis on the life support systems, such as the atmosphere or soil, that must be maintained for economic production or human life to even occur.Environmental sustainability focuses on the conservation of biodiversity without foregoing economic and social progress. The foundations of environmental sustainability are: safeguarding water, saving energy, reducing waste, using recyclable packaging, limiting or eliminating the use of plastics, using sustainable transport, reusing paper and protecting flora and fauna.Environmental protection is the most frequently discussed element. It is concerned with the reduction of carbon footprints, water usage, non-decomposable packaging, and wasteful processes as part of a supply chain.These processes can often be cost-effective, and financially useful as well as important for environmental sustainability.A great example of environmental sustainability is the Swedish city of Stockholm, which is noted for investing in sustainable infrastructure, its low emissions and for having excellent air quality, with pollution levels well below average. The city has thus achieved a balance between economic development and environmental protection. Another example to reduce environmental impact through regenerative agriculture with zero carbon emissions, the use of renewable energies and the reduction of waste. Many sustainable businesses seek to reduce their environmental footprint by using renewable energy or by reducing waste. Companies may also be more sustainable by promoting diversity and fairness in their workforce, or enacting policies that benefit the local community.

1.1.3B Economic sustainability: The concept of "economic sustainability" focuses on conserving the natural resources that provide physical inputs for economic production, including both renewable and exhaustible inputs. Economic sustainability refers to a company's ability to continue its operations over a long-term horizon. In order to be economically sustainable, a company must be able to ensure that it will have adequate resources, workers, and consumers for its products into the distant future.**Economic development** is probably the simplest form of sustainability. To be economically sustainable, a business must be profitable and produce enough revenues to be continued into the future. Economic sustainability refers to a company's ability to continue its operations over a long-term horizon. In order to be economically sustainable, a company must be able to ensure that it will have adequate resources, workers, and consumers for its products into the distant future.When a company is set up, a structure is created that involves expenses and revenues. Once a balance is struck between both factors, the company earns profit. Economic sustainability refers to the organization's ability to manage its resources and responsibly generate profits in the long term. An example of this type of sustainability is the company - Unilever, which in the year 2010 rolled out a strategy to achieve a balance between sustainability and the company's economic performance. To do so, it implemented several measures, such as: increasing package recycling, promoting the use of recycled materials and responsible consumption awareness campaigns. Likewise, we can also look to the case of the Suez company, which in its Sustainable Development Report 2020 reveals that it has reduced its emissions related to electricity consumption by 95%, by purchasing and generating renewable energy; that it has implemented energy efficiency.

1.1.3C Social sustainability: Social sustainability focuses on the human effects of economic systems, and the category includes attempts to eradicate poverty and hunger, as well as to combat inequality. Social sustainability in particular has the goal of strengthening the cohesion and stability of specific social groups. The company CEMEX, for example, is working to contribute to the social development of communities. Thus, the company offers decent housing - through self-building programs and loans with favorable access conditions - to those most in need.**Social development** is about treating employees fairly and ensuring responsible, ethical, and sustainable treatment of employees, stakeholders, and the community in which a business operates. This may be achieved through more responsive benefits, like better maternity and paternity benefits, flexible scheduling, and learning and development opportunities. For example, business should operate using sustainable labor, which involves fairly-paid, adult employees who can operate in a safe environment.

1.1.3D Corporate sustainability: Sustainability is "fundamental" to investing strategy. It is hard to actually understand the impact of any individual firm. Second, it is difficult to rank the environmental impact of some activities, and finally, it is difficult to predict how economic agents respond to changing incentives.In addition to the social benefits of improving the environment and elevating human needs, there are also financial benefits for companies that successfully implement sustainability strategies. Using resources sustainability can improve the long-term viability of a business concern, just as cutting waste and pollution can also help a company save money.In business contexts, sustainability refers to more than just environmentalism. Harvard Business School lists two ways to measure sustainable business practices: the effect a business has on the environment, and the effect a business has on society, with the goal of sustainable practice being to have a positive impact on at least one of those areas.Corporate sustainability emerged as a component of corporate ethics in response to public concerns of long-term damage caused by a focus on short-term profits. This view of responsibility encourages businesses to balance long-term benefits with immediate returns, and the goal of pursuing inclusive and environmentally sound objectives. This covers a broad array of possible practices. Cutting emissions, lowering energy usage, sourcing products from fair-trade organizations, and ensuring their physical waste is disposed of properly and with a smaller carbon footprint would qualify as moves toward sustainability. Companies have also set sustainability goals such as a commitment to zero-waste packaging by a certain year, or to reduce overall emissions by a certain percentage. Many corporations have made such sustainability promises in recent years. For example, Walmart Stores, Inc. (WMT) has pledged to reach zero emissions by 2040. Morgan Stanley has pledged net-zero "financed emissions" by 2050. Google has pledged to operate carbon-free by 2030. The push for sustainability is evident in areas such as energy generation as well, where the focus has been on finding new deposits to outpace the drawdown on existing reserves. Some electricity companies, for example, now publicly state goals for energy generation from sustainable sources such as wind, hydropower, and solar. Because these policies tend to generate public goodwill, some companies have been accused of "greenwashing," the practice of providing a false impression that makes a business seem more environmentally friendly than it is.Moreover, many companies have been criticized for cost-cutting measures that make it harder to evaluate their sustainability. For example, many companies might move some parts of their business to less-regulated markets, such as by offshoring production to obtain cheaper labor. This can make it harder to assess the costs of production on workers and the environment. Sustainability practices "significantly affect" the offshoring activities of multinational corporations, according to an examination of data from 1,080 multinational corporations.

1.1.4 Importance of Sustainability: Sustainability is the issue never ever be compromised with anything. Where ever we go, where ever we may be, if we are there, if we exist, if anything persists it is because of sustainability. It is our struggle, it is our untiring effort, the best we can do for the survival on earth- the contribution we can minimize pollution, environmental threats, resilience to climate change with respect to climate change mitigation and climate change adaptation; resilience to inequality, imbalance, fight against all evils, inconsistency, corruption, fight for helpless, distressed, non-privileged, the CSR community investment with a view to preserving the basic rights of human being, addressing gender equity for women empowerment; Ensuring food security, establishing green building and green industries; sandwich panels for the habitation of the coastal people, impactful investment and so many footmarks, achievements and measures- all these for future generations, for every breath they will take. The world at large is now experiencing the devastating effects of the global climate crisis including droughts, floods, tsunami, water scarcity, and rising sea level. These consequences of climate change threaten the sustainable living on this planet which calls for an urgent and collective response from both developed and developing nations, especially countries like Bangladesh. On that standpoint, we need to take necessary steps for our sustainability in the long run. There are many benefits to sustainability, both short-term and long-term. We cannot maintain our Earth's ecosystems or continue to function as we do if more sustainable choices are not made. If harmful processes are maintained with no change, it is likely that we will run out of fossil fuels, huge numbers of animal species will become extinct, and the atmosphere will be irreparably damaged. Clean air and nontoxic atmospheric conditions, growth of resources that can be relied upon, and water quality and cleanliness, are all benefits of sustainability. Sustainable policies emphasize the future effect of any given policy or business practice on humans, ecosystems, and the wider economy. The concept often corresponds to the belief that without major changes to the way the planet is run, it will suffer irreparable damage. As concerns about anthropogenic climate change, biodiversity loss, and pollution have become more widespread, the world has shifted to embrace sustainable practices and policies, primarily through the implementation of sustainable business practices and increased investments in green technology.A million plastic bottles are thrown away every minute. In other words, 5 million single-use plastic bottles are discarded every year. That's according to data from the United Nations, which indicate that if the current situation continues, by the year 2050 the oceans will be home to more plastic than fish. With this in mind, and if we want to meet the needs of the current world population and guarantee those of future generations, it's vital to promote sustainability. The motivations behind sustainability are often complex, personal and diverse. It is unrealistic to create a list of reasons why so many individuals, groups and communities are working towards this goal. Yet, for most people, sustainability comes down to the kind of future we are leaving for the next generation. Sustainability as a value is shared by many individuals and organizations who demonstrate this value in their policies, everyday activities and behaviors. Individuals have played a major role in developing our current environmental and social circumstances. The people of today along with future generations must create solutions and adapt.Results identify cropping system, area under cultivation, consumption requirements and crop prices as important determinants of *sustainability*. As consumers become more environmentally conscious, more companies and businesses are finding ways to reduce their impacts upon the planet and their community. Sustainability practices allow companies to highlight their social benefits while continuing to attract customers.

1.1.5Sustainability Barriers: There are many barriers to achieving sustainabilitythat must be addressed for a "sustainability transition" to become possible.Some barriers arise from nature and its complexity. Other barriers are "extrinsic" to the concept of sustainability. A number of extrinsic sustainability barriers are related to the dominant institutional frameworks where market mechanisms often fail to create public goods. Some approaches humanity can take to transition to environmental sustainability include: maintaining ecosystem services, reducing foodwaste, promoting dietary shifts towards plant-based foods, reducing fertility rates and, thus, population growth, promoting new green technologies, and adopting renewable energy, resource efficiency, alternative resource sources while phasing out subsidies to energy production through fossil fuels. Global issues are difficult to tackle as they require global solutions, and existing global organizations (such as the UN and WTO) are inefficient in enforcing current global regulations, for example due to the lack of suitable sanctioning mechanisms.The switch to sustainability can be difficult. The Santa Fe Institute outlines three major impediments for firms seeking to improve their environmental impacts: First, it is hard to actually understand the impact of any individual firm. Second, it is difficult to rank the environmental impact of some activities, and finally, it is difficult to predict how economic agents respond to changing incentives.The challenge with economic sustainability is achieving an equilibrium.Non-sustainable products uses resources that cannot be replaced or replenished at the same speed that they are consumed. Products that rely on fossil fuels cannot be sustainable, because the resources used to make them can never be replaced.

1.1.6 Sustainable Business Strategy for Sustainability: The Triple Bottom Line approach to operating a company is useful for businesses in a number of ways. Not only is it ethical and important to meet UN standards of environmental sustainability, it is also economical and allows a stronger business model. Additionally, sustainability enables an organization to attract employees, shareholders and customers who are invested in the goals of sustainability and share these values. The impact of sustainability can therefore be positive for a business' image as well as revenue.As consumers become more environmentally conscious, more companies and businesses are finding ways to reduce their impacts upon the planet and their community. Sustainability practices allow companies to highlight their social benefits while continuing to attract customers. Many sustainable businesses seek to reduce their environmental footprint by using renewable energy or by reducing waste. Companies may also be more sustainable by promoting diversity and fairness in their workforce, or enacting policies that benefit the local community. Rather than making money at any cost, companies should attempt to generate profit in accordance with other elements of sustainability. Other resources such as rainforest timber, fishery stocks, sea corals, and other wildlife can be sustainable, if they are only harvested be limits that allow existing stocks to be replenished. It also addresses the negative implications of the sharp decline in birthratesfor fiscal sustainability, economic growth, and social cohesion.Plastic bag use is in the exclusion list in the sustainability strategy as the environmentalists say a plastic bag, is made from petroleum products and, therefore, is an unfriendly choice for environmental sustainability.

Considering cost is vital to achieving long-term sustainability. The role of the corporate has changed. No longer is it sufficient to just generate profits for shareholders. The community now expects business to be changed with the community to contribute to environmental and social issues and to govern themselves responsibly. Sustainability issues represent a significant challenge for the foreseeable future. The financial services sector will also be heavily affected as it moves to position itself as ‘green’ and responsible. There are significant potential benefits such as new markets, new products and investment and advisory opportunities. The role and importance of socially responsible investments (SRI) and the integration of ESG considerations into mainstream investment analysis. The relevance of environmental, social and governance (ESG) issues, which are the three cornerstones of sustainability action for the financial sector. There are three broad reasons for the financial sector on sustainability issue: (1) stakeholder pressure; (2) profit and (3) a desire to ‘do the right thing’. As per IFC definition ‘Sustainability is about ensuring long term business success while contributing toward economic and social development, a healthy environmental and a stable society.

Many corporations are seeking to integrate sustainability practices into their core business models. Companies can adopt sustainability strategies in the same way that they develop their other strategic plans.The first step to integrating sustainability practices is to identify a specific weakness shortcoming. For example, a company might determine that it generates too much waste, or that its hiring practices are causing harm to the surrounding communities.Then the company should determine its goals, and identify the metrics it will use to measure its achievements. A company might set an ambitious target for reducing its carbon footprint, or set a specific percentage goal for diversity hiring. This will allow the company to determine objectively if its goals have been met.The final step is to implement the strategy and assess its results. This requires continuous re-evaluation, as a company's goals may change as the company grows.There are some common pitfalls for companies aiming for sustainability. One of them is the knowledge-action gap: even though many executives set sustainability as one of their core business values, few of them take concrete actions to accomplish sustainability objectives.Another is known as the compliance-competitiveness gap. While improving sustainability metrics can make a company more competitive in the market, these goals should not be confused with the mandatory compliance requirements that a company must adhere to. While sustainability is desirable, compliance is mandatory.

1.1.7 Sustainable Developmentfor Sustainability: Sustainable development is meant the development that meets the needs of the present without comprising the ability of future generations to meet their own needs. The concept of needs obviously includes the essential refers to the crucial importance of intra-generational equity. Therefore, development has to be participatory and its fruits shared equitably by all within countries and between nations. In 1983, the United Nations created the World Commission on Environment and Development to study the connection between ecological health, economic development, and social equity. The commission, then run by former Norwegian prime minister Gro Harlem Brundtland, published a report in 1987 that has become the standard in defining sustainable development. Sustainable development requires an integrated approach that takes into consideration environmental concerns along with economic development. In 1992 Earth Summit in Rio de Janeiro, Brazil, Sustainable development is defined with reference to an integrated approach to economic and social development and environmental enhancement and protection, invoking that the human being is placed at the center of the stage in the process. In other words, sustainable development is socially acceptable and environmentally sound human-centric economic growth.The Rio+20 conference sought to build on the outcomes of Rio 1992 had a key statement " ***We recognize that people are at the center of sustainable development and in this regard we strive for a world that is just, equitable and inclusive, and we commit to work together to promote sustained and inclusive economic growth, social development and environmental protection and thereby to benefit all***". Because of increasing awareness relating to sharply rising inequality at global and national levels and disastrous degradation of the environment, particularly due to the intensifying climate change, the issue of socially acceptable and environmentally sound human-centric development may have attracted the imagination of national policy makers in countries around the world as well as of the leaders at UN agencies.Eventually United Nations adopted the 2030 Agenda for Sustainable Development on 25 September 2015. This is now the agenda for the whole world which contains 17 Sustainable Development Goals (SDGs) and 169 Targets. All countries of the world keeping their priorities in perspective to ensure a meaningful implementation of the Agenda by 2030.

The Sustainable Development Goals form the framework for improving the lives of populations around the world and mitigating the hazardous human-made effects of climate change. SDG 13: Climate Action, calls for integrating measures to prevent climate change within development frameworks. SDG 14: Life Below Water, and SDG 15: Life on Land, also call for more sustainable practices in using the earth's natural resources.

In 2018, the EU Commission released six key transformations to be made. If properly implemented, these steps will allow better sustainability to be achieved by the current goal of 2050.Sustainable development is a societal challenge, not simply an environmental one - improvements of education and healthcare are therefore required to achieve higher income and better environmental decisions. Responsible consumption and production, and the importance of doing more with fewer resources, are important to adopt a circular economy and reduce demand. Decarbonization of the energy industry, through clean energy resources and renewable processes, will be necessary to provide clean and affordable energy for all. There should be food and clean water for all while protecting the biosphere and the oceans, which will require efficient and sustainable food systems, achievable through the increasing of agricultural productivity and reduction of meat consumption. Smart cities: Settlement patterns should be transformed for the good of the population and the environment, which may be done through ‘smart’ infrastructure and internet connectivity. A digital revolution in science, technology, and innovation would be required to support sustainable development, as it is hoped that the world will use the development of Information Technology to facilitate sustainability.

1.1.8 Bangladesh’s Vision for Sustainable Development: The pursuit of sustainable development in Bangladesh calls for a development strategy that accelerates growth and equitably distributes the benefits towards alleviating poverty and inequality and is friendly to the environment. Economic growth is a necessary condition for poverty alleviation and the higher the economic growth rate the greater is the opportunity for poverty alleviation. A minimum rate higher than the population growth rate is needed to make an impact on absolute poverty. Sustainability of human development in Bangladesh was critically dependent on ensuring food security of a large proportion of population. Food Aid contributed to equitable growth not just growth – in Bangladesh. Under Food for Work Program, (FFWP) food aid is used to employ the landless and the poor in slack seasons to construct agricultural infrastructure such as roads, dams and canals.

In Bangladesh, Bangladesh Bank, the central bank has played a leadership role in pursuing sustainability priorities within its mandate of maintaining monetary and currency stability in order to foster growth and development in the national interest. As a part of ongoing financial sector reform there is a concerted effort not just to deepen the financial system and make it more efficient and inclusive, but also make it greener. Bangladesh has sought to align regulation and policy to national goals, while avoiding negative unintended impacts. The approach has not been to force banks and financial institutions, but to encourage and develop the business case.

The concept of sustainable development with its relevancy for Bangladesh depends on the policy and strategy issues focusing rate and content of economic growth, failure of dependent development strategy and the need to shift to a people-centered strategy, foreign aid, foreign private investment, export promotion and import substitution, private vs. public sector, population growth, rural-urban migration, employment based planning, human capacity development, mobilization of resources, role of women, political devolution and administrative decentralization, equity, participation, protection of the environmental base, and political and cultural processes. On final point is that good the policies and programs may be there but the desired results will not be achieved unless those are effectively implemented for promoting sustainable development is ensured.

1.1.9 SDGs' alignment with Sustainability: All the 17 SDGs with 169 targets in all its forms everywhereunder the agenda adopted by UN in 2015 required to be implemented by the target year 2030 are connected to sustainability issue.Sustainable finance for SDGs is directly and indirectly linked to implementing. The 17 SDGs include - End poverty;End hunger achieve food security and improved nutrition and promote sustainable agriculture; Ensure healthy lives and promote well-being for all at all ages; Ensure inclusive and quality education for all and promote lifelong learning; Achieve gender equality and empower all women and girls; Ensure access to water and sanitation for all; Ensure access to affordable, reliable, sustainable and modern energy for all; Promote inclusive and sustainable economic growth, employment and decent work for all; Build resilient infrastructure, promote sustainable industrialization and foster innovation; Reduce inequality within and among countries; Make cities inclusive, safe, resilient and sustainable; Ensure sustainable consumption and production patterns; Take urgent action to combat climate change and its impacts; Conserve and sustainably use the oceans, seas and marine resources; Sustainably manage forests, combat desertification, and halt and reverse land degradation, halt biodiversity loss; Promote just, peaceful and inclusive societies and establish accountable and inclusive institutions; Revitalize the global partnership for sustainable development.

1.1.10 Sustainability Shock Scenario in Covid-19 Pandemicand an untiring effort to go through hurdles for minimization: In 2020, some 119 - 124 million people fell into extreme poverty, given that 70-161 million people around the world went hungry as a result of the health crisis. After a decade of advances in this field, the pandemic has resulted in a shortening of life expectancy. Additionally, it is difficult to measure the real impact of the pandemic due to a lack of data. Although the completion rates for primary and secondary education have increased, in many countries, there is a lack of basic school infrastructure in terms of drinking water and electricity. More needs to be done, since women make up just 25.6% of national parliaments, 36.3% of local governments and 28.2% of managerial positions. According to UN data, 129 countries are not on track to achieve sustainable water resources by 2030. In the world there are still some 759 million people without access to electricity. Although the economic recovery is underway, the pandemic has meant a loss equivalent to 255 million full-time jobs. Global manufacturing production fell in 2020 but, at the end of the same year, the production of medium and high-tech goods boosted the economic recovery. By 2030 further development is required because the pandemic is expected to affect the progress achieved so far in terms of reducing inequality. UN data reveals than 156 countries have already developed national urban policies, but only half have been implemented. There is still widespread consumption of plastic. In 2020, however, a total of 700 policies and implementation activities were reported under the framework of programs on sustainable consumption and production. Many countries and companies are making a major effort to reduce greenhouse gas emissions, but more actions need to be taken to curb climate change. Without doubt, the sustainability of our oceans is threatened above all by plastic pollution. Progress to protect key areas of biodiversity has stalled over the past 5 years and there are ever more endangered species. The pandemic has intensified children's risk of exploitation for child labor, and only 82 countries have independent national human rights institutions that meet international standards. Some 63% of low and lower-middle income countries need additional funding to cope with the pandemic.

1.1.11 Sustainable Finance: Sustainable Finance under Sustainability undoubtedly is a blessing in financial service sector and certainly is not a big polluter in the way the mining and transportation sector are. It doesn`t cut down forest or pollute waterways, nor does it use excessive amounts of energy. Three broad reasons for sustainability in the financial sectors are: stakeholder`s pressure; profit and a desire to do the right things. Sustainability is about ensuring a long-term business success while contributing towards economic and social development, a healthy environment and a stable society. A stakeholder is any person or organization that can influence the ability of an organization to achieve its objectives or is affected by the organization in its pursuit of these objectives. Profit generation is a key operation motivation for financial institution. Environmental Social and Governance (ESG) can create value for a bank or a financial institution in reducing cost, increasing returns and mitigating risk. It also offers avenues by creating opportunities of new revenue streams from new markets and products as well as market positioning and reputation. ESG issues present significant risks to all facets of the financial sector supply chain; for example, the impact on investment credit and insurance portfolios as climate change effects begin to influence the livability of some coastal regions. These and other such effects will also lead to regulatory intervention through direct action (i.e. the establishment of carbon markets, direct investment and public-private partnerships) and indirect action through incentive (grants and rebates) and disincentive (taxes, penalties, usage limits and higher costs) programs. These present significant risks to financial institutions that are transmitted through their clients and investees to their credit, investment and insurance portfolios. Consequently, action to manage this risk through consideration of these issues in new products and services, as well as working with existing clients, will be critical for forward risk management.

Sustainability refers to circumstances, activities and decisions that ensure long-term business success while contributing toward economic and social development a healthy environment and a stable society. Sustainability presents a range of opportunities and risk for financial institutions. Opportunities arise in new markets, products, investments in new technology, new advice and marketing practices. Risks emerge in terms of impacts on assets values and therefore on the financing (debt equity or other) of these assets.

Sustainable finance with respect to sustainability has been playing an effective role in converting existing model of economy and finance towards one based on increased social and environmental responsibility where finances are slowly responding to new demand in sustainable economy to align with it. Sustainable Finance includes Green Finance or in other way Green Finance is a subset of a wider definition of Sustainable Finance. Sustainable Finance is a work-stream to support the delivery on the objectives of Green Products/Projects/Initiatives by channeling private investment into the transition to a climate- neutral, climate-resilient, low-carbon, more resource-efficient, green, competitive and inclusive sustainable economy. Sustainable Finance has a key role to play in mobilizing the necessary capital to deliver on the policy objectives as national and international commitments on climate and sustainability objectives. It is not only to fulfill the commitment for Bangladesh in the conventions of the Kyoto Protocol and the Paris Agreement to reduce GHG emissions by 5% unconditionally from Business as Usual (BaU) levels by 2030 or a conditional 15% reduction in GHG emission from BaU levels by 2030, but also to be aligned with INDCs for attaining respective SDGs.Sustainable Finance is linked to sustainable agriculture, sustainable CMSME, Socially Responsible Financing, structured CSR activities and other financing linked to sustainability. Sustainable Finance is needed for sustainability considerations in order to mobilize finance towards sustainable growth. Monetary Policy of BB ingrains priority on Green Finance as a part of SustainableFinance.

Environmental responsibility might include climate change mitigation and adaptation, as well as the environment more broadly, for instance, the preservation of biodiversity, pollution prevention, and the circular economy. Social considerations could refer to issues of inequality, inclusiveness, labor relations, investment in human capital and communities, as well as human rights issues. The governance of public and private institutions – including management structures, employee relations, and executive remuneration – plays a fundamental role in ensuring the inclusion of social and environmental considerations in the decision-making process.

Sustainable finance is a rich field of research. Required reviews still remain limited due to the piecemeal insights offered through a sub-set rather than the entire corpus of sustainable finance. To address this gap a large-scale review needed that would provide a state-of-the-art overview of the performance and intellectual structure of sustainable finance. Sustainable finance is defined as investment decisions that take into account the environmental, social, and governance (ESG) factors of an economic activity or project. Environmental factors include mitigation of the climate crisis or use of sustainable resources. Social factors include human and animal rights, as well as consumer protection and diverse hiring practices. Governance factors refer to the management, employee relations, and compensation practices of both public and private organizations. The financial sector holds enormous power in funding and bringing awareness to issues of sustainability, whether by allowing for research and development of alternative energy sources or supporting businesses that follow fair and sustainable labor practices.

1.1.12 Evolution of Sustainable finance:In the 16th Century, Italian banks based on religious ethics and community support finance local businesses while in 19th Century, credit unions and cooperative banks address the need of financial services for the new middle class and entrepreneurs. If we look at the time frame, sustainable financing started to appear in the early 70's. Following the political disturbances in the 1960s and first discussions about environmental and social responsibilities of business, the first ethical banks were founded in the 1970s. In 1970s, ethical banks were founded in order to offer ethically based alternative model of finance and banking whereas internal environmental management and environment credit risk management came into light in 1980s. In the 1980s the introduction of CERCLA and Superfund regulated liabilities with regard to contaminated sites. Similar regulations with respect to soil, water, and air pollution were introduced in Europe at that time. This changes the relationship between the financial sector and the environment significantly and made the environmental impacts of borrowers a credit risk.

In 1992, UNEP FI was the first organization to engage the finance sector on sustainability and incubated the Principles for Responsible Investment. In the same year, Earth summit in Rio de Jeneiro, Brazil, sustainable development was defined with reference to an integrated approach to economic and social development and environmental enhancement and protection invoking that the human being is placed at the Centre of the stage in the process. In other words, sustainable development is socially acceptable and environmentally sound human centric economic growth. Another significant milestone of sustainable finance was the launch of the Kyoto Protocol in 1997. From there on, the financial sector started to develop products and services related to CO2 emissions, Kyoto Protocol Mechanisms, CO2 emission trading, and carbon offsets. Financial institutions invest in clean development mechanisms (CDM) or Joint Implementation projects (JI) that are based on the Kyoto protocol. A McKinsey study estimated the market value of carbon trades in 2007 as $ 85 billion and predicted that the trading volume could grow to $ 2.6 trillion by 2020s (Twining, 2008). Moving on, sustainability opportunities like sustainable mutual funds, indices and carbon finance, impact investment and other services are evident in their practice in near about next two decades. While the roots of green finance as part of sustainable finance can be traced back to the 1970s, the tipping point of the sustainability movement didn't come until 2015, with the launch of the SDG Goals and the Paris Agreement. The Paris Climate Agreement stipulates that parties must make "finance flows consistent with a pathway towards low GHG gas emission and climate-resilient development."

The United Nations adopted the 2030 agenda to steer the transition toward a sustainable and inclusive economy. For more than 30 years the initiative has been connecting the UN with financial institutions from around the world to shape the sustainable finance agenda. They've established the world's foremost sustainability frameworks that help the finance industry address global environmental, social, and governance (ESG) challenges. Convened by a Geneva, Switzerland-based secretariat, more than 450 banks and insurers with assets exceeding US$100 trillion work together to facilitate the implementation of UNEP FI's Principles for Responsible Banking and Principles for Sustainable Insurance.

Motivated by increasing energy prices and costs for waste and emissions, banks introduced environmental management and measurement systems as well as environmental reporting to reduce their energy and water use and their emissions. The first activities in the financial sector concentrated on the management of the environmental impact of the banks' operations and reduce the energy costs of their buildings and offices as well. However, the proceeds of contaminated sites were usually lower than estimated in times when the loan was granted because environmental assessments of loans were not conducted. Additionally, lenders could be held liable for the clean-up in some cases as well. Over and above cases existed in which credit defaults of commercial lenders were caused by environmental risks or because of new environmental regulations. In order to manage these types of risks lenders started to integrate environmental issues into credit risk management processes in order to improve their credit risk predictions. This was one of the first steps of conventional banks into sustainable finance taking Environmental, Social and Governance (ESG) risk in due consideration. Sustainable Finance(SF) moves from risk to opportunity. Rather than avoiding unsustainable companies from a risk perspective, financial institutions invest only in sustainable companies and projects. In this approach, finance is a means to foster sustainable development, for example by funding healthcare, green buildings, green industries, electric vehicle manufacturers and land-reuse projects. The starting point of SF is a positive selection of investment projects on their potential to generate social and environmental impact; creating an inclusion list instead of an exclusion list. In this way, the financial system serves the sustainable development agenda in the medium to long term.

The concept of sustainable finance has evolved as part of the broader notion of business sustainability over the last decades. The typology for sustainable finance on four aspects: i) the value created; ii) the ranking of the three factors; iii) the optimization method; and iv) the horizon. The evolution highlights the broadening from shareholder value to stakeholder value or triple bottom line: people, planet, profit. The final stage looks at the creation of common good value. To avoid the dichotomy of private versus public goods, we use the term common good referring to what is shared and beneficial for all or most members of a given community. Next, the ranking indicates a shift from economic goals first to societal and environmental challenges (the common good) first. Importantly, the horizon is broadened from short term to long term along the stages.

Finance-as-usual is consistent with the argument of Friedman that ‘the business of business is business. The only social responsibility of business is to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game’. Friedman argues that it is the task of the government to take care of social and environmental goals and set the rules of the game for sustainability. However, product demand ultimately derives from societal needs. Moreover, externalities are not perfectly separable from production decisions (Hart and Zingales,). While there is a good case against corporate philanthropy, there is not a case against integration of sustainability into strategy and finance.

Framework for Sustainable Finance

Sustainable Finance Typology	**Value Created**	**Ranking of Factors**	**Optimization**	**Horizon**
Finance as Usual	Shareholder Value	F	Max F	ST
Sustainable Finance Level 1	Refined Shareholder Value	F>> S and E	Max F subject to S and E	ST
Sustainable Finance Level 2	Shareholder Value (triple bottom line)	I = F + S + E	Optimize I	MT
Sustainable Finance Level 3	Common Good Value	S and E > F	Optimize S and E subject to F	LT

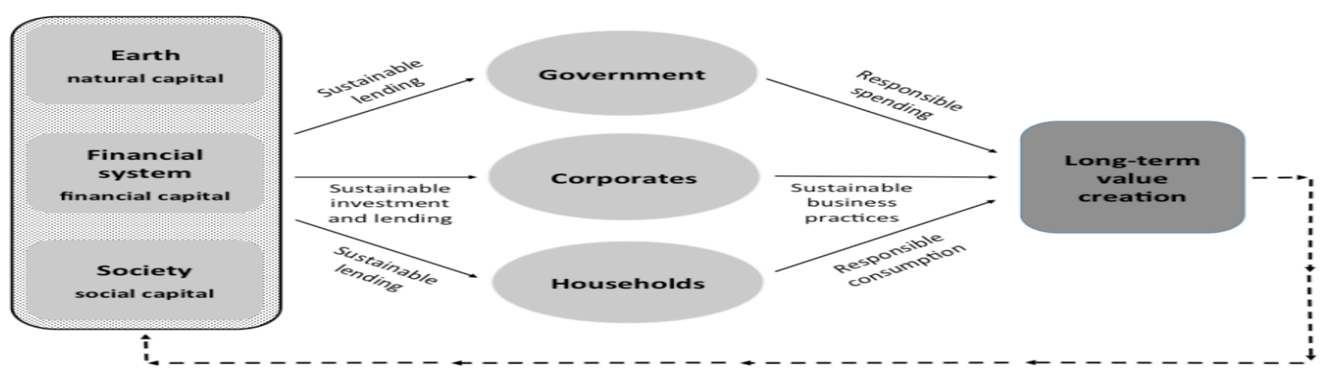
Note: F = financial value; S = social impact; E = environmental impact; I = integrated value. At Sustainable Finance Level 1 is the maximization of F is subject to minor S and E constraints. Source: Schoen maker (2017).

Framework for managing sustainable development depending on three aspects (i) **Economy** is about Financial Return and Risk. At the level of the economy, the financial return and risk trade-off is optimized. This financial orientation supports the idea of profit maximization by organizations and economic growth of countries. (ii) Impact on **Society**.At the level of society, the impact of business and financial decisions on the society is optimized and (iii) Impact on **Environment.** At the level of the environment, the environmental impact is optimized. There are interactions between these three levels. It is thus important to choose an appropriate combination of the financial, social and environmental aspects. The allocation of funding to its most productive use is a key role of finance. Finance is therefore well positioned to assist in making strategic decisions on the trade-offs between sustainable goals. While broader considerations are guiding an organization's strategy on sustainability, funding is a requirement for reaching sustainable goals.

The question that then arises is how the financial part of the decision is taken. An important component of sustainable development is economic and financial viability. Financial viability, in the form of a fair financial return (which at the minimum preserves capital), is a condition for sustainable investment and lending; otherwise projects might need to be aborted prematurely because of financial shortfalls. The key change is that the role of finance turns from primacy (profit maximization) to serving (a means to optimize sustainable development).

More broadly, the question is whether investors including the ultimate beneficiaries, such as current and future pensioners are prepared to potentially forego some financial return in exchange for social and environmental returns (e.g. enjoying their pension in a livable world). Social preferences play an important role for investors in socially responsible investment (SRI) funds, while financial motives appear to be of limited importance (Riedl and Smeets, 2017). SRI investors expect to earn lower returns from SRI funds than from conventional funds, suggesting that they are willing to forego financial performance in order to invest according to their social preferences.

The sustainable finance regime aimed at long-term value creation.



Sustainable Finance Typology	**Equity**	**Bonds**	**Banking**	**Insurance**
Sustainable Finance Level 1	Exclusion			
Sustainable Finance Level 2	Integration			
Sustainable Finance Level 3	Impact Investing	Green Bonds Social	Impact Lending Micro Finance	Micro Insurance

		Bonds		

Sustainable finance typology can be applied to various financial instruments and sectors. At the basic level, exclusion of companies or projects with very negative social or environmental impact is incorporated in the investment, lending or insurance strategy. The next level incorporates ESG factors and risks in the decision-making and manages the integrated value. The advanced level starts with an analysis of the social and environmental impact before considering financial returns.

Sustainable Finance instruments such as Green Bonds, and bonds focused on other thematic issues such as Social Bonds, Sustainability Bonds or Sustainable Development Goal Bonds, can act as a strong bridge to the SDGs. Such initiatives allow the flow of capital to execute and meet corporate sustainability commitments. They are also attractive to institutional investors as they perceive financial commitments to sustainability as a good indicator of a corporation's ESG progress.

1.1.13 Sustainable Finance Strategy: Sustainable Finance Strategy should be long term oriented. It should not be for one or three years or even five years. It should be for at-least 20years with a phase wise activity for short, medium- and long-term plan of actions.

Sustainable Finance Strategy should include the following Plan of Actions:

1.1.13ADeveloping Sustainable Finance Policy: Banks/FIs will develop their own Sustainable Finance Policy which must be approved by the competent authority. Board’s approval will be required upon the RMC’s approach in case of all scheduled commercial banks. Regional Office or MANCOM’s approval is required for foreign banks operating in Bangladesh. Sustainable Finance Policy of a Bank/FI must be in conformity with the Sustainable Finance Policy of Bangladesh Bank. Banks and FIs can go for more sophisticated model and develop further as they progress.

1.1.13B Socially Responsible Finance: Banks/FIswill finance to Socially Responsible Products/Projects/Initiatives/Sectorsbecause of its linkage with Sustainable Finance. Socially Responsible Finance (SRF) is financing that supports actions mitigating or addressing a specific social issue and/or seeking to achieve positive social outcomes especially but not exclusively for a target population(s). SRF project categories include but are not limited to, providing and/or promoting affordable basic infrastructure, access to essential services (such as health and healthcare), affordable housing, employment generation through the potential effect of SME financing and microfinance, food security and socioeconomic advancement and empowerment. Besides, Financing/Investment through MFI(MRA Regulated)/NGO(Govt. Approved) Linkage

Mode for capacity building, employment generation including self-employment, Socially Responsible activities/projects linked to Sustainable Finance. Financing in trading of green and agro products using ICT/online/e-business platform (as recognized by Bangladesh Bank) and Financing in Orphanage/Child Rehabilitation Center/Old Age Home have also been recognized as Sustainable Linked Finance in the Sustainable Finance Policy.

1.1.13C Other Sustainable Linked Finance: Though finance to green products/projects/initiatives will not be treated as Green Finance as because it has to be term loan in nature but working capital as short term loan to green products/projects/initiatives will be termed as other Sustainable Linked Finance. Trading of Green Products for continuous and demand loan will also be considered as other Sustainable linked finance.So, Banks/FIs will need to proactively look for required financing these short-term loans to their clients to keep moving on their client's on going businesses and will be in a position to contribute to sustainable finance.

1.1.13D Priority Eco-Friendly Products: Banks/FIs will finance with due care and consideration to Priority Eco-Friendly Products like Jute-made products e.g. crafts, shopping bags, packaging bag, Cane made products e.g. craft, furniture, Biodegradable Waste Bag, Reusable Grocery Bags, Solar lantern, Biodegradable Garden Pots, Compostable Cutlery (Forks, Spoons, Knives and Tasters), Compostable Plates, Portable Solar Charging Station, Stainless Steel, Bamboo, Thermal Water Bottle, Rechargeable batteries Reusable coffee filters, Solar powered phone charger, Reusable, non-plastic meal prep containers, Wool footwear and runners, Biodegradable toilet towels, tissues and women hygiene, Compostable and Biodegradable Baby Diapers, Solar Powered Outdoor Speakers, Natural stain remover and cleaner, Reusable Coffee Cups, Recycled Floor Mats, Compostable Bowls, Recycling & Recyclable Goods - all these products for Trading Sector which fall into Other Sustainable Linked Finance.

1.1.13E Screening: Banks/FIs will certainly set screening criteria which is essential to avoid significant harm to climate change mitigation and adaptation, and to environmental and social harmony. Accordingly they will be fully aligned with the ethical strategy "Not doing any significantly harm to the other environmental objectives" and go through the technical screening criteria that determines whether an activity can be considered to substantially contribute to any of the following six environmental objectives-

1) Climate change mitigation
2) Climate change adaptation
3) Sustainable protection of water and marine resources
4) Transition to a circular economy, waste prevention and recycling
5) Pollution prevention and control
6) Protection and restoration of biodiversity and healthy ecosystems

Exclusion List=> Ineligible for Finance

All loan proposals will have to be first screened against this exclusion list. Financing in any activity/area in the following list is not to be considered for financing.

Sector	Activities/ Areas
1. Agriculture 2. CMSMEs and Large Industry (Manufacturing and Service) 3. Trade and Commerce	Production or trade in any product or activity deemed illegal under laws or regulations of Government of Bangladesh or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under the Convention on International Trade in Endangered Species (CITES). A list of applicable national regulations and international treaties for this policy has been given in **Annex-2**.
	➢ Ship breaking/trading activities refers to: ➢ Ships with prevalent asbestos use (for e.g. passenger cruise); ➢ Ships listed on the Greenpeace blacklist*; ➢ Ships not certified "gas free" for hot work
	Drift net fishing, deep sea bottom trawling, or fishing with the use of explosives or cyanide
	Hydraulic horn and >75 decibel horns, polypropylene and polythene bags, two stroke engines.
	Operations impacting UNESCO World Heritage Site and/or Ramsar site
	Illegal logging, and logging operations or conversion of land for plantation use in primary tropical moist forests
	Production or activities involving forced labor/ child labor
	➢ Production or trade in: ➢ Weapons and munitions ➢ Tobacco ➢ Gambling, casinos ➢ Pornography (goods/stores/web/app-based) ➢ Brick production through Fixed Chimney Kiln (FCK)
	➢ Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples

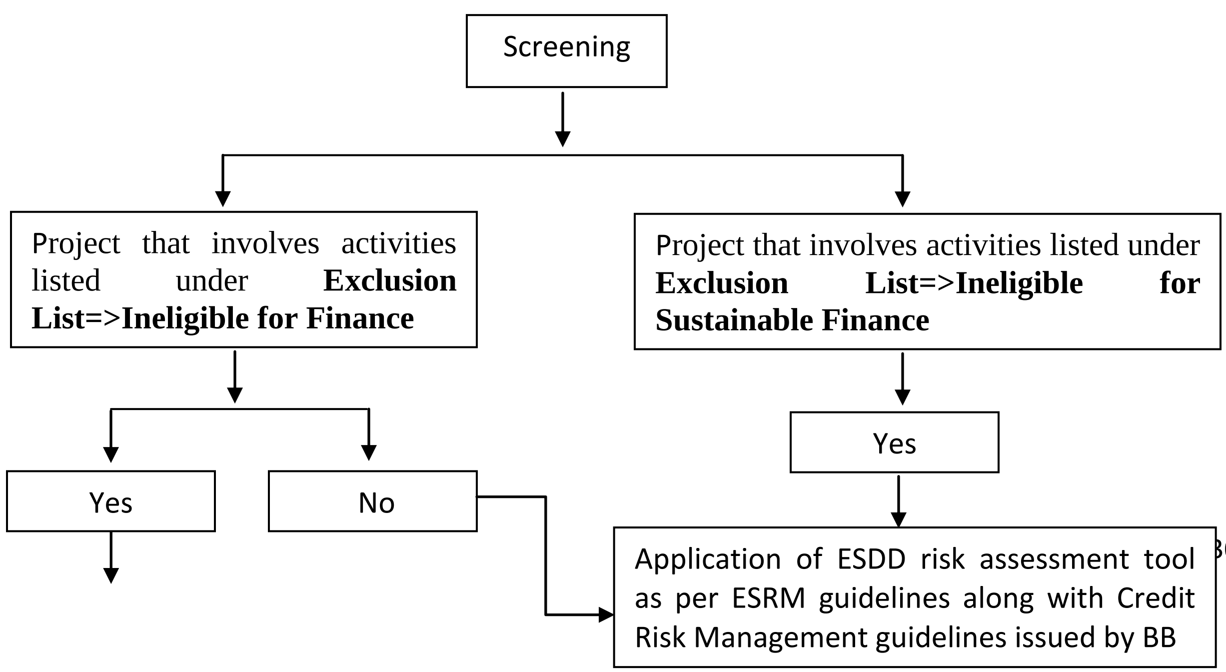
Exclusion List=> Ineligible for Sustainable Finance

Any finance falls in the following list will not be eligible as sustainable finance.

Sector	Activities/ Areas
1. Agriculture 2. CMSMEs and Large Industry (Manufacturing and Service)	If does significant harm to natural reserves, scenic spots, drinking water source reserves, basic farm land reserves, forest parks, geo parks, important wet lands, natural forests, important habitats for wildlife, key protected places for growth and reproduction of wild plants, natural spawning grounds, feeding grounds, wintering ground sand migration channels for important aquatic organisms, natural

3. Trade and Commerce	fishing grounds, water and soil.
	Use of thermal coal, high toxic and high residual/chemical pesticides/fertilizer, use of livestock and poultry food not approved by the government.
	• Upstream fossil fuel extraction and production (including gas, coal and oil) • New standalone fossil fuel electricity production • projects that lead to an increase in CO_2 emissions (through capacity expansion and increased output as a result of the project/investment) • Processing, storing, marketing of gas, and oil • Refining of oil • Nuclear power generation and related assets • Distribution or transport of fossil fuels • Construction, maintenance or expansion of roads • Heavy duty vehicles, infrastructure for fossil fuels (e.g., fuel stations) or bunker fuelled shipping infrastructure
	Projects supported by the activities involving heavy metal contaminated soil.
	The projects do not support the processing, recycling and other activities of waste (solid and liquid).
	The projects do not maintain standard bio-safety level, fire defense system, workers health safety equipments.
	The projects include the storage, logistics and distribution of toxic, harmful and dangerous goods.
	The projects endanger local livelihoods; decrease the quality life of indigenous people.
	The projects do not include gender equality, freedom of association and right to bargaining of company employee/workers.
	The projects threaten community/public health

All loan proposals will have to be first screened against the exclusion list.



Finance will be rejected

1[illegible]ing: Monitoring must move on in a structured manner immediately after asset creation by the banks and FIs for the maintenance of the standard quality of the assets. Screening on Environmental, Social and Governance issue is essential for the pre-evaluation of a project with respect to sustainability, but the permanence in sustainability will only be ensured if stricter monitoring in both offsite and onsite manner is carried on with regular intervention.

The purpose of monitoring a client's ESG performance (on the basis of ESDD risk assessment tool as per ESRM guideline) is to assess existing and emerging ESG risks associated with a client's operations during the transaction. Once a finance proposal has been approved, the Bank/FI needs to monitor the client's ongoing compliance with the ESG clauses stipulated in the legal agreement. The monitoring process generally involves a review of periodic ESG performance reports submitted by the client and regular site visits of the client's operations. Special attention should be paid to (i) Assessing implementation of any mitigation measures specified in the corrective action plan (ii) Monitoring for valid ESG permits or licenses (iii) Any fines and penalties for non-compliance with ESG regulations (iv) Recent reports from the relevant regulator or inspection authority confirming compliance with specified laws, including any emissions measurements proving that emissions are below the permitted limits.

1.1.13G Green Governance: Leadership is the most important driver to contribute to Sustainability Issues like Sustainable Financing including Green Banking and Green Financing. Adopting and Practicing Sustainable Finance Policies and Regulations, Leadership in Sustainable and Green Financing, Green Banking with respect to contributing through effective timely decisions of the board/MANCOM for fulfilling commitments through budget approvals, budget allocation towards sustainable and green financing, budget allocation for sustainability issues covering In-house Green Activities, Screening Process under Environmental, Social and Governance (ESG) issues, Effective Monitoring and Supervision there after disbursement, Sustainable and Green Product Marketing, Research &Innovation, Human Resource Planning &Development, Rewards & Benefits, Proper Sustainable Fund Management and Maintaining Fund Quality, Complying with all Regulatory and Supervisory Complaints.

1.1.13H Human Resource Management: Recruitment of really deserving personnel and Human Resource Development need to be done for contributing to Sustainability Issues. Ensuring proper placement, tenor and working environment for the best outcome from a passionate work force. ToR of Sustainable Finance Unit of a bank or a FI should be environment friendly with an intention to move towards sustainability. Human Resources Department should be in such a manner that it can address green and sustainable issues properly so that the Head office with its dedicated workforce and branch offices with its dedicated Sustainable Finance

Help Desks can contribute to sustainable financing along-with green financing in conformity with SDGs and thereby complying with regulatory requirements

1.1.13I Awareness & Capacity Building: – Awareness and Capacity Building for Sustainable Finance including Green Finance, Green Banking and Sustainable CSR activities as a part of Sustainable Finance is a must for all concerns and needs to be ensured by the SFU with the support from the competent authority (BoD/Regional Office or MANCOM of Foreign Commercial Bank).

Dedicated Trainings on diversified topics on Sustainability issues such as (i) Sustainable Finance towards Sustainability (ii) Sustainable Finance Policy, Strategy and Sustainability Rating Methodology (ii) Screening Process - ESDD under ESRM (iii) Sustainability Reporting of Banks and FIs (iv) Green and Sustainable Banking (v) Climate Finance Policy and Climate Change Resilience Measurement Tools (vi) Carbon Finance Policy, Carbon Footprint Measurement and Carbon Trading Mechanism. (vii) Low Cost Funding Arrangement towards Green Environment (viii) Impact Funding and Impactful Investment (ix) Technological Advancement and Inclusive Green Financing (x) Green Policies for Green Environment (xi) Green Building Basics, Process and Cost etc. All these trainings may be taken in multiple modes and manner live, virtual and online, workshops, seminars and fairs, Round Table Discussions/Talks, Knowledge Sharing, Awareness & Capacity Building for top to bottom officials and executives of head office, zonal/regional office, branches, units, Sustainable Finance Dedicated Helpdesks, A to Z of all target institutions/groups. Training Institutions of all the banks and FIs must have a calendar for the whole year training and capacity building events.

1.1.13J Database: A structured database must be on board containing data on Potential Entrepreneurs, Manufacturers, Suppliers, Service Providers, Associations and other Concerned Stakes linked to Green and Sustainability Issues. Banks and FIs must coordinate and breeze among all the players to play their respective role in the desired manner that it demands.

1.1.13K MIS and Knowledge Hub: Structured Database of potential green borrowers, manufacturers, suppliers, service providers, associations and all the concerns are required to be in place. MIS should be in such a manner that Green Governance is established and practiced.

1.1.13L Low Cost Funding Arrangement: Strategic Planning for achieving green finance target by taking good advantage of low-cost funding arrangement under (i) USD 200 hundred million and Euro 200 hundred million Green Transformation Fund (ii) BDT 4 billion Environment Friendly Green Product, Project, Initiatives (iii) BDT Refinancing Scheme under Shariah based financing and (iv) BDT 10 billion Technological Development Fund. Banks and FIs will need to look for BB’s low cost funding against their term financing to green products/projects/initiatives in a different green categories with small/medium/big exposures considering area and community approach addressing green and inclusive green finance. Proper documentation as prescribe must be in place for easy availability of low cost funding from Bangladesh Bank.

1.1.13M Green Credit Guarantee Scheme (GCGS): Green Credit Guarantee Scheme applicable upon three conditions fulfillment- I. Only Green Bankable Projects will be facilitated under this scheme II. Genuine Green Entrepreneurs those are not definitely assessed and judged as willful defaulter. They will be facilitated by the selective participating banks/FIs qualified to facilitate the good entrepreneurs those are not capable of going with bank finance/investment because of lack or shortage of collateral or any genuine ground. Banks & FIs will need to create environment and work friendly eco system for availing the opportunity to facilitate target entrepreneurs of GCGS fulfilling the criteria to be stipulated in GCGS.

1.1.13N Public Private Partnership(PPP): Banks & FIs will be required to participate in Public Private Partnership in implementing Sustainable, Green and Climate Resilience Projects for Greening the Polluting Industries, contributing to Sustainable and Green Growth.

1.1.13O Inclusion of Technological Advancement: Banks and FIs will make efforts in financing for technological inclusion and featured machineries/technologies that include Core manufacturing/production, Energy efficiency and renewable energy, Business process engineering/Business process automation, Operations management, Waste management, Air management, Heat management, Working environment (fire defense and health care), Water use management, Human resources development and management, Accounting, inventory management, marketing, sales and security management automation.

1.1.13P Workforce Incentives: Motivational approaches like awarding crest or gifts to deserving candidates, letter of appreciations or arranging get together for the official's extra ordinary achievements. Connecting bank professionals with their passions to development works. Above all, best utilization of all available internal and external sources for the people, planet, peace, prosperity and partnership would be an ideal scenario of Inhouse Environmental Management in
Banks and FIs.

1.1.13Q Disclosure: Banks and Financial Institutions should disclose the initiatives/practices taken by them time to time in their respective websites. The following disclosure should be made and updated by all Banks and FIs:

- Banks/FIs should start publishing independent Sustainability Report as the standard set by BB.

- Updated and detailed information regarding Banks'/FIs' environmental activities and performances of major clients should be disclosed.
- Banks/FIs shall keep their annual reports and websites updated with the disclosures on Sustainable Financing initiatives/activities.
- Banks/FIs should incorporate a section/dropdown/tab for their existing Sustainable products/projects/initiatives in their website.
- A customer complaint/feedback option should be in their website for any query in this regard.
- Brief information regarding BB Support Funds should be disclosed on the website in a displayable tab.

1.1.13R Identification and evaluation of the following funding sources

- Bank's/FI's own fund
- BB support funds
- Development partners' fund

1.1.13S Time Bound Action Plan: Banks and FIs will make an assessment of business portfolio in conformity with regulatory requirement and set a phase-wise financing targets to fulfill the agenda.

1.1.13T Research and Development: Research on Product Innovation, Assessing areas of sustainable finance, Analysis of market demand and supply, Proposition for products/projects must be kept on for playing an effective role to contribute to green and sustainable growth in the economy.

1.1.13U Marketing: A Bank or a Financial Institution must broaden their product portfolio considering product to product area approach involving/engaging, potential borrowers, suppliers, service providers, associations, different chambers of commerce and surroundings. In this way banks and FIs will be able to build an effective database of product based potential borrowers, suppliers, service providers, associations and chambers, vendors, manufacturers, certified energy auditors and concerns for a better contribution to green business and green economy.

1.1.13V Impact Assessment & Review: Assessment of asset quality, Assessment of environmental, social and economic contribution of projects/initiatives, Assessment of governance issue, Review of achievement/attainment of bank's/FI's own target and regulatory target, Revision of the strategy need to be ensured to maintain sustainability and move on.

1.1.13W Sustainability Rating: Banks and FIs will be rated by BB under sustainability rating considering their performance on environmental, social and governance attributes especially their policies and performance. Banks and FIs will be rated once a year. This Rating will include their performance in five major components; (i) Sustainable Finance (ii) CSR (iii) Green Refinance (iv) Core Banking Sustainability and (v) Banking Service Coverage. Banks and FIs will go for quarterly review or at least once a one sustainability rating on their own.

1.1.13X Compliance and Non-compliance: Banks/FIs while financing and reporting will meticulously comply with the guidelines mentioned in this policy as well as credit norms and instructions of concerned regulators/competent authorities. Necessary actions will be taken against respective banks/FIs for any non-compliance of the said guidelines/credit norms/instructions and returns as per Bank Company Act 1991 and Financial Institutions Act 1993.

1.1.13Y Reward and Incentives: Sustainable Finance of banks/FIs will enhance their credibility in reducing systemic risk, strengthening risk management, ensuring prudential decision making and comfortably coping with the transition towards sustainable development. Bangladesh Bank will recognize top performing banks and FIs on basis of Sustainability Rating. Besides, Bangladesh Bank will consider other incentives for top performing banks and FIs in due course of time.

1.1.14 Challenges: Communication/Information Gap, High initial investment and cost, Inadequate Work Force, Lack of public awareness/structured capacity building, Inadequate/ Lack of Proper Documentation for access to finance and claiming refinance, Lack of motivational approaches from the top level management, Non cooperation, Non Collaboration, Non Coordination among the stake holders, Lack of Transparency and Disclosure are the major challenges. Banks and Financial Institutions must concentrate with due attention and care on their part and also to maintain cooperation, collaboration and coordination with all the concerned stakes that it demands.

1.1.15 Opportunities: Green Governance Exists, Structured Sustainable Finance Policy in Place and Practice, Effective Work Force Ensured, Strong Screening Mechanism, Stricter Monitoring and Supervision immediate after disbursement, BB’s Refinance Schemes/Low Cost Funding Availability, MIS on Structured Database, Knowledge Hub, Awareness, Capacity Building, Green Marketing Innovation, Checklist for Structured Documentation in Place and Practice. Banks and Financial Institutions must concentrate with due attention and care on their part to explore all these opportunities to better serve the clients ensuring good asset quality and reputation.

1.2: Policy and Regulatory issues on sustainable finance in Bangladesh:

1.2.1 Bangladesh Bank's Existing Sustainable and Green Policy - Snapshot

- Green Banking Policy Guideline for Banks in 2011 (BRPD Circular # 02 dated 27 February, 2011).
- Green Banking Policy Guideline for FIs in 2011(BRPD Circular # 04 dated 05 September 2013)
- Formation and Management Procedure of Climate Risk Fund (GBCSRD Circular # 04 dated 09 July, 2015).
- Banks & FIs have been instructed to set up Solid Waste Management System, Rainwater Harvesting and Solar Power Panel in their newly constructed or arranged building infrastructure (SFD Circular # 01 dated 11 May 2016).
- All banks and FIs to establish Sustainable Finance Unit and Sustainable Finance Committee by abolishing both Green Banking and CSR units (SFD Circular # 02 dated 01 December, 2016)
- Formation and Formulation of Terms of Reference of Sustainable Finance Division in Banks and Financial Institutions (SFD Circular # 02 dated 04 December, 2016)
- Banks & FIs must ensure the establishment and activeness of Effluent Treatment Plant (ETP) during financing to all possible clients that is inconformity with the direction of Honorable Prime Minister (SFD Circular # 3, dated 08, December 2016).
- Guidance Note for on-lending/refinancing under Green Transformation Fund (GTF) (SFD Circular # 04 dated 28 July, 2020)
- Regarding Green Finance Target. (SFD Circular Letter # 05 dated 09 September 2020)
- Sustainable Finance Policy for Banks and Financial Institutions (SFD Circular # 05 dated 30 December, 2020)
- Sustainability Rating Methodology for Banks and Financial Institution (SFD Circular # 06 dated 31 December, 2020)
- Target Fixation of Green Finance & Sustainable Finance (SFD Circular # 01 dated 11 January, 2021, SFD Circular Letter No. 03 dated 04 August, 2021).
- About Sustainability Rating Methodology for Banks &FIs(SFD Circular Letter # 05 dated 17 August 2021).
- Policy Guidelines on Corporate Social Responsibility for Banks and Financial Institutions (SFD Circular # 01 dated January 09, 2022).
- ESRM Guidelines for Banks and FIs along-with 10 sector specific guidance notes (SFD Circular # 3 dated June 26, 2022

- BB’s BDT 04 billion Refinancing Scheme for environment friendly green products/projects/initiatives (SFD Circular # 04, dated 24 July, 2022).
- Regarding Dedicated Sustainable Finance Help Desk (SFD Circular Letter # 02 dated 18 September 2022.
- Policy on Green Bond Financing for Banks and FIs (SFD Circular #5 dated 20 September 2022).
- Green Transformation Fund (GTF) in Taka for export and manufacturing-oriented industries (SFD Circular # 07 dated 07 December 2022).

1.2.1A Sustainable Finance Policy: Sustainable Finance Policy has been issued by Bangladesh Bank(BB) in December 2020 for sustainability considerations in order to mobilize finance towards sustainable growth. Monetary Policy of BB ingrains priority on Green Finance as a part of SustainableFinance. Sustainable Finance Policy has been formulated to guide banks and FIs for their participation and contribution in the implementation of the INDCs for attaining respective SDGs. Sustainable Finance Policy has incorporated target both for green finance and sustainable finance for the banks and FIs which is linked to GHG emissions reductions and strengthened climate resilience as well.

1.2.1B Guidelines on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh: ESRM Guidelines has been issued to make banks and FIs realize to integrate & Social (E&S) risks and incorporate appropriate risk mitigation measures in overall credit management. The ESRM Guideline provides a robust, auto generated, quantitative risk rating system to reduce the subjectivity of a qualitative risk assessment method and provides a bigger focus on social and climatic risks which are becoming relevant and crucial for Bangladesh. The ESRM Guideline define applicability based upon sector specific E&S impacts and the categories are expanded to include agriculture, cottage, micro, retail and trading enterprises, small enterprises, medium enterprises, large enterprises and infrastructure projects. The organisational roles and responsibility defined in the ESRM Guidelines are built upon the principles of integration of E&S risks into the bank or FI’s overall credit policy. Ten Sector Specific Guidance Note on ESRM has been included for 1. Textile and Apparel Sector 2. Tanning and Leather Finishing Sector 3. Cement Manufacturing Sector 4. Ceramic Tile and Sanitary Ware Manufacturing Sector 5. Fertilizer Manufacturing Sector 6. Pharmaceutical Sector 7. Ship Breaking Sector 8. Power Sector 9. Pulp & Paper Sector 10. Steel Re-rolling Sector. (SFD Circular # 03 dated 26 June, 2022).

1.2.1C Policy on Green Bond Financing for Banks and FIs, 2022: The guideline is to facilitate sustainable investment by banks and financial institutions with a focus on climate change mitigation and adaptation, energy and resource efficiency, and a green economy.

Bangladesh Bank has provided the Policy on Green Bond Financing for Banks and FIs with a view to further accelerating the green finance initiatives towards green finance and investments on climate resilience, environmental and social safeguard. This Policy on Green Bond Financing for Banks and FIs was created with a goal of promoting green-focused sustainable investment by Banks and FIs through the mitigation and adaptation to climate change while availing every options of green finance. In the long run the policy should assist the development of a vibrant green bond market with an impact of growth for national economy. It is also anticipated that all the concerned stakeholders, including banks and FIs, will be passionate, proactive, and will focus on the Policy on Green Bond Financing for Banks and FIs with due consideration in a coordinated and collaborative manner in order to transform any potential challenges into opportunities.

1.2.1D Sustainability Rating of Banks and Financial Institutions 2020: Sustainability rating is the year-wise qualitative and quantitative based ESG performance in the five major components of Sustainable Finance, CSR, Green Refinance, Core Banking Sustainability and Banking Service Coverage of the banks and FIs. Since 2020 onwards each year top ten banks and top five financial institutions are being rated and recognized. Their names are being displayed in the Bangladesh Bank Website.

1.2.1E Budget AllocationPolicy for Sustainable Finance and Green Finance: Sustainable Finance Budget Allocation on the basis of Net Outstanding → (say as of December 2022 the total outstanding is BDT 123, NPL amount is BDT 8, staff loan is BDT 10 and credit card exposure is BDT 5. So the Net Outstanding would be 123-(8+10+5) = BDT 100 and minimum 15% of the net outstanding should be the budget allocation for Sustainable Finance. Budget allocation for Green Finance should be 2% to compute to 15% Budget for Sustainable Finance.

1.2.1F Sustainable Finance and Green Finance Attainment/Achievement Policy: Sustainable Finance and Green Finance Attainment/Achievement will be on the basis of disbursement. → Say ABC bank has total funded loan of BDT 100. So, for Bank ABC, disbursement of Sustainable Finance would be at least 20% of the funded loan where Green Finance would be minimum 5% of the total term loan disbursement.

1.2.1G Policy Guidelines on Corporate Social Responsibility for Banks and Financial Institutions 2022:

The Guidelines has addressed the CSR initiatives to protect, preserve and uphold the basic rights of the under privileged/non-privileged /distressed /helpless /marginal/hardcore poor and socially backwards sections of the population with a view to eliminating all forms of poverty and inequality from the society ensuring that no one should left behind.

1.2.1H Climate Fund Utilization Policy for Banks and Financial Institutions(FIs): Banks and Fls should spend minimum 20% for Environment and Climate change mitigation & adaptation sector of their total CSR expenditure that includes : River/canal/wetlandde-silting; Embankments/po1ders/submersibledykes; Urban drainage/stormsewerage; Solar Energy/powerplants; Roads, bridges/culverts in vulnerableareas; Housing/cluster villages/growthcenters; Cyclone shelters/floodshelters; Strengthening embankment systems along coastalzones; Sandwich Panels for the coastalinhabitants; Assistance for the affectedfishermen; Assistance for livestocksector; Maintaining and constructing cyclone shelters and climate-proofhousing; Adaptationinthehealthsector(i.e.implementingsurveillancesystemsforexistingand new diseaserisks); Implementing pure drinking water and sanitation programs in areas at risk fromclimate change and disaster-prone areas; Developing efficient water irrigation and water managementsystems; Promoting diversified cropproduction; Coastal forestation and treeplantation; Climate change related researchwork and any others deem fit byBB.

1.3 Role of Bangladesh Bank in guiding/promoting sustainable finance in Bangladesh

In 2016, Bangladesh bank has given instructions to all banks and FIs to establish Sustainable Finance Unit(SFU) in their head office for addressing sustainability issues with respect to promoting green and sustainable finance. SFUs are responsible to coordinate in consolidation of all the reports prepared and report to BB relate to sustainable financing including green financing, sustainable CMSME, sustainable agriculture, socially responsible financing and reports of refinance claimed under low cost funding arrangement. Sustainable Finance Policy 2020 has been issued to address Green Banking, Green Financing, Sustainable Agriculture, Sustainable CMSME, Socially Responsible Financing, Structured CSR Activities, Green & Sustainable Finance Taxonomy and Strategy. Environmental and Social Risk Management(ESRM) Guidelines (along-with Sector Specific Guidelines) 2022 –were issued by BB with a view to ensuring better justice to sector specific projects and thus ensuring overall asset quality of the banks and FIs as well. BB is pursuing with its updated Low-cost Funding Arrangements 2022 - for 68 green Products/Projects/Initiatives belong to 11 green categories (Renewable Energy, Energy Efficiency, Alternative Resources. Solid Waste Management, Liquid Waste Management, Recycling of Manufacturing and Recyclable products, Green Brick Manufacturing, Green Establishments, Green Agriculture, Green CMSME, Socially Responsible Financing). BB has made all the players - entrepreneurs, manufacturers, exporters, importers, suppliers, service providers, business associations, energy auditors, supervisors, regulators and most importantly the bankers and Financial Institutions comfortable and sustainable those are passionately involved in Green business. BB in its low cost funding for promoting green finance to green products/projects/initiatives has reduced the refinancing rate to 3% which is below 1% of the bank rate enabling PFIs (banks and FIs) with 2% margin to finance @5% at the borrower end in 5 yr tenor, @5.5% with 2.5% margin for the tenor above 5 upto 8 yr and @6% at the borrower end for the tenor above 8 upto 10 yr. BB has issued Green Guidance Note, 2020 for identifying Green Capital Machineries for installation which is open to all export oriented industries under Green Transformation Low Cost Fund. BB has opened windows of USD 200 million and Euro 200 million under low cost funding arrangement for all the export oriented industries to import green capital machineries installation in their factories. BB has also opened another window of BDT 10 billion for installation of highly energy efficient/green machineries in factories/required places. BB's all these efforts along with their on-site and offsite supervision has strengthened sustainable finance activities of banks and financial institutions. BB's Policy on Green Bond Financing has given banks and FIs an ample opportunity to play a vital role in the capital market. SFU in bank's head offices and officials of the dedicated help desks in the potential bank branches are now required to proactive and concentrate hard on their dedicated assignments to track and invite potential borrowers in green and sustainable business, help them in preparing propositions and thereby making their projects bankable. Banks and FIs with their concern desks will contribute to educate borrowers/clients in collaboration with the SREDA, DoE, DAE, BB, Green Business and Manufacturing Association like Renewable Energy Association, Bio gas plant Association, Brick Kiln Efficiency Improvement Projects Association, BGMEA, BKMEA, textile, leather and Jute association. Thus, capacity and awareness program among all the concerns are contributing to better understanding, facilitating and thereby contributing to green and sustainable financing. BB's sustainability rating of banks and FIs on their year wise sustainability performance have made them responsible, accountable and dedicated to all their activities related to sustainable and green finance.

Case Study

Case 1:Transformation of FCKs into HHK: Alim Mia, Iman Ali, AlamBapari and Hiru Munshi are the four owners of four Fixed Chimney Kilns (FCKs) named as A, B, C and D respectively. They have been influenced and guided by the SFDH desk of Ghorashal branch, XYZ bank to go combinedly for Hybrid Hofmann Kiln (HHK). This is very encouraging that the dynamic desk official changed the mindset of these four traditional brick owners making them agreed to become a group named as ABCD and transform their four traditional FCKs into more environment friendly technology HHK which has been declared as industry by the Ministry of Industry (MoI). This needs to mention that BB in its refinancing scheme has opened up an opportunity of the FCKs to be converted into HHK under BB's greening the polluting industries initiatives. This also needs to mention that the four brick owners are close to each other in such a manner that it is feasible for the four equal area can be combined in a single group area as ABCD and named as ABCD group. Owner of ABCD group has now applied for BDT 10 crore for procurement of HHK brick kilns with a view to shifting from FCKs to HHK, from traditional to more environment friendly BKEIPs. Therefore, the entrepreneur submitted the project proposal, where the total project cost was estimated at BDT 12 crore. As this technology is identified as Green Technology and BB is offering concessional refinance up to BDT 10 crore. BB offers BDT 10 crore of refinance at a concessional rate, so the bank is offering BDT 10 crore. Again, SFDH desk official has helped ABCD group in preparing and collecting all the required papers along-with the mortgaged arrangement of ABCD area. This is how the bank facilitated ABCD group with BDT 9.6 crore in 80:20 debt equity ratio.

Case 2: Solid Waste Management: A municipal waste collection service provider wanted to extend service coverage across the city and therefore needed to take low-cost green finance to purchase vans, equipment, and safety gear for waste collectors. The entrepreneur has been in this business for a few years on a smaller scale. The municipal waste management plant is owned by the municipality, and the service provider has an agreement with the municipality to dispose of municipal waste in the plant. The purpose of the loan does not qualify under the BB circular on the green refinance scheme, and therefore, the entrepreneur is not qualified to avail green finance. Also, the compost plant is owned by the municipality, and the agreement does not allow the entrepreneur to scale up the capacity of the compost plant. The market is not developed for the compost business, and the entrepreneur also needs to maintain standards to sell compost commercially. However, the entrepreneur is receiving sufficient service charges from households and institutions to repay the debt, but the interest rate needs to be at a concessional rate; otherwise, the project will not be sustainable with debt at a commercial rate. The bank rejected the loan application as the green refinance is eligible to construct the compost plant, which already exists and is owned by the municipality.

What could be your probable interventions so that your bank would be in a position to accept, approve the project and claim refinance from BB?

Case 3: Medium-sized biogas plant: The owner Mr. Shahidul Islam of a dairy firm wanted to install a medium-sized biogas plant inside the firm and use the gas for necessary usage. The entrepreneur approached a bank to take low-cost green finance and construct a biogas plant. But the loan requirement was higher (BDT 50 lac) than the permissible refinance amount (BDT 25 lac) under the BB green refinance scheme. The entrepreneur actually opted for the latest biogas technology, which is relatively more expensive than conventional ones but more efficient and easier to operate and maintain. The bank had to reject the loan proposal as the required loan amount exceeded the BB's permitted amount.

How could you apply your thoughts to go for a probable solution of bank's approval and thereby allow your bank/FI to claim refinance from Bangladesh Bank?

Case 4:Pyrolysis Plant: Mr. Zaheer an entrepreneur wanted to start a pyrolysis plant to produce oil and black carbon from recycling plastic wastes; therefore, he approached Paltan branch, Dhaka of ABC bank for BDT three crore under BB's Green Refinancing Scheme. But the bank did not feel comfortable financing this project because the entrepreneur did not have any previous experience in this business. Also, the entrepreneur did not develop a project feasibility report reflecting the profitability and sustainability of the project. The pyrolysis business is not well established in Bangladesh and struggles to sell recycled byproducts, i.e., oil and black carbon, in the local market. The entrepreneur had to have an exceptional expertise and vast experience which is totally missing in this case. Also, to sell oil commercially, the entrepreneur needs to comply with standards set by regulatory authorities. So, the entrepreneur, Mr. Zaheer needs to prepare a project feasibility report, highlighting the profitability and sustainability of the business. Furthermore, he also needs to develop market linkages to sell oil and black carbon. Hence, the entrepreneur needs to seek necessary assistance from specialized agency or personnel.

Will the project be eligible for bank finance? If 'Yes', Why? If 'No', Why? If it is really 'No' how as a banker you could respond to the proposition by the entrepreneur?

Case 5: Socially Responsible Financing for Pure Drinking Water: It is evident that the water of the coast belt areas in the southern part of Bangladesh is not eligible for drinking because of salinity. The villages of Shundorban are in huge crises for drinking water. In this backdrop, GreenTech Foundation Bangladesh Ltd. a passionate organization that work for sustainability issues has launched a project where they will serve the communities of the 4 villages of Shundorban in a phase wise action plan in two year project tenor. GreenTech Foundation Bangladesh Ltd. has been serving in conformity with the SDG 6 for the last half a decade. The organization has applied under BB green refinancing scheme for BDT two crore term loan for a three year tenor including nine months grace period to serve shundorban village community through uninterrupted pure water supply.

How will this happen? How will this project come into light?

Probable Solution: This will happen through installation of a number of Gazi tanks to keep water reserved from rainwater harvesting and the other source of drinking water will be from solar powered Reverse Osmosis Water Plant (ROWP). All the relevant documents for availing refinance has been provided including passed record and work experience of the entrepreneur those have been assessed under ESRM guidelines and the bank upon the approval of the competent authority has disbursed BDT two crore for three year tenor including nine months grace period @ 5% as requested.

Case 6: Purchasing vans, equipment, and safety gear for waste collectors

A municipal waste collection service provider wanted to extend service coverage across the city and therefore needed to take low-cost green finance to purchase vans, equipment, and safety gear for waste collectors. The entrepreneur has been in this business for a few years on a smaller scale. The municipal waste management plant is owned by the municipality, and the service provider has an agreement with the municipality to dispose of municipal waste in the plant.

The bank rejected the loan application. Explain Why?

Probable Solution: The purpose of the loan does not qualify under the BB circular on the green refinance scheme, and therefore, the entrepreneur is not qualified to avail green finance. Also, the compost plant is owned by the municipality, and the agreement does not allow the entrepreneur to scale up the capacity of the compost plant. The market is not developed for the compost business, and the entrepreneur also needs to maintain standards to sell compost commercially. However, the entrepreneur is receiving sufficient service charges from households and institutions to repay the debt, but the interest rate needs to be at a concessional rate; otherwise, the project will not be sustainable with debt at a commercial rate. If BB incorporates the procurement of vans and equipment as an eligible purpose for this green product, then the bank would feel comfortable disbursing green finance and claiming refinancing from BB. Also, the entrepreneur needs to have a long-term agreement with the municipality, including provisions to increase the capacity of the compost plant.

Case 7: Ship breaking/trading activities:

KLM Shipping Ltd. is an organization with financial soundness as its healthy balance sheet look like. Their project is economically viable and bankable. It is well evident that their repayment track is excellent as they have never ever been defaulter anywhere in repaying. A considerable workforce is engaged in the business activities of KLM Shipping Ltd. indicating contribution towards employment and income generation. Having all these, KLM Shipping Ltd. has applied for BDT 3 crore for 10 year tenor including 1 year grace period to X bank of Agrabad Branch, Chottogram in a structured Project Proposal manner. In this big project the borrower expressed their positive intention to go for equity participation up to 30% establishing ideally debt equity ratio 70:30. Firstly they preferred to apply under BB's low cost funding arrangement means BB's refinancing scheme and made an intention to go with commercial rate if BB's fund is not available.

Now what is going to happen? What your bank branch should do?

Probable Solution: Bank Branch should screen the proposal against the exclusion list under Sustainable Finance Policy where the activity/area like ships with prevalent asbestos use (for e.g. passenger cruise) and Ships listed on the Greenpeace blacklist was found. Accordingly, the bank branch immediately let know the negative decision to the borrower that the proposition has been rejected due to the findings the activity in the exclusion list of Sustainable Finance Policy.

Broad Questions

1. Define ‘sustainability’ with respect to concept, principles and types of sustainability.
2. Discuss the following issues:
(i) Importance of Sustainability
(ii) Sustainability Barriers
(iii) Sustainable Business Strategy for Sustainability
3. Discuss in detail:
   (a) Sustainable Development for Sustainability and
   (b) Bangladesh’s Vision for Sustainable Development
4. Discuss in detail:
   (a) SDGs’ alignment with Sustainability and
   (b) What hurdles you have experienced in the Sustainability Shock Scenario in Covid-19 Pandemic.
5. Define Sustainable Finance and Discuss the components of Sustainable Linked Finance.
6. Name the components of Sustainable Finance Taxonomy. Discuss the identification of other Sustainable Linked Finance.
7. Name and describe all the components of Sustainable Finance Taxonomy and not Green Taxonomy.
8. What is Sustainability Rating of the banks and FIs? How could you explain the methodology of Sustainability Rating of Banks and FIs.
9. Please mention the computation process of Yearly Sustainable Finance Allocation and Yearly Achievement of Sustainable Finance and Green Finance. Discuss with examples.
10. Discuss Evolution of Sustainable finance with Sustainable Finance Framework and Sustainable Finance Typology.
11. What and how should be the Sustainable Finance Strategy of a bank or a FI?
12. Point out all about Bangladesh Bank’s Existing Sustainable and Green Policy. Give your answer in a snapshot.
13. Describe the role of Bangladesh Bank in Sustainability and Sustainable Finance Issues.
14. What do you mean by Screening and what are the environmental objectives of Screening?Write down exclusion list – (i) ineligible for any finance (ii) ineligible for sustainable finance.
15. Write notes on the followings:
    (a) Sustainability and Principles of Sustainability (b) Types of Sustainability
    (c) Importance of Sustainability (d) Sustainability Barriers (e) Sustainable Business Strategy for Sustainability (f) Sustainable Development for Sustainability
    (g) Bangladesh’s Vision for Sustainable Development (h) SDGs’ alignment with Sustainability (i) Sustainability Shock Scenario in Covid-19 Pandemic and effort for minimization (j) Socially Responsible Finance (k) Other Sustainable Linked Finance (l)Priority Eco-Friendly Products(m) Green Governance (n) Sustainable Human Resource Management(o) Awareness & Capacity Building on Sustainability Issues

Short Questions

1. What is Environmental Sustainability?
2. What is Economic Sustainability?
3. What is Social Sustainability?
4. What is Corporate Sustainability?
5. What do you know about rationale of Sustainability or Why Sustainability?
6. What are the Sustainability Barriers?
7. What is Sustainable Business Strategy for Sustainability?
8. How do you look at SDGs' alignment with Sustainability?
9. What is the Green Finance Target and Sustainable Finance Target as per existing BB Guidelines?
10. What is Sustainability Rating of Banks and FIs?
11. On what basis BB goes for Sustainability Rating of Banks and FIs?
12. What are the key components of Sustainability Rating of Banks and FIs?
13. What is all about Corporate Governance and Green Governance?
14. What is Climate Finance and Carbon Finance?
15. What is Climate Change Adaptation and Climate Change Mitigation?
16. Point out the pin points on Environmental and Social Due Diligence(ESDD) checks.
17. What do you think the top 5 challenges and top 5 opportunities in Sustainable Financing?
18. What SDGs are linked to Sustainable Financing?
19. Mention the six environmental objectives and performance thresholds

Present the flow chart of Screening Process under ESRM Guid

Chapter 2
Module B: Inclusive Deposit Products and Financial Inclusion

2.1 No-Frill Account for Financial Inclusion

2.1.1 Introduction: According to National Financial Inclusion Strategy of Bangladesh (NFIS-B) the definition of Financial Inclusion is "Access of individuals and businesses including unserved and underserved to the full range of financial services facilitated with technology provided at affordable cost with quality, ease of access and scope of risk mitigation in responsible and sustainable manner through a regulated, transparent, efficient and competitive financial marketplace." Financial inclusion is a method of offering banking and financial services to individuals. It aims to include everybody in society by giving them basic financial services regardless of their income or savings. It focuses on providing financial solutions to the economically underprivileged. Financial inclusion refers to efforts to make financial products and services accessible and affordable to all individuals and businesses, regardless of their personal net worth or company size. Financial inclusion strives to remove the barriers that exclude people from participating in the financial sector and using these services to improve their lives. It is also called inclusive finance. Very often, individuals from low-income backgrounds rarely ever have bank accounts where their finances can be saved. This is mainly because opening a savings account in most banks includes having to maintain a minimum balance in the account at all times.

This is why 'No-Frills' accounts to provide basic banking facilities to poor and promote financial inclusion. No-Frill Accounts (NFAs) include the accounts opened with an initial deposit of Tk. 10/50/100 by the marginalized people and the School Banking Accounts opened by the students under 18 years of age and maintained with a zero balance. The No-Frills account aimed to offer the most basic banking service to those from the low-income backgrounds. No-frills bank accounts require zero or very low minimum balance and other banking facilities such as withdrawals and ATM and Debit card facilities at zero charges to enable universal access to banking facilities. No-frills bank accounts are now known as Basic Saving Bank Deposit Accounts. The target groups of these accounts include Farmers, the Freedom Fighters, Disabled Persons, the Extreme Poor, the beneficiaries of the Social Safety Net (SSN). In short, No Frill Accounts will be blessed with the important supportive policy tools for bringing low-income people under the umbrella of formal financial services.

2.2 Policy approach for deposit inclusion in Bangladesh:

2.2.1 Government Policy & Strategy:

Bangladesh Bank and Financial Institutions Division or Ministry of Finance developed National Financial Inclusion Strategy (NFIS) approved by the Cabinet in May 2021 with a view to ensuring country's inclusive growth. Banks and Fls may extend their CSR activities integrating financial inclusion strategic goals and targets. Following financial inclusion activities will be included in the CSR of Banks and Fls:

Cost borne by banks for "No-frill Accounts" for student accounts, marginal banners and workers of Readymade Garments (RMGs); Financial assistance to inhabitants of backward zone like hills, haors, enclaves of Bangladesh for betterment of their living standard/livelihood; Assistance to promote MFS in remote areas; Financial assistance toi education or street urchin/working children/technical education/ financial literacy; Financial support to arts, culture specially folk crafts, folk music and performing folk/country songs etc.

With a view to fulfilling the government agenda the focus on financial inclusion by BB has further increased recently as a part of its pro-active response to Covid-19. Despite many challenges, the pandemic has also accelerated the digital transformation of the businesses, including MSMEs benefiting widely from the pioneering moves of BB for multifaceted financial inclusion. Financial inclusion remains a policy priority in Bangladesh, as reflected in its National Financial Inclusion Strategy 2020-2024, which was launched in 2019 to further strengthen the regulatory moves of BB.

The goals of this strategy are to:

1. Increase financial deepening
2. Strengthen payment systems and service delivery
3. Establish a robust data and measurement framework
4. Promote financial literacy and consumer empowerment
5. Broaden and deepen financial inclusion for women, people affected by climate change, and other underserved segments of the population
6. Upscale digital financial services and fintech
7. Strengthen the policy and regulatory environment
8. Fortify the risk management of financial inclusion initiatives
9. Strengthen insurance services
10. Reinforce capital market services
11. Strengthen microfinance

12. Strengthen quasi-regulated financial service providers including PKSF

As indicated above, this is a holistic and well-coordinated policy move to align all the relevant stakeholders, including ministries and financial authorities. However, BB remains the key anchor here. It has been further demonstrating its prowess in pushing the financial inclusion agenda during the pandemic.

BB has been working very closely with the government and other regulatory authorities in designing and implementing several stimulus packages to ease the impact of the pandemic with special focus on reaching the badly hurt micro, small and medium enterprises. Apparently, this inclusive financing support has been very helpful in initiating a robust recovery process out of the woods of the pandemic, even though the larger entrepreneurs have been better placed to take advantage of these financial facilities. The implementation of the stimulus packages for the MSMEs has been picking

Government SSN programs greatly contribute to support the marginal people of the society. Poor people can receive SSN allowances through Tk. 10 accounts. BB has advised all the banks to open SSN accounts for the individuals having National Identification (NID) cards and Pension Payment Order (PPO) book. It is noteworthy that during COVID-19 pandemic, Government has used the Accounts for the Beneficiaries of the SSN programs to distribute cash allowances among the affected low-income families. Government's allowances disbursed through SSN Accounts have been considered as a great support for the poor people confronting the second wave of COVID-19.

Following table shows the SDG targets and indicators related to Financial Inclusion:

Target 8.10
Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all
Indicator 8.10.1
The number of commercial bank branches and automated teller machines (ATMs) per 100,000 adults (RA)
Indicator SDG 8.10.2:
The proportion of adults (15 years and older) with an account at a bank or other financial institution or with a mobile-money-service provider (PA)

2.2.2 Bangladesh Bank's Initiatives:

In line with the government's directives, Bangladesh Bank(BB) has taken various initiatives to ensure financial services for the people of all segments of the society. As part of these initiatives, the central bank has issued directives for the banks to open NFAs for the marginalized people. These accounts require neither a minimum balance nor any service charge/fee. On the contrary, relatively higher interest rates than the existing savings rates are offered in these accounts to augment welfare of the low-income people. No Frill Accounts also include the School Banking Accounts (SBAs) where students under 18 years can open bank accounts with an initial deposit of Tk. 100 only. Generally, these accounts are referred to as No-Frill Accounts (NFAs). The target people of these accounts include farmers, RMG workers, extreme poor, the beneficiaries of the Social Safety Net (SSN) programs etc. These special types of accounts are used for different purposes as the government disburses subsidy/salary to the various segments of underprivileged people of the society. In addition, no-frills accounts are also playing an important role in channelizing inward foreign remittances. No-frills accounts have played a crucial role in maintaining the livelihood of the underprivileged mass during the COVID-19 pandemic as the government disbursed subsidy/salary to the various segments of underprivileged people.

BB decides to introduce a new and unique component under an existing credit-guarantee scheme (CGS) for banks to lend to the minnows, nicknamed 'no-frills' accountholders, as per government policy for financial inclusion. Under the new segment, banks are allowed to avail the credit-guarantee scheme against loans amounting to Tk 0.30 million or above under such accounts. In that case, the banks will have to pay the guarantee fee from their own sources. It is expected that the banks will feel encouraged to finance the marginal people through using the credit-guarantee scheme. CGS element would also help the accountholders in setting up business entities if they are interested. In the midst of the Covid-19 pandemic the board of directors of BB approved a policy on Credit Guarantee Scheme (CGS) for the first time, aiming to expedite financing in the country's cottage, micro and small enterprises (CMSEs). Existing cottage, micro, and small businesses in the manufacturing, services, and trading businesses can avail the guarantee facilities if they have no collateral or insufficient collateral for their required bank finances, according to the scheme. The initial fund size under the CGS has been fixed at Tk 20 billion. The new financial-inclusion segment would operate under the existing credit-guarantee scheme which is now functioning with a Tk 20-billion fund.

BB has taken several measures to facilitate rapid recovery of rural economy from the pandemic as well as to make this scheme more attractive both for the banks and the targeted borrowers.

The fund size has increased from Tk. 200 Crore to Tk. 500, individual loan size has increased from Tk. 50, 000 to Tk. 5,00,000. The most significant revision of the scheme lies in the interest rate which is now 7 percent at the borrower level and 1 percent at the bank level, replacing the earlier rates of 9 percent at the borrower level and 1 percent at bank level. Another revision is that Shariah based banks are permitted to be included in the scheme. 50 banks have signed participatory agreement with BB under the refinance scheme. The participating banks have sent an annual target of Tk. 370.12 crore for the disbursement of credit under the scheme during 2022.

2.3 Deposit inclusion by banks and financial institutions

Financial inclusion is an important enabler of sustainable development and economic growth. Access to financial services can help eradicate poverty, improve individual well-being and household welfare, and spur entrepreneurship and small enterprise activity. At the same time, economies with increased financial access and intermediation to all tend to grow faster and have less income inequality.4 As such, it sits at the heart of the SDG8 in promoting inclusive and sustainable economic growth, full and productive employment, and decent work for all.

State-owned Commercial Banks (SoCBs) dominates over the other catogories of banks in opening Tk.10/50/100 Accounts. As of December 2021, SoCBs have opened 1,37,78,031 number of No-Frill Accounts which constitute 55 percent of the total accounts. Specialized Banks (SBs) have 27 percent while the Private Commercial Banks (PCBs) have 18 percent share of the total Tk. 10/50/100 accounts. However, due to limited branches, participation of Foreign Commercial Banks (FCBs) is very low in this area.

In recent years, Bangladesh has made significant advances in economic and social development. Ensuring continued inclusive economic growth, however, remains a significant challenge. This is further compounded by the fact that close to 70 per cent of its population still live in rural areas. Despite successful case studies of NGO-led poverty alleviation and microfinance programs of BRAC and Grameen Bank, Bangladesh continues to lag behind in global financial inclusion indicators. According to the World Bank's Global Financial Inclusion Index (Global Findex), in 2017, 50 per cent of all adults in Bangladesh owned either a financial institution account or mobile money account. The use of ICTs and other digitally enabled tools to deliver financial services is also low. Among adults who have access to a bank account, only 6% have a debit card. In 2014, only 7.5 per cent used ATMs as the main mode of withdrawal in contrast to 78 percent who used bank teller as the main mode of withdrawal.5 Rural areas are also significantly under-banked. The Global Findex survey found that only 50 per cent adults living in rural areas have a bank account. Formal financial institutions continue to be concentrated in urban areas and available financial services are disproportionately skewed towards the middle and upper-middle class urban population. For example, rural populations have significantly less access to credit, compared to those living in urban areas.

2.4 Financial Inclusion growth and performances

Financial inclusion is essential for ending poverty. The world has made substantial progress, and the number of financially excluded people was reduced from 2.5 billion to 2 billion in just three years. At this rate, financial inclusion will come to another one billion people by 2020. But this is not fast enough.

Bangladesh has been experiencing rapid financial inclusion in sync with faster adoption of digital technology. BB is statutorily mandated to support attainment of the country's developmental aspirations along with maintaining price and financial stability. It made an honest effort to respond to this call by strategizing financial inclusion to uphold the domestic demand, particularly following global financial crisis during 2007-08.

Basic financial services such as deposit, credit etc. are considered as entitlement of all people in a society, this is particularly true in developed countries. Inclusiveness of a greater segment of people in financial system is pre-requisite for economic development of a country like Bangladesh to ease credit facilities to facilitate employment. Despite a large number of bank branches and micro finance institutions in Bangladesh, a large segment of our population, particularly rural poor, has scant access to financial services. Bangladesh Bank has started to find a way out of this situation through commencement of services like deposit collection, small credit disbursement etc. which need to be made available to the common people for the sake of poverty alleviation also. Bangladesh Bank and the Government of Bangladesh (GoB) have adopted several remedial measures to bridge these gaps in financial inclusion.

Bangladesh Bank has introduced refinance schemes for banks against their loans to Small and Medium Enterprises (SMEs) multilateral development partners such as the IDA and ADB are supplementing BB’s refinance programs with their co-financing lines. BB’s refinance schemes for banks against their loans to Small and Medium Enterprises (SMEs) have been expanded from Taka 100 crore to Taka 600 crore for ensuring credit availability to this sector. To widen and strengthen SMEs, Bangladesh Bank has formed SME and Special Programs Department; to enhance investment in this sector especially to help women in increasing their contribution to industrialization, BB is detecting the hindrances on the way. In this regard it has been made mandatory that at least 15% of the credit will have to be disbursed among women entrepreneurs.

The agriculture credit program announced by BB enjoins all banks to engage in lending for a comprehensive range of no-and off-farm rural economic activities, with refinance lines available to them from Bangladesh Bank. BB announces its Annual Agricultural/Rural Credit Policy and Program to ensure institutional credit facility for the share croppers, Bangladesh Bank has introduced a refinance scheme which will be disbursed using NGO linkages. To implement agricultural credit program BB has formulated a three stage monitoring system. Besides, the farmers are now allowed to open their bank account by ten taka only.

Bangladesh Bank is increasing its concentration on infrastructural development because it's a vital prerequisite for economic development. A line has been introduced against banks'/FIs' lending for environment friendly investments in green products/projects/initiatives. In addition, BB is always urging the financial institutions to be more committed to the society by fulfilling their Corporate Social Responsibilities (CSR).

According to vision 2021 of present Govt. poverty has been targeted to reduce below 15%. As a short term measure to achieve this target BB authority hopes the credit facilities for agriculture and SMEs will be very effective and will ease the implementation of long term strategies.

Nevertheless, BB has adopted 17 core objectives:

1) Revisit the current monetary policy framework to ensure continuing effectiveness of monetary polices
2) Strengthen regulatory and supervisory framework to enhance financial sector resilience and stability
3) Further deepen financial markets in Bangladesh
4) Financial inclusion and broadening of access
5) Develop more efficient currency management and payment system
6) Strengthen reserve management capabilities
7) Enhance regulatory and supervisory framework against money laundering
8) Introduce separate and comprehensive guideline and supervision for Islamic banking
9) Develop more efficient management of government domestic debt
10) Streamline and transform data reporting, processing and dissemination through full fledged ICT framework
11) Full automation of credit information bureau (CIB)
12) Enhance the legal empowerment of BB in different functional areas
13) Attract, retain and develop people ensuring sound organizational development
14) Strengthen Risk-based internal control to add value to the Risk Management Process in Bangladesh Bank

15) Promote CSR activities and preparedness for climate change in Bangladesh with conducive policy direction
16) Develop effective channels for communicating central bank's policies and initiatives to stakeholders to enhance effectiveness of implementation
17) Create a 'Strategic Planning and coordination Unit as a process owner of BB strategic plan

In order to improve the quality of customer service, "Bangladesh Bank Modernization Program" has been initiated for the cash department, and initiatives such as setting up CCTV as part of improved security system, help desk, separate counter for women, aged and physically handicapped people, using sophisticated machine for note processing, sorting, banding etc., central display board for displaying directives, citizen charter and many others have been taken under this program. Therefore, with the view to reducing poverty and satisfying credit needs for accelerating economic activities, BB's recent initiative in bringing the people under banking services in line with financial inclusion are likely to contribute in economic development of Bangladesh.

In 2014, BB created a refinance scheme with a revolving fund of Tk. 200 crore to facilitate income generating activities of the low income people with Tk. 10 account. Under the scheme, the banks can lend to the beneficiaries without any collateral. Up to December 2021, a total of 85,123 borrowers has received Tk. 302.68 crore from this scheme. The reporting quarter has observed 15.40 percent increase of such loans over the previous quarter indicating a recovery of economic activities from COVID-19 pandemic.

No-frill Account for Financial Inclusion; Policy approach for Deposit Inclusion in Bangladesh; Deposit inclusion by banks and financial inclusion-growth and performances

It may be noted that BB has been promoting inclusive financing with particular attention to the underserved segments of agriculture and SMEs for many years, particularly in the wake of the global financial crisis. Environmentally benign "green" output processes were also adopted by the central bank to promote inclusive sustainable development. Priority to women entrepreneurs in financing access figured importantly in policy initiatives of BB. In fact, it has been trying to touch the ground to change the real economy for people living at the bottom of the societal pyramid.

The motivational campaigns, paying off richly in forging enthusiastic engagement of all banks and financial institutions – state-owned and private sector, local and foreign –

continues as a full-blown initiative for firmly ingraining socially and environmentally responsible financing in the institutional ethos of financial sector.

BB's policy supports for inclusive and sustainable financing included: (i) consultatively setting priorities and targets of inclusive and green financing, aimed at attaining and maintaining adequacy of financing in the underserved areas; (ii) massive up-gradation of the payment system and the financial sector IT infrastructure enabling the advent and rapid growth of cost-efficient off-branch online/mobile phone/smart card-based financial service delivery; (iii) consultatively drawn-up regulatory frameworks and guidelines for mobile phone/smart card-based and other off-branch service delivery modes, green banking, environmental risk assessment, and so forth; (iv) making sure that enough rural branches and, of late, sub-branches/booth-branches are established to reach the unbanked in a cost-effective way using latest digital technology; (v) macro prudential regulations favoring lending for green alternative of traditional options; (vi) modest extents of low-cost refinance lines against SME and green financing, funded jointly by BB and external development partners. BB's success in developmental central banking has become even more relevant in the present context of the post-pandemic economic recovery. As was the case during the last global economic slowdown (in 2008-09), the world as a whole and countries like Bangladesh began to face a massive socio-economic slowdown originating from supply-chain dislocations and fall in domestic demand. Of course, after about two years since the onset of Covid-19, the global economy was poised to stage its most robust post-recession recovery in 80 years. But the fast-expanding Omicron variant of the virus may create some obstacles to the global recovery process which was well on its way forward. And experts are rightly fearing that the recovery will be uneven, particularly in the new context.Bangladesh, however, appears to be an exception in still cruising at an accelerated six plus percentage point of growth rate while there is a deceleration in global growth rate, as recently predicted by the World Bank. Given its demonstrated ability of achieving highest rate of nominal GDP per capita in the emerging Asia for almost a decade, this is not surprising. Notably, more than 60 percent of this growth has been originating from the consumption-pushed domestic demand where financial inclusion has been playing a significant role.

Indeed, Bangladesh has been performing far better than many of its peers in terms of fending off the effects of the pandemic-induced economic shocks. But it is yet to attain the macroeconomic objectives that were set prior to the pandemic. Bangladesh will have to take a course that is going to be significantly challenging (due to the situations in the global arena mentioned above). And in this context, the developmental role of the central bank needs to be re-emphasized.

The policymakers and the entrepreneurs of Bangladesh today, need to look more inward. The authorities need to make sure that the credited flows are directed to enable spending on nationally produced goods and services; to invest in productive capabilities and creating more jobs; to enhance social protection; and to ensure excess liquidity does not create further inflationary pressure. In fact, in the wake of falling revenue and rising public debt, experts felt that there was little to no alternative to the central bank but to expand its balance sheet. And BB did not hesitate to follow this path, knowing fully that keeping the economy liquid was more important than worrying about inflation.

[Ref: GBCSRD Circular No: 01 dated 14 May 2014; GBCSRD Circular Letter No.:03 dated 22 December 2014; GBCSRD Circular Letter No.:03 dated 31 March 2015; FID Circular Letter No.:01 dated 20 January 2016; FID Circular Letter No.:04 dated 03 October 2016; FID Circular Letter No.:01 dated 28 February 2017; FID Circular No. 01 dated 05 September 2021; FID Circular Letter No.:01 dated 19 September 2021; FID Circular Letter No.:02 dated 28 October 2021 and FID Circular No.:01 dated 05 January 2022.]

Case Study

Case 1: The people of ABC union at Rangamati District remained out of the blessings of financial services for long period. They were supposed to utilize their income for daily expenditures since a very few number of banks had been there with limited banking operation. A survey was conducted by GSK Accelerator, a social community based organization to find the financial literacy and inclusion of the local community. They found more than 80% people did not have knowledge about the personal finance management and bank deposits.

Probable Solution: A youth organization called "FIBER Network" as suggested by GSK has brought mobile money solutions through agent banking services that now offer affordable, instant, and reliable transactions, savings, credit in rural villages and made the life easy of the mass local community.

CASE 2: Abdullah & Noman Ltd. is engaged in the garments export business. In the past, the performance of the company had been up to the expectations without any bank loans. In response to the buyer's demand for garments manufacturing with the latest technology, the organization decided to upgrade its traditional machineries with the environment friendly machineries belong to energy, resource and water use efficiency. The Finance Manager Mr. Nazmul having discussed with an eligible energy auditor estimated the amount required. This will help the company in linking with the bank financing on a regular basis. Mr. Nazmul therefore, began with the presentations on the previous business and income statements and preparation of a sales forecast for the next three years. He also collected the relevant data about the profit estimates in the coming years. By doing so, he wanted to ensure the availability of funds from the internal sources which contributes to a little extent and rationally the organization is looking for meeting up the rest bulk requirement from bank finance.

How Abdullah & Noman Ltd. will make a rational approach to Banks for the fund as required?

Case 3: Parveen Akhter has been working in a textile garment for the last four years. She was married unfortunately to Mr. Raza Rana who takes drugs frequently. Parveen's earning is much sufficient for her daily expenditures rather she can even deposit money after bearing her family`s cost. But she has no formal banking account where she can deposit money and her earnings seems now not to be remain safe because of her husband's need for drugs.

What next? What do you know further of the story?

Answer: Her neighbor, Mr. Abdur Rauf opened a mobile bank account for her 3 months ago. Now she has 15000 taka in her account till now. She can save money that was supposed to be wasted by her husband for buying drugs or other additives. Recently, she opened a tea stall with her savings which is run by her husband who is under counselling and treatment and gradually recovering. Parveen and family are now happy being blessed with financial inclusion.

Broad Questions

1. What do you mean by No Frill Accounts? Describe Policy approach for deposit inclusion in Bangladesh.
2.

Chapter 3

Module C: CMSME Financing

3. 1 Policy and regulatory initiative on CMSME financing

3.1.1 Policy Initiative

3.1.1AConcept: Small and Medium enterprises (SMEs) defined as those businesses that maintainrevenues, assets or a number of employees below a certain limit. Initially only SME had been included in the financing model of the banks and FIs to serve better the Small and Medium enterprises. Cottage and micro enterprises have been taken into due consideration with a view to making financing more inclusive. Cottage Micro Small Medium Enterprise (CMSME) playing a crucial role in promoting economic development as well as industrial production. In particular, CMSMEs provide the necessary foundations for inclusive sustainable growth and rising income in the less developed and transitional economies. Economic as well as technical and social arguments warrant the promotion of CMSMEs as they create large scale, low-cost employment opportunities, use locally available inputs and technologies, mobilize small and scattered private savings, develop entrepreneurshipand correct the regional imbalance in development that exists in developing countries.

Existing definition of SME is recommended by Better Business Forum and accepted as a uniform one by Ministry of Industry and Bangladesh Bank. Criteria of the definition of CMSME are given in line with the definition provided in National Industrial Policy 2016; Cottage, Micro, Small and Medium Enterprises are defined as follows:

Type of (Industrial) Enterprise	**Sector**	**Criteria for Determining the Type of (Industrial) Enterprise**	
		Value of fixed assets without land and factory building with replacement cost	**Number of human resources employed**
Cottage	Manufacturing	Less than BDT 1 Million	Not more than 15 with the dominance from family members
Micro	Manufacturing	BDT 1 Million to Less than 7.5	16 to 30 or less

		Million	
	Service	Less than BDT 1 Million	Maximum 15
Small	Manufacturing	BDT 7.5 Million to Less than 150 Million	31 to 120
	Service	BDT 1 Million to Less than 20 Million	16 to 50
Medium	Manufacturing	BDT 150 Million to Less than 500 Million	121 to 300; but max. 1000 for RMG/Labor intensive industry
	Service	BDT 20 Million to 300 Million	51 to 120

Criteria for Determining the Type of (Trading) Enterprise

Type of (Trading) Enterprise	Value of fixed assets without land and factory building with replacement cost	Number of human resources employed	Annual Turnover
Micro	Less than BDT 1 Million	Maximum 15	Maximum BDT 20 Million
Small	BDT 1 Million to 20 Million	16 to 50	More than BDT 20 Million to not more than 200 Million

While devising policies, it needs be understood that "one-size-fits-all" approach will yield only limited benefits. Instead targeted policies should be designed and implemented. This is because the needs and challenges of cottage and micro enterprises are different than those of small enterprises. Medium sized enterprises are even more different. While commercial banks are relatively better positioned to cater to the needs of the medium sized enterprises, microfinance institutions, due to their business model based on KYC (know-your-customer) are more effective in terms of lending to the cottage and micro enterprises. These nuances should be kept in mind when policy measures such as CGS are designed.

Small and medium sized enterprises in Bangladesh can benefit from a Junior Stock Exchange Market as has been implemented by China and more recently, Jamaica. The idea behind the Junior Stock Exchange is to allow small and medium sized enterprises with high growth potential to register themselves on a separate stock market to raise capital through equity. Typically, this kind of market has less stringent rules for listing and provides some form of tax benefits to the listed companies. While the benefits of this kind of junior market vary with jurisdictions, it certainly has the potential to provide the much-needed support to emerging companies in Bangladesh in the medium and long run, if not in the short run.

Banks and FIs should give emphasis to innovate more SME friendly loan products to cater CMSME demand. Besides, institutional support from different government and non-government institutions is required for development and growth of women entrepreneur. Moreover, legal and institutional guidance are also highly required to make a trade-off between challenges and future prospects of women entrepreneur so that they can feel encouraged creating new venture with new hope.

The role of Cottage, Micro, Small and Medium Enterprises (CMSMEs) is indispensable for overall economic development of a country particularly for developing countries like Bangladesh. Since this sector is labor intensive with short gestation period, it is capable of increasing national income as well as rapid employment generation; achieving Millennium Development Goals (MDGs) especially eradication of extreme poverty and hunger, gender equality and women empowerment. CMSME (specially SME) sector has played a vital role in economic development of some prosperous countries of Asia. Our neighboring countries have also given due importance on SME. Terming SME as 'employment generating machine' they stressed on CMSME development for higher economic growth, narrowing the gap of income inequality and poverty alleviation. The present government has also put much emphasis on the development of CMSME sector considering it as 'the driving force for industrialization'.

3.1.2 Regulatory Initiatives: Cottage, micro, small, and medium sized enterprises (CMSMEs) play a vital role in the economy of Bangladesh. Therefore, it is no surprise that they continue to receive special attention from the government. To support the policy objectives of the government, Bangladesh Bank (BB) has taken various measures to facilitate the growth of CMSMEs, the latest of which is the Credit Guarantee Scheme (CGS).

Bangladesh Bank has already introduced several schemes and programs to flourish and expand CMSME Enterprises. Refinance scheme funded by Bangladesh Bank, IDA and ADB has been facilitated for the development of CMSME Sector. Besides, to ensure institutional financial facilities under easy conditions, Bangladesh Bank has taken diverse steps like opening of 'Dedicated Desk' for CMSME and 'SME Service Centre' in the banks and special facilities for the women entrepreneurs. But reality is that expected outcome has not been achieved so far in this sector. In the back drop of recent global recession, COVID-19 situation and other changed circumstances, it has become essential to include all segments of people in the growth process through facilitating credit to the sectors where less attention has been given due to present market mechanism, specially, in agriculture and CMSME sector. Reasonably, a new department namely 'SME and Special Programs Department' has been established in BB which will be solely responsible for policy formulation, facilitating fund, monitoring and development of entrepreneurship in the CMSME sector.

SME & Special Programs Department (SME&SPD) is one of the significant outcomes of BB's policy paradigm shift to add financial inclusion to its traditional goals of prudential regulation & financial stability. SME&SPD started its journey in December, 2009 towards the development of CMSMEs in Bangladesh by improving the existing environment in the banking sector through regulatory & policy interventions. SME&SPD is playing a pivotal role to ensure country's inclusive & sustainable economic growth through CMSMEs development with a special focus on financially excluded, unbanked people & women entrepreneurs.

BB identified Cottage, Micro, Small & Medium Enterprises (CMSMEs) as a top priority sector for rapid industrialization, employment generation, poverty reduction, gender equality & overall economic growth of Bangladesh. To develop the sector, this department provides refinance facilities to Banks & Financial Institutions at a relatively cheap rate against their financing to CMSMEs. Currently, Bangladesh Bank is providing refinance facilities to banks and financial institutions from Bangladesh Bank Fund, Revolving Fund Account of JICA assisted SPDSME Fund & Urban Building Safety Project, Small Enterprise Refinance Scheme, Agro-based Product Processing Industries Fund, New Entrepreneurs Fund and Islamic Shariah Fund. A target based lending to CMSMEs has been initiated since the inception of SME&SPD. This intervention for engendering SME finance has been declared as international best practice for SME financing by Alliance for Financial Inclusion (AFI) in 2014. All banks and FIs have been disbursing credit to CMSMEs following their indicative target set on a calendar year (Jan-Dec) basis. SMESPD has been taking multifaceted initiatives for developing the Cottage, Micro, Small and Medium Enterprises (CMSMEs) including women entrepreneurship development all over the country.

3.2Small, Cottage and Micro enterprise financing in Bangladesh including Women Entrepreneurship financing in Bangladesh

The role of CMSE is indispensable for the economic development of a country like Bangladesh. This sector is labor intensive with short gestation period, it is capable of increasing national income as well as rapid employment generation; achieving Sustainable Development Goals (SDGs) especially eradication of extreme poverty and hunger, gender equality and women empowerment.

It is up to the Bank/FIs' best judgment whether they will lend money to SME sector or not. At present, many big corporate loans have been stacking up and the risk for Banks/FIs is increasing. Lending money to CMSE sector can reduce the risk of large amount of default loans, ensure portfolio granularity by diversifying the risk.Therefore, the top-level management of the Banks/FIs have to understand the necessity and impact of SME financing on its portfolio. The chance of profitability from lending money to SME sector is high, therefore those who have targeted SME from the very beginning and concentrated less on the corporate, have been maintaining a growing portfolio.

- In Bangladesh, an indicative target has been set for CMSE loan disbursement by the banks and financial institutions considering CMSE development as one of the most important development agenda of the country. According to the target, CMSE loan shall be disbursed to the entrepreneurs in the sector including the new and women entrepreneurs.

- Following the 'Area Approach Method' banks/financial institutions will try to attain their indicative targets separately by dividing it as branch wise, region wise & sector wise.
- Each bank/financial institution shall follow a separate business strategy in financing with CMSME loan accompanied by least formalities in executing documentation to ensure easy and speedy loan sanction and disbursement process.
- Priority shall be given to small entrepreneurs.
- For small entrepreneurs credit limit will be ranged from Tk. 50,000 (Fifty thousand) to Tk. 50,00,000 (Fifty lac).
- For more participation of women entrepreneurs in industrial development of the country and for conducting business activities by women entrepreneurs in large number, priority shall have to be given to potential women entrepreneurs in respect of CMSME credit disbursement.
- Banks & Financial Institutions shall put highest priority in receiving loan application from women CMSME entrepreneurs and settle the loan disbursement process within very reasonable time from the date of acceptance of the application.
- Each bank and financial institution shall establish a separate 'Women Entrepreneurs' Dedicated Desk' with necessary and suitable manpower, provide them training on CMSME financing and suitably appoint a lady officer as chief of dedicated desk. Branch wise list of 'Women Entrepreneurs' Dedicated Desk' should be sent to Bangladesh Bank.
- Banks and financial institutions may sanction up to Tk. 25,00,000 to women entrepreneurs against personal guarantee. In that case, group security/social security may be considered.
- The success in SME loan disbursement will be considered as yardstick for further approval of new branches of the concerned bank. License for New Branches will be issued for financing the priority sectors like SME and agriculture in the name of 'SME/Agriculture Branch' instead of 'SME Service Centre; in order to involve banks in financing priority sector like CMSME and Agriculture'.
- Each bank/financial institution shall fix the interest rate on CMSME loan sector/subsectorwise. However, bank/financial institution will inform Bangladesh Bank sector/sub-sector wise rate of interest immediately and ensure disbursement of refinanced fund to the clients (women entrepreneurs).
- Training programs shall be arranged for the entrepreneurs

In Bangladesh, half of the population is female. During recent decades, women's contributions to the country's economic and social development have increased substantially. None-the-less, participation by women in the formal economy is still inadequate. Even today, the progress of women as entrepreneurs in Bangladesh is remarkably poor. Compared with men, few women participate in the CMSME sector. Nevertheless, women are excluded from accessing working capital that would let them participate in financial markets or develop and run a business.
Research shows that economic developments lead to cultural developments that lead to societal change that transforms the position of women into one of equality rather than subordination.

Women's representation in the mainstream economy is crucial because female entrepreneurship leads women to greater economic independence and gender equality in decision making. Evidence shows that the economic empowerment of women results in significant improvements in children's health, nutrition, and education and has multiplier effects on sustainable development. Women's self-employment increases their income, which strengthens their bargaining capacity and control over resources. This allows them to make greater investments in their own quality of life and in their children's well-being. Female entrepreneurs in the CMSME sector of Bangladesh have a growing need for credit. Despite this, there are formalities and complicated procedures that often make credit almost unattainable. These include poor implementation of existing policies, lack of institutional support, discriminatory laws, and the lack of a woman-friendly sociocultural and economic environment. Access to finance is the greatest challenge faced by female entrepreneurs in starting and operating CMSMEs in Bangladesh.The Government of Bangladesh, Bangladesh Bank (BB), and developing partners like the Asian Development Bank have increased financial support of female-owned CMSMEs in both rural and urban Bangladesh.

A target based lending to Cottage, Micro, Small & Medium Enterprises (CMSMEs) has been initiated since the inception of BB. All banks & Financial Institutions have been disbursing credit to CMSMEs following their indicative target set on a calendar year (Jan-Dec) basis. If you see the trend over the last few years, the sector is on a growth trail & exceeding the target in recent years. From 2010-2018, the total disbursement of SME sector is BDT 942,343 crore, which is commendable. We divided the target into different categories under Manufacturing, Services & Trading Sectors and prioritized the small segment. Considering the importance of the small segment in CMSME sector, minimum 50% of the total CMSME financing has been set for Cottage, Micro & small segment. BB has also re-set the sector wise targets. Actually, BB has been encouraging manufacturing & service sectors finance to facilitate employment generation in the country.

3.2.1 Sustainable Linked CMSME

Finance to Sustainable CMSME (cottage, micro, small & medium as defined by SMESPD, BB) is understood as linked to Sustainable Finance. Inclusive Sustainable Finance in CMSME aims to advance financial inclusion among the most vulnerable by building resilience and enabling mitigation to climate change. This is especially the case for the transition to a low-carbon, circular and sustainable economy. Banks and FIs should have targeted initiatives to scale up finance for CMSMEs, with a focus on specific sustainable/inclusive sectors. Sustainable linked CMSME financing decisions upon **environmental, social and governance (ESG) considerations will**address issues of inequality, inclusiveness, investment in human capital and communities with respect to preservation of biodiversity, pollution prevention and circular economy.

Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. According to our estimates, 600 million jobs will be needed by 2030 to absorb the growing global workforce, which makes SME development a high priority for many governments around the world. However, access to finance is a key constraint to SME growth, it is the second most cited obstacle facing SMEs to grow their businesses in emerging markets and developing countries.

BB as a central bank vide its policy circulars is concentrating on disbursing green loans by banks and FIs among cottage, micro, small and medium enterprises (CMSMEs) with women empowerment and gender equality in due consideration. CM has been added to SMEs addressing better while empowering women belong to cottage and micro industries. This is very encouraging that BB has recognized term financing to all the products belong to Cottage Industry as Green CMSME and accordingly will be eligible for green refinancing from BB. Banks and FIs can avail of this lowcost funding arrangement to better facilitate the CMSME borrowers specially women for their empowerment and thereby making them Sustainable. Sustainable CMSME that combines both short-term direct interventions from the government as well as sufficient motivation for the private sector to extend support to the CMSMEs as part of a sustainable business model.

Sustainable CMSME areas cover Women entrepreneur based project financing, Rural Based business enterprises project financing, New entrepreneur project financing, Cluster Based project financing and Agricultural product processing industry.

Sustainable CMSME industries/projects contain Herbal cosmetic manufacturing industries, 100% local ingredients-based milk processing industry, Handicrafts, Handloom and alike, Agro feed manufacturing industry, Jute made products manufacturing industry, Unani/Ayurvedic/ Homeopathic manufacturing industries, Rice processing industry, Agro equipment manufacturing industry, Production of bio pesticide, production of organic fertilizer, and Bran wood projects and Horticulture processing industry. Finance to other CMSME Priority Projects like Helpless/distressed/underprivileged/Marginal group/area-based project financing and Project Financing for the sustainability of Third gender, Physically/Mentally challenged person, Tribal people are being treated as Sustainable Finance.

3.3 Role & Challenges associated with CMSME Financing

Policy makers of the most developing countries have been very active in promoting some forms of sustainable banking activities. Likewise, policy makers and banks in Bangladesh have been pursuing sustainable banking activities and development agendas. In spite of some remarkable achievements, the banking industry is in a financial environment where a big section of population is excluded from the formal mode of financing. As a result, financing requirements of large vulnerable groups are not adequately addressed; a big chunk of small and micro enterprises are not getting access to the formal sector finance; environmental risks are yet to receive due attention in bank financing; and rural economy demands greater attention of banks for its socio-economic advancement. Alongside supporting and guiding the banking sector to achieve greater soundness and efficiency, Bangladesh Bank (BB) has brought in a paradigm shift with multiple approaches of inclusive financing, agricultural and rural financing, green banking, women empowerment financing, corporate social responsibility, small enterprise financing etc., to attain certain marks through banking channel. The government has also been supportive in promoting sustainable banking and financing activities in the country. Especially, government's efforts on the way to attain SDGs are very much allied with the sustainable banking ventures. Policy and market expectations from the banking industry are particularly high in the country as the financial sector of Bangladesh is mainly bank-based; and practically banks have been playing the roles of other vital pillars of the financial system: non-bank financial institutions and market components. However, transforming the policy targets into realization by addressing the barriers and streamlining the policy supports is a key challenge. Covid-19 brought further difficulties for the government, the regulator and the market players.CMSME sectors have traditional challenges associated with collateral, documentation and financial literacy. A real clustering approach might work as an effective alternative to the collateral related challenges and for that, identification of the clusters and their levels of development is the need of the time. CMSME women enterprises need support to be bankable. Small, micro and cottage enterprises should also be under regular training and awareness programs.While CMSMEs have always grappled with limited access to finance, Covid-19 has exacerbated their situation with financial institutions having become more risk-averse. As already mentioned, BB has implemented several policies to provide financial support to the CMSME sector that has been hit hard by Covid-19. However, there is a need for a sustainable approach to supporting the CMSMEs such that the wheels of the market are sufficiently greased leading to them requiring minimal intervention from the government in the long run. After all, the plights of the CMSMEs are not new and without a sustainable approach, it will not be long before the effects of short-term government interventions dissipate. Therefore, it is imperative that a holistic approach is adopted that combines both short-term direct interventions from the government as well as sufficient motivation for the private sector to extend support to the CMSMEs as part of a sustainable business model.

While it is true that CMSMEs are inherently risky even when they are formalized because of the scope and nature of their businesses, financial institutions are also not trying enough to cater to their needs. Most of the commercial banks have not shown a sincere interest in adjusting or updating their lending methodologies when it comes to lending to CMSMEs. It is high time that the financial institutions, in particular, commercial banks, had developed bespoke loan products that were suitable for SMEs. For example, after months of shutdown caused by the coronavirus, now that businesses are reopening, many CMSMEs, in particular, the ones in retail businesses are in need of money to replenish their inventories. This is an appropriate time for financial institutions (FIs) to develop loan products such as inventory finance for CMSMEs.

BB has a special focus on women entrepreneurship development since its inception. Financial Inclusion has been prioritized in BB's policy to include small entrepreneurs and a large number of women in Financial activities. To ensure this, BB has taken a number of policy initiatives like refinance facility for women entrepreneur at low cost (bank rate + 4%), regulatory provision for collateral free loan for women entrepreneurs against personal guarantee up to BDT 25 lac, group based lending, Simplified Loan Application Form in Bengali etc. According to the policy of Bangladesh Bank, Banks/FIs must maintain 10% of their total CMSME loan portfolio in financing women entrepreneurs.

Experience shows that most of the women entrepreneurs are not educated; they are lacking behind of financial literacy knowledge. Firstly, their capacity needs to be developed. BB instructed every Banks/FIs to find out at least three new women entrepreneurs for imparting training to develop their capacity and extend credit facilities to minimum one of them by each year per branch. If one bank cannot afford to organize the training, they might do it in a combined manner. If banks/FIs can do this they will be ultimate beneficiary.

The entrepreneurs are not well aware about all the facilities offered by the bank, which is a lack of communication from the bankers' side. Another thing is, most of the women entrepreneurs do not know about all the formalities and procedures of loan application and setting up business. So if the banks help them with this taking a minimum charge if needed, that would be a great help for the women entrepreneurs and also another source of income for the banks. As per BB instruction, there should be a dedicated desk in every bank branch for facilitation the women entrepreneurs, but in most of the banks these desks actually lack of dedicated personnel at service. Whenever the women entrepreneurs come to collect information, the banks do not give them the whole picture at a time. So there should be a one stop service to facilitate them.

3.4 Documentation & Collateral concerns of CMSME Financing

CMSMEs in other sectors, such as those in manufacturing, which provide supplies to larger enterprises, can benefit from invoice discounting or factoring. These types of loan products do not necessarily require additional collaterals since inventories and invoices (i.e. accounts receivables) themselves act as collaterals. Classic examples of floating charges that relate to inventory and invoice discounting minimize the lending risk that the FIs have to bear. Nevertheless, the commercial banks in Bangladesh are yet to exhibit adequate interest in providing CMSMEs with these kinds of products which have already found traction in many countries seeking to support the SMEs. To this end, the Bangladesh government may consider providing technical assistance to the financial institutions to help them develop and roll out these loan products for CMSMEs, at least as a dry run.

If required, the laws governing floating charges (as in the case of inventory financing) should be revised, or further clarified and communicated clearly to the FIs to ensure their rights as they lend to CMSMEs. In addition, as mentioned previously, the government may consider establishing a Collateral Registry where FIs can register their security interests in CMSMEs' inventories or invoices which will deter the borrowing enterprises from using them as collaterals while seeking additional loans from other FIs.

3.5 SME Cluster Financing

SME cluster financing is important, a cluster signals opportunity and reduces the risk of relocation for employees, it can also be easier to attract talented people from other locations, a decisive advantage in some industries. A well-developed cluster also provides an efficient means of obtaining other important inputs. Clustering techniques help companies divide large markets into homogeneous groups of consumers with similar interests, attributes or features. This helps businesses to strategically position themselves to tailor products and services for these distinct segments.

The Small and Medium Enterprise Foundation (SME Foundation) has defined SME cluster as 'a cluster having a concentration of 50 or above enterprises producing similar products or services and is situated within an adjoining geographical location of 3 to 5 kilometer radius. Cluster based approach to lending is intended to provide a full-service approach to cater to the diverse needs of the CMSME sector which may be achieved through extending banking services to recognized CMSME clusters.
Banks and FIs will have ease in appraisal of loans due to better understanding of the overall profile of the cluster and the CMSMEs. The monitoring of loans is easier and cost-effective in lending to CMSME clusters.

3.6 Role and Performance of banks and NBFIs in CMSME Financing

The major problems in this sector need to be understood. Any central national database of SME clients and the information of the lenders is yet to available. It is not possible for the banks/non-bank financial institutions to set up it by their own but the government may take initiatives to gather information of CMSME business by ensuring maintenance of database of clients that all FIs can access. It would be easy for us to track down the whole problem if the government wants to regulate the process through BB. The database will help to identify the client and their previous loan status easily. This will help to reduce the loan processing time. Information regarding primary business information (e.g. nature of business, no. of employees, investment, business turnover etc.) can be stored in the database.

Banks/Non-Bank Financial Institution should operate capacity development programs to increase the loan portfolio and get more people under the reach of credit. Banks can also add e-learning feature in their website to give more financial literacy services to the entrepreneurs.

About half of the population of our country is women & women participation in the mainstream economy is crucial for balanced economic development. Women entrepreneurs face different types of problems in our country. Inadequate capital, access to capital, small size of capital, lack of startup capital, lack of knowledge & sufficient information, lack in access to market & lack of market demand related information are mentionable problems. Finally, most of the banks/non-bank financial institutions offer collateral based financing, sometimes which is not sufficient enough for the growth of CMSME. They should give emphasis to innovate more SME friendly loan products to cater CMSME demand.

A holistic approach combining advisory and lending services to clients to increase the contribution that SMEs can make to the economy including underserved segments such as women owned SMEs. Advisory and Policy Support for SME finance mainly includes diagnostics, implementation support, global advocacy and knowledge sharing of good practice. For example, we provide financial sector assessments to determine areas of improvement in regulatory and policy aspects enabling increased responsible SME access to finance. Implementation support of initiatives such as development of enabling environment, design and set up of credit guarantee schemes. Improving credit infrastructure (credit reporting systems, secured transactions and collateral registries, and insolvency regimes) which can lead to greater SME access to finance. Introducing innovation in SME finance such as e-lending platforms, use of alternative data for credit decisioning, e-invoicing, e-factoring and supply chain financing. Policy work, analytical work and other Advisory Services can also be provided in support of SME finance activities.

Advocacy for SME finance at global level through participating and supporting G20 Global Partnership for Financial Inclusion, Financial Stability Board, International Credit Committee for CreditReporting on SME Finance related issues, knowledge management tools and flagship publications on good practice, successful models and policy frameworks need to be in place.

Case Study

Case 1: Green CMSME (Financing to Pottery belongs to Green CMSME - an example of inclusive green finance)

Asma Begum aged 19 lives in Rayer bazar, Dhaka. She lives in a tin shaded building of two rooms with her mother and they are the only two members in the family. In one room they stay and the other room for pottery. She has been from her childhood seeing her mother preparing household goods, sculpture, flower vases, fancy kitchen pots, decoration piece etc. made of clay and those products belong to pottery under cottage industry. Asma has been assisting her mother for long 5 years and she has an expert hand to do the same quality products like her mother. They have been selling these products to a limited scale to some individuals and some known houses. Now they want to expand their business by taking rent for a shop in road No. 15(old), Dhanmondi to reach the customers with varieties of clay made products. As such, Asma has applied on a prescribed loan application form for BDT 3 Lac collateral free term loan under BB low cost funding facility for green CMSME product (belong to cottage industry) to Dhanmondi Branch of ABC bank. Bank Branch has asked for (i) Attested Copy of NID (ii) Two PP size photographs (iii) Personal Guarantee (PG) from minimum two persons (iv) Experience Certificate of the business (iv) Statement of Monthly Cash Inflow and (v) Electricity Bill Copy of the house they reside (vi) Project Proposal of BDT 3 Lac.Asma responded to above (i), (ii), (iv), (v) and (vi). She lastly managed to collect a electricity copy of the bill from the landlord as they share the electricity bill commonly. But she neither could manage any PG from any person nor any experience certificate and requested repeatedly the concerned bank official to facilitate in a flexible manner. Fortunately, ABC Bank Dhanmondi Branch had a Sustainable Finance Dedicated Help (SFDH) desk and Mr. Kausar Hossein, the concerned official concentrated and contributed to a huge extent with a green banker approach.

Probable Solution: Mr. Kausar proactively handled the case. He visited the residence of Asma Begum, highlighted the pottery products stored in the room as he took the video and steel photography. He then went to some nearby individual houses in Rayerbazar and Road No. 15(old) where Asma sells their products and this dynamic approach of Mr. Kausar helped Asma Begum to get letters of appreciation from the customers certifying of supplying quality products by Asma Begum which worked as complementary to experience certificate. Mr. Kausar strongly urged to his authority that PG could be avoided if Asma Begum gets BDT 3 lac for three years term loan with a grace period of six months and there after quarter repayments within the tenor, she can rent a small shop by depositing one lac twenty thousand taka as advance for six months to landlord of the shop and the rest money for establishment and business promotion. He proposes in this case that the one of the two original copies of the shop rent deed can be preserved by the bank branch. He added, prior to this arrangement necessary undertaking could be taken from Asma Begum so that she will deposit the deed documents as required by the bank branch. The ToR of SFDH desk contains the stricter monitoring there after disbursement assuring maintenance of the asset quality. Thus the brilliant dynamic intervention of SFDH desk of ABC Dhanmondi branch facilitated Asma Begum BDT 3 lac as @5% interest for 3 years tenor with six months grace period.

Case 2: Green CMSME (Financing to Cloth Printing, Jamdani Weaving, Stitching and Embroidery - an example of inclusive green finance):

Ms. Lopa Rahman is a women entrepreneur having Jamdani Shari making factory named Lopa Jamdani House in Sonar Gaon, Narayanganj, which is running with a very limited scale and strength. She has an account with Sonargaon branch, Narayanganj of ABC bank. Though Ms. Lopa owns the factory equipment but her factory is in a rented building. The factory has enough space to install weaving and other equipment. In this scenario Ms. Lopais in need of collateral free term financing from Sonargaon branch for the capacity enhancement for meeting the growing demand for jamdani. She needs collateral free term loan of BDT five lac for installation of five weaving machines including one cloth printing and two embroidery machines. This would be the first time that she is looking for a loan to expand and grow business. She will now respond to bank's requirement and almost ready with all the documents like NID, updated Trade License, Experience Certificate for the last three yrs. But neither she has collateral nor a personal guarantee from her husband. Her husband only would give guarantee if she could facilitated her husband with the whole loan amount for she has applied to bank branch.

So how Ms. Lopa in the above scenario can have access to finance for five lac from Sonargaon branch, Narayanganj of ABC bank?

Probable Solution: Being one of the members of the Jamdani Association, Narayanganj as mentioned above she has managed a personal guarantee from one of her known member of her association who has a good business and financially solvent as well.

SFDH desk of Sonargaon branch, Narayanganj has collected all the documents from Ms. Lopa including loan application form under BB's refinancing scheme for Green CMSME products. SFDH desk officials paid a visit to Lopa Jamdani House and gone through all the relevant documents. SFDH desk has asked for a Project Proposal in a structured manner with the budget need in a component wise break up mode. The branch official has also asked for one set attested copy of the Rental Agreement between Land Owner and Lopa Jamdani House. Ms. Lopa is passionate and dedicated to her business profession and provided the SFDH help desk with the rest documents they asked for. SFDH desk in quick mode appraised the PP and upon the approval of the competent authority, the bank branch has disbursed the BDT Five lac collateral free term loan to Lopa Jamdani House @ 5% interest for five year tenor including nine months grace period.

Case 3: CSME loan for TeheriGhor 2

Farhad Hossain and his family has been in the same line of business for a long time, but the client had financed the business on his own before applying to ABC, a NBFI for a loan of BDT1000000. The concern is a restaurant that serves Bengali food items and delivers online as well. Considering that the client did not have any past record of repaying a loan, ABC credit team granted a loan of BDT 500000 to the client. The client has since then expressed that even though his family business has been running for more than two decades, it was difficult for him to get a loan for his SME business.

What value you as banker may add to empower the above project proposition to have access to finance with the rest five lac of the amount requested for?

Case 4: Green CMSME (Financing to Batik Printing, ShatranjiWeaving and Carpet Making - an example of inclusive green finance):

ABC stands for Aleya, Bithi and Choity respectively. They are the three Rajshahi University friends and CMSME Entrepreneurs. One from Economics and the other two from Finance and Accounting. Each of them have separate proprietorship concern for three respective products.

Now **Aleya for Batik Printing, Bithi for ShatranjiWeaving and Choity for Carpet Making** have submitted a project proposal combining three parts A, B and C in a group name ABC. They have applied under BB's green refinancing scheme to XYZ Bank, Ganak Para Branch, Rajshahi for a collateral free term loan of BDT nine lac. They are producing all these green CMSME cottage products in an exclusive rented house in Shona DighirMor, ideal for Batik Printing, Shatranji Weaving and Carpet Making.

How the SFHD of Ganak Para Branch, Rajshahi proceeded to facilitate ABC Group?

Probable Solution: Concerned SFDH desk officials of the Bank Branch visited the work place and assessed the stock of products. SFDH asked for all the documents required for both bank financing and BB's refinancing scheme for green products/projects/initiatives. SFDH encouraged ABC because of its green CMSME products is in an advantageous scenario w.r.t. eligibility, credibility and efficiency. Ms. Aleya, Ms. Bithi and Ms. Choity has given cross guarantee to each other. They have gone through all the relevant legal and administrative documents, assessed economically, environmentally, socially, governance and assessed legal documents for security control and coverage risk and thus found the ABC project proposition feasible and meant to be bankable. Accordingly, upon the approval of the competent authority XYZ Bank, Ganak Para Branch disbursed the BDT nine lac term loan @ 5% as demanded by ABC group with 5 year tenor including nine months grace period.

Case 5: CMSME loan to Morol Engineering Workshop

The client, Akter Hossain Morol, returned from UAE and started this business 3 years after, to ensure a source of livelihood. He started the engineering workshop business in 2010 with very limited resources. 10 years after the start of the business, MrMorolseeked opportunities to expand his business and applied for a loan at X bank. The business was a small one, and the client had to go through many scrutinizes from financial institutions. Although he applied for BDT 1000000 at X Bank, he was deemed eligible for BDT 600000.

What value you as banker may add to empower the above project proposition to have access to finance with the rest five lac of the amount as requested for?

Case 6: CMSME Project Finance to for MaaTailors

The client Nasir Ahmed is an account holder of Rampura branch of KLM bank and he is the owner of Maa Tailors located nearby the bank branch. Mr. Nasir has an advantage that he is not only the owner but he can stitch on his own. He has 3 sewing machines in his tailoring where he stiches with one and the other two by two of his assistants. Nasir has been running the tailoring for the last 8 years and he has a lot of male and female customers all around. Since he has a huge growing demand for his tailoring, he wants to expand his business. In this regard, he wants to buy three more sewing machines and one embroidery machine. He has applied for BDT one lac loan under BB green CMSME refinancing to his bank branch, Rampura.

What do you think for the applicant should have the finance? Yes or No? Justify your answer.

Probable Solution: KLM bank, Rampura Branch will collect all the required documents(two pp photographs, Attested NID Copy, Working Experience certificates of 12 years, one original rent deed with the landlord, monthly income flow statement and also a Personal Guarantee from a member of an association where Nasir is also a member there. So bank branch is now satisfied after paying a visit to his tailoring to provide the requested amount of collateral free loan @ 5% for a three year tenor including six months grace period.

Case 7: Access to Finance for Sand-witch Panel (an example of inclusive green finance) under BB BDT 4 billion low cost funding arrangement

Name: ABC Ltd. in the name of ABCSPVG(ABC Sand-witch Panel for Vulnerable Group) has applied loan to X branch of XYZ on behalf of the vulnerable groups living in coastal areas or climate vulnerable zone.

Project Name: ABCSPVG(ABC Sand-witch Panel for Vulnerable Group)

Product: Sand-witch Panel

Debt: Equity: 80:20 Loan Size: BDT 4 (estimated at actual cost) Loan Tenor:5 Years, Rate of Interest: 5%

Hints: Please go through the documentation checklist under Refinancing and ESDD under ESRM Guidelines and make PP for a Bankable Project to avail loan under BB BDT 4 billion low cost funding arrangement.

Case8: CMSM Term Loan to Bismillah Battery

The client runs a business of vehicle accessories including distill water, battery, tyre etc. The client lives in a marginal area and his business did not get any loan before due to the small size of the business. The client was granted BDT 200000 from Z bank, which the creditors deemed not enough for the business. This loan may help the entrepreneur in expanding the business to a little extent.

In the above circumstances, construct a project proposition with the required adjustment to the existing proposition for another collateral free loan of 3 lac for Bismillah Battery.

Case 9: CMSM Term Loan to Grand Leather Craft

The business is a leather belt manufacturing one, where the client procures leather from adjacent areas of Dhaka and makes waist belts to sell at markets of Dhaka. The client Sazib Ahmed was a worker in a similar business and learned hands on about the business. MrSazib was seeking for a loan of BDT 2000000. However, he got partial amount of that at Y bank. as the creditors did not think his business could sustain a loan bigger asa big as the proposed one.

With the above information, please contribute and add value in strengthening the above project in such a manner that Grand Leather Craft has a handsome loan from Y bank and move on with the CMSME Project and business.

Case 10:Fecal Sludge Management

An entrepreneur wanted to avail concessional Green Finance to expand the Fecal Sludge Management (FSM) business in a municipality. Finance is needed to purchase equipment and specialized vehicles to extend FSM services at city scale. But banks/ NBFIs are not comfortable to finance in such businesses as they are not aware of the bankability of such projects. Therefore, the entrepreneur is unable to increase the FSM service coverage in that municipality, which results in environmental pollution and unhealthy condition for city dwellers.

Challenge: The current BB circular on the Green Refinance Scheme offers low-cost funding to construct an FSM treatment plant and related import costs, but in that municipality, a Fecal Sludge Treatment Plant (FSTP) is already constructed. The municipality signed an agreement with the entrepreneur to provide FSM services to city dwellers. Hence, the entrepreneur needed the finance to purchase equipment and specialized vehicles to collect and transport fecal waste from households and institutions to a designated FSTP. These specialized vehicles are not considered as commercial vehicles by banks/ NBFIs; hence, they are not eligible as security for the loan.

Probable Solution: As bankers are not aware of FSM services and their profitability, Sustainable Finance Dedicated Help(SFDH) Desk of the Gulshan 1 Branch of ABCBank went for an exposer visit and came up with the opinion that it could be facilitated to a successful FSM business in a municipality. SFDH informed about the service model, cash flow, ever growing demand for FSM services where equipment and specialized vehicles to collect and transport fecal waste from households and institutions to a designated FSTP which could be an integral part of a full fledged green project. SFDH approached to SFU, Head Office of ABC Bank with a recommendation including a comprehensive feasibility report and emphasized the need of inclusion equipment and specialized vehicles as integral part of a green project to serve far better the households and institutions. ABC bank made an approach to BB with the project model to recognize the product as a green one and inclusion in the list of BB's low cost funding arrangement. Meanwhile ABC bank board is seriously considering to facilitate this project in the best possible manner with a better offer rate.

Broad Questions

1. Define CMSME as provided in National Industrial Policy 2016 and existing Bangladesh Bank's Guidelines.
2. What are the Bangladesh Bank's Policy and Regulatory Initiatives on CMSME Financing?

3. What are the Steps/Measures taken by Bangladesh Bank for SME Development?
4. Mention about the role of Bangladesh Bank in CMSME Financing in Bangladesh?
5. How a woman entrepreneur is defined? Describe the role of Bangladesh Bank in empowering women entrepreneurs.
6. What are the Challenges with CMSME Financing?
7. Describe the role and Performance of Banks and FIs in CMSME Financing.
8. Mention about Area Approach Method and Cluster Development Policy.
9. What are the special arrangements for women entrepreneurs in CMSME financing.
10. Discuss Purpose and Method of Monitoring CMSME financing.
11. Describe the role and challenge associated with CMSME financing
12. Describe the Documentation and Collateral Concerns of CMSME financing.
13. Define Sustainable CMSME. Mention about (i) Sustainable CMSME areas, (ii) Sustainable CMSME industries/projects and (iii) Sustainable Finance to other CMSME Priority Projects
14. "The role of Cottage Micro and Small Enterprise (CMSE) including Women Enterprise is indispensable for the economic development of a country like Bangladesh" – Justify.
15. Discuss the Role and Performance of banks and NBFIs in CMSME Financing
16. Write Short Notes on the followings:
    (a) Sustainable CMSME Areas (b) Sustainable CMSME industries/projects (c) Woman Entrepreneurship (d) CMSME Area Approach Method (e) CMSME Cluster Development Policy (f)Criteria for Determining the Type of (Industrial) Enterprise (g)Criteria for Determining the Type of (Trading) Enterprise(h) CMSME Financing Challenges
    (i) Identification of the Real Women Entrepreneurs (j) Women Empowerment

Short Questions

1. What are the components of Sustainable CMSME?
2. Mention about Area Approach Method
3. Mention about CMSME Cluster Development Policy
4. Mention about Green CMSME
5. What is the Criteria for Determining the Type of (Industrial) Enterprise
6. What is the Criteria for Determining the Type of (Trading) Enterprise
7. What are the CMSME Financing Challenges? How could you minimize those challenges by converting into opportunities?
8. How a woman entrepreneur is defined?
9. Pin Point the role of Bangladesh Bank in empowering women entrepreneurs.
10. Mention five major challenges in CMSME financing.
11. What is the ToR of CMSME dedicated Desk.
12. Discuss on BB's Monitoring on CMSME Activies/Financing

13. Discuss on Bank’s Head Office Monitoring on CMSME Activies/Financing
14. Discuss on Bank Branch Monitoring on CMSME Activies/Financing
15. Describe Women Empowerment in CMSME financing in conformity with SDG 5.

Chapter 4
Module D: Agricultural and Rural Financing

4.1 Concept: Sustainable development is development that meets th needs of the present without compromising the ability of future generations to meet their own needs (Rankin, 2014). The prime aim of sustainable agricultural development is to secure enough food for present and future generations (Zhao et al., 2007). Thus, the issue of greatest concern in Bangladesh's sustainable agricultural development at present is whether agricultural production can ensure food security for the future. Sustainable agriculture is defined as a system that, “over the long term, enhances environmental quality and the resource base on which agriculture depends; provides for basic human food and fiber needs; is economically viable; and enhances the quality of life for farmers and society as a whole” (Crews et al., 1991; Flora, 1992 and Kambewa,2007).

Bangladesh is one of the most vulnerable countries to climate change and Agriculture in Bangladesh is under threat to climate change effect as it continues to degrade land, water resources and use harmful agro-chemicals. Climate change poses a serious threat to the country. Founded on a delta, flooding, natural disasters, and saltwater intrusion have caused Bangladesh to lose 1.75 percent of its arable land. Soil depletion, water contamination and neglect of conditions for farm laborers are other major challenges to combat. To combat food security issues, Bangladesh has begun projects to improve its sustainable agriculture. Recent technological innovations dramatically changed the style of Bangladesh’s agriculture. Mechanization and specialized chemicals pushed the government to enact policies that maximized production.. The goals of sustainable agriculture in Bangladesh are productivity, environmental stability, economic profitability and social and economic equity. A new form of sustainable agriculture has won global recognition in Bangladesh. In 2015, the Food and Agriculture Organization designated a farming style in Bangladesh as a “Globally Important Agricultural Heritage Site.” Called the floating gardens, farmers in areas where floodwater lays for prolonged periods created systems in which they grow plants on floating organic beds of algae and other plant residue. By utilizing wetlands, the country’s farmers provide numerous ecological and economic benefits to locals. But farmers in Bangladesh in poorer areas do not have ready access to sustainable farming principles or resources which needs immediate intervention of the public and private authorities.

In addition, climate risks increase the need for investments to make agriculture more resilient to such risks. Estimates suggest that demand for food will increase by 70% by 2050 and at least $80 billion annual investments will be needed to meet this demand, most of which needs to come from the private sector. Financial sector institutions in developing countries lend a disproportionately lower share of their loan portfolios to agriculture compared to the agriculture sector’s share of GDP. On the other side, the growth and deepening of agriculture finance markets is constrained by a variety of factors which include: Inadequate or ineffective policies, High transaction costs to reach remote rural populations, Covariance of production, market, and price risks, Absence of adequate instruments to manage risks, Low levels of demand due to fragmentation and incipient development of value chains, Lack of expertise of financial institutions in managing agricultural loan portfolios.

The development and commercialization of agriculture requires financial services that can support: larger agriculture investments and agriculture-related infrastructure that require long-term funding (given that currently transportation and logistics costs are too high, especially for landlocked countries), a greater inclusion of youth and women in the sector, and advancements in technology (both in terms of mechanizing the agricultural processes and leveraging mobile phones and electronic payment platforms to enhance access and reduce transaction costs). An important challenge is to address systemic risks through insurance and other risk management mechanisms and lower operating costs in dealing with smallholder farmers. Agriculture finance and agricultural insurance are strategically important for eradicating extreme poverty and boosting shared prosperity. Globally, there are an estimated 500 million smallholder farming households – representing 2.5 billion people – relying, to varying degrees, on agricultural production for their livelihoods. The benefits of our work include the following: growing income of farmers and agricultural SMEs through commercialization and access to better technologies, increasing resilience through climate smart production, risk diversification and access to financial tools, and smoothing the transition of non-commercial farmers out of agriculture and facilitating the consolidation of farms, assets and production (financing structural change).

4.1.1 Sustainable Agriculture: The terms of reference of sustainable agriculture contains the vision and mission to improve value for resource-poor farmers in sustainable agriculture and aims to help smaller farmers by creating access to information, quality resources and linking them to profitable markets via its business and bankable models. Through the sustainable projects and developments in sustainable agriculture, Bangladesh will continue to grow economically while protecting its environmental resources.

It is necessary to take effective measures to control fertilizer and pesticide abuse and improve efficiency in fertilizer and pesticide use to achieve more sustainable agricultural production and agro-ecosystems. Extension services, technology transfer and agricultural research/ education: The agricultural sector extension service plays a key role in disseminating knowledge, technologies and agricultural information. The extension service is one of the critical change agents required in transforming subsistence farming to a modern and commercial agriculture to improve productivity. Bangladesh has a well-developed agricultural research system but in some places use of modern science and technology in agricultural production is still limited where farmers are found continue to use outdated and ineffective technologies. This brings the need of extension services that can link research and the farmers. Transferring updated information and technologies to the field is very important to reduce yield gap and increasing productivity.

The declining trend in growth of agriculture sector can largely be attributed to gradual loss of cultivable land, lack of intervention, adoption and dissemination of new technology, and lack of sufficient support for agricultural research and training in the country. The governments of Bangladesh have, therefore, been giving priorities to agricultural development with a view to ensuring food and nutritional security and poverty alleviation. Therefore, a profitable, sustainable, and environment-friendly agricultural system is required to achieve these objectives.

Fertilizer is considered to be one of the main inputs for increasing crop yields and farm profit for any country but balanced fertilization is the key to efficient fertilizer use for sustainable high yields. Therefore, it is necessary to increase the production of all types of fertilizers both chemical and organic in domestic level. Under such situations, there is no alternative but to add organic fertilizer in the soils to sustain crop productivity and to increase fertility. Government can take some public awareness media activities and advocacy to influence farmers for using balanced fertilizer dose and can emphasize the use of organic fertilizer for rice production in Bangladesh. Therefore, timely supply and availability of fertilizers at reasonable prices at the doorsteps of the hard working farmers in the country is necessary for optimum supply of nutrients to the depleted soils for successful achievement of the targeted agriculture production.

Attaining seeds efficiency: Contribution of private sector and NGOs to quality seed production is still insignificant because they have costly seed preservation and processing facilities. It may be noted that farmer's low quality seeds still meet about 95% seed requirement that is considered to be one of the major constraints to crop productivity. Farmers are still facing difficulties in accessing high-quality seeds. For the solution of the seed problem, research and development of high-quality, mass-produced seeds sold at reasonable prices must come from research institutes, universities, the central and local governments, non-governmental organizations and farmer groups. Basic skill is also lacking in seed management with respect to research, extension, production and marketing which are hindering increasing supply of quality seed. In this context, biotechnology research is necessary along with socioeconomic research. Private sectors are investing in biotechnology and importation of hybrid seeds, but their scope is limited. However, supply of quality seed compared to demand is inadequate in Bangladesh. Rice production can be increased easily by increasing supply of quality seed. Improper use of fertilizer and pesticides: Pollution caused by indiscriminate and over use of pesticides and fertilizers has become more serious in agricultural environmental systems. Moreover, the deficiency of organic fertilizer use has resulted in a decrease in soil organic matter, unbalanced soil nutrition and a decrease in fertility. Farmers use plenty of pesticide to boost production and they are unaware of the dangers of pesticides and do not take any preventive measures when spraying. Despite government efforts to control pesticide misuse, farmers continue to expose themselves. The Department of Agricultural Extension on pesticide use said 89 percent of farmers used medium to strong chemical pesticides for vegetable cultivation. Besides, incidence of diseases and pests is very severe due to the adverse effects of climate change, particularly rise in temperature.

Technology transfer capacity of extension and research needs to be developed. There is manpower shortage and adequate funding to develop teaching infrastructure and logistics. Up-gradation of course curriculum is also required as agriculture is gradually transforming to commercial in nature.

Agriculture-based rural economy of Bangladesh contributes a significant portion to GDP; alleviate poverty and the determining factor for food security. The main obstacle to development of agriculture is the limited supply of land for cultivation, negligence of technology adoption and climate change. Low increasing trend of agricultural production attributed to gradual loss of cultivable land, lack of intervention, adoption and dissemination of new technology, lack of sufficient support for agricultural research and training. Technology transfer capacity of extension and research needs to be developed to overcome the present slow and weak research-extension-farmer market linkage. Agro-ecosystem could be improved under Sustainable Agriculture methodology using appropriate soil and crop management techniques and enhancing research and extension services and by increasing national and international collaborations.
Agriculture sector remains the major contributor to increasing farm income, achievement of self-sufficiency in food and rural employment. It is worthwhile to mention here that Bangladeshi seed producers are actively pursuing export markets like Vietnam and India for hybrid paddy seeds. Initiatives Taken by Government to Improve Agriculture Production In order to maintain self-sufficiency in food and food security, the Government of Bangladesh took some strategies like increasing productivity and additional inputs, reducing yield gap, technological improvement, adaptation or variation, networked and electronic agriculture (E-agriculture), post harvest technology adaptation and finally, changing the food habits of people. Extension services so long have been working with model farmers, contact farmers or innovative farmers who are generally well to do especially or large farmers. Three main objectives of NFP are: (i) adequate and stable supply of safe and nutritious food, (ii) increased purchasing power and access to food of the people and (iii) adequate nutrition for all individuals, especially women and children. d. National Seed Policy (NSP) aims at providing policy directives to increase production of improved seed both in the public and private sectors and for making best quality seeds available to the farmers on timely basis, and at competitive price. The seed policy emphasized liberalization of import of seed and seed processing machineries, strengthening of quality control and research system and maintaining a seed security arrangement. e. National IPM policy is intensified and expanded in order to safeguard crops from pest and combat environmental degradation due to pesticide uses. Collaboration among the local government representatives, extension workers and NGOs are sought to expand this program. f. Fertilizer Management (Amendment) Act handled strictly to maintenance its quality, preventing adulteration of fertilizer and its production and import.
g. Rural Credit Policy aimed at expanding agricultural production and employment generating activities by increasing the flow of credit to the agricultural/ rural sector. This achievement in agriculture is not adequate to ensuring food security for the vast population of Bangladesh.

4.1.1A Finance to Sustainable Agriculture is linked to Sustainable Finance. Sustainable Finance aims at promoting Sustainable Agriculture through climate change adaptation measures. Agriculture productivity needs to be enhanced especially in rain-fed areas focusing on integrated farming, soil health management, and synergizing resource conservation. Conservation agriculture by promoting location specific integrated/composite farming systems; soil and moisture conservation measures; comprehensive soil health management and rain-fed technologies can make agriculture sector more productive, sustainable, remunerative, and climate resilient. All these components of conservation agriculture have significant role in achieving SDGs.

4.1.1B Sustainable Agriculture Sectors\Areas

a) Crops
b) Irrigation equipment
c) Agro-equipment
d) Live-stock and poultry farming
e) Fisheries
f) Grain Storage and marketing
g) Poverty Alleviation
h) Others (time-to-time as recognized by Bangladesh Bank)

Along with the aforementioned products, financing for Integrated Farming System (IFS) in the specific sectors like horticulture, livestock, fishery, agro-forestry, apiculture etc. to enable farmers not only in maximizing farm returns for sustaining livelihood, but also to mitigate the impacts of drought, flood or other extreme weather events with the income opportunity from allied activities during crop damage.

4.2 Concept of Agricultural and Rural Financing:

4.2A Agricultural Finance: “Financing of agriculture-related activities, from production to market. Not all agricultural finance is rural, and not all rural finance is agricultural. Yet financial service providers offering rural, micro-, or agricultural finance often have overlapping objectives and opportunities.”

Agricultural financing can be defined as the acquisition or procurement and use of capital for the purpose of production, processing and marketing of agricultural products. It deals with the supply and demand of fund in agricultural sector economy A farmer must have money to carry out his farming activities. When someone needs credit, they often turn to banks for loans or other credit vehicles. Some industries have special facilities set aside through certain financial institutions as is the case with agribusiness—the business sector encompassing farming and farming-related commercial activities which involve all the steps required to send an agricultural good to market—production, processing, and distribution. This is called agricultural credit, which is available in many different countries.

4.2B Rural Finance refers to raising and accumulating funds and lending them to rural people, including farmers, to enable them to run their socio-economic activities in the rural areas.

4.3 Nature of Agricultural and Rural Financing: Yet financing the agricultural sector presents many challenges for financial institutions. Reaching remote rural areas can be expensive. Weather risks, crop concentration, and price volatility increase the credit risk for lenders, reducing their appetite to finance the sector. Risk-assessment technologies often lack precision for evaluating investment opportunities in rural areas. Financing the agricultural sector requires integral risk-management strategies and close collaboration with tech providers and agribusinesses. These two terms are linked with rural and agricultural development. Rural development is the process of improving the quality of life and economic well-being of people living in rural areas, often relatively isolated and sparsely populated areas. Rural Development has traditionally centered on the exploitation of land-intensive natural resources such as agriculture and forestry.

4.4 Types of Agricultural and Rural Financing

Agriculture loans are specifically tailored to meet the needs and often unpredictable nature of running a farming operation. There are 9 major types of agriculture finance including some variable finances which are described below:

Agricultural Subsidy: A governmental subsidy is paid to farmers and agribusinesses to stabilize food prices, ensure plentiful food production, guarantee farmers' basic incomes, and strengthen the overall agricultural sector of the national economy. Proponents of agriculture subsidies claim the country's food supply is too critical to the nation's well-being to be governed by uncontrolled market forces. They also contend that to keep a steady food supply, farmers' incomes must be somewhat stable or many farms would go out of business during difficult economic times. Critics argue that subsidies are exceedingly expensive and do not achieve the desired market stability.

Farm Storage Facilities Loans (FSFL) can help you afford the cost to build an on-farm storage facility for your crop and products. To qualify, the commodities you are storing must fall into the categories of corn, oats, wheat, barley, rice, soybeans, peanuts, oilseeds, lentils, peas, hay, biomass, fruits, vegetables, or grain.

Farm Operating Loans can be used to purchase livestock, seed, and equipment. It can also cover farm operating costs and family living expenses while a farm gets up and running. Operating loans assist farmers in day-to-day needs or expansion requirements. They come in both direct and indirect options.

Farm Ownership Loans can be used to purchase or expand a farm or ranch. This loan can help with paying closing costs, constructing or improving buildings on the farm, or helping conserve and protect soil and water resources. In addition to credit requirements, the farm owner must have experience in the farming industry to promise the successful operation of the new business. Like operating loans, ownership loans provided by the FSA come in both guaranteed and direct loan forms. The limits are the same as those limits provided by the operating loan program. This money must go directly toward the purchase of land, livestock, crops, or machinery needed to assist in acquiring ownership of a farm meant for commercial production.

Farm Labor Housing provides loans and grants through the US Department of Housing and Rural Development's Rural Housing initiative. The program provides capital to build or replace housing structures for rural farmworkers. The program is meant to make the housing facilities more livable, and it may include the replacement or repair of furnishings inside the housing structure. Further, this loan or grant can extend to a wide range of farming projects including rare projects like oyster farming or fisheries.

Emerging Farmer Finance is aimed specifically at SMEs and start-up farms. Emerging farmers often battle to gain access to the financial aid that they need, due to the fact they are considered to be higher-risk clients than their more established counterparts. Emerging farmer finance is usually provided by financial institutions and by commercial banks, as private lenders may view it as a risky investment. If an SME or emerging farmer can be assisted to receiving a contract from a large-scale retailer, this contract can be ceded to a financial institution as security for their loan. You may find that finance for a start-up loan requires some form of collateral.

Contract Farming is an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products at a specified time in the future,frequently at predetermined prices. Repayment of the input credit is deducted when the farmer sells the produce.

Special Mortgage Loan the special mortgage loan is aimed at farmers who have the potential to become successful but who have experienced setbacks such as being denied the right to purchase land. It offers a special interest rate for those who may not be able to pay the higher rates that some banks offer. Pledging of an asset as collateral by a borrower to a lender until a loan is paid back. If the borrower defaults, then the lender has the right to seize the collateral and sell it to pay off the loan.

Value Chain Finance: Series of transactions necessary to bring a product from inputs to the final market, involving a process of adding value at every stage. Credit or other financial services flowing through actors along value chains. Value chain finance can improve the overall effectiveness and efficiency of the value chain by identifying relationships among players along the value chain, mitigating constraints, and exploring how formal financial institutions can participate to provide services. If designed well, value chain finance interventions can increase the competitiveness of a range of agricultural and agribusiness enterprises, including small producers.

Fisheries Finance Program: This program is designed for specific projects in fisheries and aquaponics that qualify under the direction of Congress. A qualified program is eligible for up to 80 percent financing through a direct loan program. This loan program is designed to refinance a private debt on a fishing vessel or to provide for maintenance and repairs on an existing vessel.

Qualified projects do not include the complete construction of a new fishing vessel or fishery, however. In order to qualify, the fishery must meet environmental and government regulations. The business owner must also be free of delinquent federal debt and be in good financial standing. This program is not designed to refinance a loan in delinquency or default.

Other Variable Agricultural Loans have to consider the following factors/issues

- Covariant Risk: Covariant risk arises when many farms/households in one area are adversely affected by a single phenomenon such as a natural disaster, epidemic, unexpected change in world prices, macroeconomic crisis, or civil conflict. This is distinct from individual risks, which randomly affect individual households.

- Index-based Insurance: A special form of insurance that can be used to compensate for losses related to extremes in weather that often plague agricultural enterprises and increase the level of risk involved in agricultural endeavors. Unlike traditional insurance, which is most useful in compensating for losses from idiosyncratic events, such as house fires or car wrecks, index-based insurance works best where there is correlated risk, i.e., risk of an event that causes consistent damage or losses across a geographical area or sector, such as drought, flooding or price volatility. More recently, some insurers are also piloting innovative index-based livestock insurance products.
- **Lease:**
    - Contract for use of an asset for a set term in exchange for fixed regular payments between two parties. Leasing is a method of financing the acquisition or use of a fixed asset, predicated on the concept that the value of the asset is in its business use rather than through ownership.
    -
- **Rural Finance**
    - Provision of financial services to a heterogeneous rural farm and the non-farm population at all income levels. It includes a variety of formal, informal, and semiformal institutional arrangements and diverse types of products and services including loans, deposits, insurance, and remittances. Rural finance includes both agricultural finance and rural microfinance and is a sub-sector of the larger financial sector.

- **Trade Credit**
    - Short-term or seasonal loans between buyers and sellers of inputs or products. It is typically provided in commodity value chains. Relationships between buyers and sellers are often more temporary and more price-driven than outgrower schemes.

- **Warehouse Receipt Financing (inventory credit)**
    - The use of securely stored goods as loan collateral. A document is issued by a warehouse listing the goods or commodities deposited in the warehouse. The depositor can then use that receipt as a pledge to secure a loan from a bank or

other lender. The lender places a lien on the commodity so that it cannot be sold without the proceeds first being used to repay the outstanding loan.

- **Microloans**
  - Microloans are a type of Operating or Farm Ownership Loan. They're designed to meet the needs of small and beginning farmers, or for non-traditional and specialty operations by easing some of the requirements and offering less paperwork.

- **Youth Loans**
  - Youth Loans are a type of Operating Loan for young people between 10-20 years old who need assistance with an educational agricultural project. Typically, these youth are participating in 4-H clubs, FFA, or a similar organization.

- **Native American Tribal Loans**
  - Native American Tribal Loans help Tribes acquire land interests within a tribal reservation or Alaskan native community; advance current farming operations; provide financial prospects for Native American communities; increase agricultural productivity, and save cultural farmland for future generations.
- **Emergency Loans:** Emergency Loans help farmers and ranchers recover from production and physical losses due to drought, flooding, other natural disasters or losses.
- **Targeted Loan Funding:** A portion of FSA loan funds is set aside for Minority and Women Farmers and Ranchers to buy and operate a farm or ranch.

On the other hand, **Rural Finance** is broadly considered of two types:

- The 'formal' sector consists of bank and non-bank financial institutions that provide intermediation services between depositors (or the government) and borrowers and, as they fall under the banking law, are regulated and supervised. As noted above, in the past these typically charged relatively low rates of interest that were usually subsidized by the government. In many cases little attention was paid to voluntary savings mobilization in rural areas as small farmers, being poor, were considered to have a low propensity to save.

- The 'informal' sector typically comprises private individuals - professional moneylenders, traders, commission agents, landlords, friends and relatives - who lend money generally out of their own equity and are not regulated or supervised by the national monetary authorities.

One of the major differences between these two types of supplier is the mechanisms used for dealing with the screening, incentives and monitoring problems with the informal sector relying much more heavily than the formal sector on their intimate knowledge of their clients to overcome these problems.

4.5 Importance of Agricultural and Rural Financing

4.5.1 Agricultural financing is one of the most important factors to develop rural areas in developing countries. Payment of bank credit is a way of financing. In fact, facilitation of access to credit can raise amount of productive investment. Farmers can use agricultural loans to:

- **Purchase farmland.** Whether you are just starting out as a farmer or wish to expand your current farm business, agricultural land loans help you purchase the land you need to build a great farm.
- **Cover operating expenses.** Besides needing farmland financing, many farmers also need help covering some of the operating costs. Farm equipment is expensive, but it's necessary to run the farm. With better equipment, you can cover more land quickly.
- **Help with the marketing of their product.** If they want to make a profit, then farmers need to sell the product they create. This means that they need an effective marketing plan and money to pay for marketing costs in addition to farmland loans.

  Agricultural credit, which is also commonly referred to as agricultural finance, is an important component of the economy, especially in countries with arable land since agricultural products can be exported. Credit is vital to agricultural businesses because it gives farmers access to capital that might not otherwise be available to them. It helps them secure the seeds, equipment, and land they need to operate a successful farm. Agricultural credit programs not only help farmers and other agricultural producers but also supports ranchers and rural homeowners with their finances. Farmers need to purchase new inputs, such as seeds, fertilizers, pesticides, irrigation water and more. Agricultural finance can help to make these purchases easier for farmers. If the seed of a high yielding crop is readily available for farmers, then the productivity of the farm is improved.

  Agricultural financing is one of the most important factors to develop rural areas in developing countries. Payment of bank credit is a way of financing. In fact, facilitation of access to credit can raise amount of productive investment. Agricultural finance is one of the most important inputs in all agricultural development activities for increasing agricultural production. It is necessary that farmers must be provided with adequate and timely finance for irrigation, farm mechanization and land development etc.

4.5.2 Rural financial services are nowadays concerned with a variety of services including not only agricultural lending but lending to farm households for non-agricultural production and consumption purposes, loans made to non-farm rural firms, rural savings deposit services and other financial services such as insurance. Reduce rural and urban gap by mobilising financial resources and services to rural regions. Regional Rural Banks pave the way for inclusion of the marginal population like small farmers, Below Poverty Line (BPL) farmers and workers, small entrepreneurs, artisans, women, etc.

- Broadly speaking, the provision of credit in the form of loans allows uneven income and expenditure streams to be smoothed out. Credit provision is a private good as it is excludable and rivalrous. However, it is a different type of service to others discussed in this Sourcebook as a loan involves an exchange of access to resources now for an undertaking to repay at some future date. In effect, a property right in current consumption is exchanged for a property right in future consumption. From the lender's point of view this involves two risks, namely, that the borrower will be unable to repay (the use made of the funds is less productive than anticipated perhaps due to unfavourable weather or lower market prices) or that they will be unwilling to repay (opportunistic behaviour due to asymmetric information).

  In total, the lending activity entails:

  a. Exchange of consumption today for consumption in a latter period

  b. Protection against default risk

  c. Information acquisition regarding characteristics of loan applicants (the screening problem)

  d. Measures to ensure that borrowers take those actions that make repayment more likely (the incentives problem)

  e. Actions to increase the likelihood of repayment by borrowers who are able to do so (the enforcement problem).

  This risk of non-repayment means that the private sector is usually unwilling to provide credit unless collateral is available or the lender has particular ties to the borrower. The high transaction costs associated with imperfect information (search, monitoring and enforcement), and risk, increase the costs of credit transactions and lower the effective demand. The dispersed nature of rural populations increases the transaction costs of servicing rural areas compared to urban areas for many credit providers. In principle, the government should be a more willing lender than the private sector as it is less risk-averse and has greater powers of coercion and hence ability to obtain repayment. However, it is generally disadvantaged relative to the private sector in terms of local knowledge and loyalty from borrowers, leaving it exposed to an adverse selection problem and unwillingness by borrowers to repay loans.

4.6 Role of Banks and FIs in Agricultural and Rural Financing

Two specialised banks - BKB, RAKUB and four SCBs played key role in the disbursement of agricultural and rural finance. The main sources of finance in agricultural and rural sectors are still the state owned banks. As such the specialised banks - BKB and RAKUB and the state owned commercial banks are the dominant players in the area of agricultural and rural credit. BKB had the largest share in the annual disbursement of agricultural and rural loan. The role of the private sector domestic and foreign banks in agricultural lending is increasing remarkably.

Contribution from the private and foreign commercial banks was not satisfactory earlier. But nowadays we observe marked achievement by the remarkable participation of private sector banks through their branches as well as through linkages with Microfinance Institutions (MFIs). The Grameen Bank and large NGOs played a significant role through their microcredit programmes to boost up the rural economy. With an efficient disbursement and recovery position, their disbursement seems to be higher than the agricultural loan disbursement of the institutional lenders. The SMEs also played a significant role in rural economic development. Besides, banks allow finance in agriculture machineries and irrigation machineries, seed cultivation, seed warehouse and marketing of agriculture products, poverty alleviation and income generating activities and others sub-sectors (different uncommon crop productions).

The credit flow is helpful for the farmers, especially those in rural areas. It is helpful to them save time and money. 1) Expand the irrigation area: Using the credit facility farmers able to expand the area of irrigation in farm. It also increases production of crops. They are able to take all three season crops.

4.7 Bangladesh Bank's Policies on Agricultural and Rural Banking: Bangladesh Bank has a policy in this regard and accordingly banks and FIs open a network of branches in rural areas to provide agricultural credit. They provide finance directly to agriculturists for the marketing of their produce, for the modernisation and mechanisation of their farms, for providing irrigation facilities, for developing land, etc. In spite of the declining share of agriculture in GDP growth, the importance of the sector is very crucial in view of its role in employment generation and poverty reduction. The role of agriculture is vital to meet the country's challenge to achieve selfsufficiency in food production and to ensure food security, reduce rural poverty and foster sustainable economic development. The Government has therefore accorded highest priority to agriculture sector to enable the country to meet this challenge. In line with Government efforts Bangladesh Bank also continued its proactive policy and programme support to boost up agricultural production. Agricultural/rural credit policy and programme has also been formulated accordingly. The goal is to increase the scope of agricultural credit and financial inclusion by expanding banking services to rural areas using information technology. This policy support is expected to stimulate the agricultural production and reduce dependency on import and alleviate rural poverty through increased flow of funds in rural areas.

It is important to work on agriculture finance, agriculture insurance and its linkages with agriculture finance. The key areas of work can be:

Policy and Regulatory Interventions – Agriculture Finance: BB may conduct diagnostic studies on the state of agricultural finance within client countries and produce concrete action plans to reform public policies and regulations in order to create an enabling environment to mobilize agricultural finance. Some examples of policy and legal/regulatory intervention areas include lending quotas, interest rate caps, bank branch expansion regulations, prudential regulations impacting agricultural lending, warehouse receipt financing frameworks, and alternative dispute mechanisms for contract farming.

Policy (and Insurance Product Development) Advisory – Agriculture Insurance: BB may advise governments on policies for agriculture insurance (e.g. financial incentives, premium subsidies, and the overall role of government to promote agriculture insurance) and on development of effective insurance products. On issues related to insurance, BB can collaborate and coordinate with the insurance and risk finance on certain projects and activities.

Strengthening of Relevant Institutions: BB can provide technical assistance to reform and build capacity of public financial institutions, to establish commodity exchanges, and to build capacity of MFIs and other institutions. BB may operate a special program focused on financial cooperatives, given the importance of these entities as providers of financial services to smallholder farmers, rural CMSMEs and households. This programme will aim to strengthen their performance as well as to enhance applicable regulations and oversight arrangements to better integrate them into their country's financial system. Furthermore, BB can design and implement risk-sharing mechanisms through various instruments, such as partial risk guarantees.

Developing Innovative Products: BB should assist in the design and develop a wide range of instruments, either as a technical assistance or part of lending projects: value chain finance, inventory finance, partial credit guarantee schemes for agriculture-sector loans, matching grants, crop insurance, price hedging instruments, and gender finance. BB also need to work on developing mobile banking & payment platforms to enhance access to finance and reduce transaction costs within the eco-system. An important focus of our work in this area has been to develop solutions to reduce the riskiness of agriculture by addressing systemic risks (e.g. production and weather risks through insurance, and price hedging instruments) and also focus on ways to reduce operating costs in reaching to smallholder farmers and CMSME agribusinesses (for instance, the role of digital finance technologies).

Focus on specific new topics: BB should iemphasize itself along with banks and FIs for exploring work in new areas such as access to finance for women in agriculture, the use of digital financial instruments in agriculture, and financial solutions for "green" agricultural investments promoting resilience of agriculture to climate change and reduction of agriculture's foot print on the environment.

Knowledge Management and Community of Practice: Informed by our in-house research and knowledge production, BB can carry out activities both at the internal level (including community of practices and training programs) and at the external level (global and regional dissemination events, capacity building for policy reforms, etc.).

Collaboration: BB, banks and FIs should work closely with the Risk Management when it comes to agricultural insurance solutions, and also collaborate with the Agriculture Global Practice.

4.8 Growth and Performance of Agricultural and Rural Financing in Bangladesh

Agriculture plays a crucial role as a priority sector of the Bangladesh economy. It is also the main source of rural employment and the income-generating sector of the country. Direct contribution of this sector to Bangladesh's GDP is approximately 12.07 percent in FY21 (constant price 2015-16 base). According to the Labour Force Survey (LFS) 2017 by Bangladesh Bureau of Statistics (BBS), agriculture employs approximately 41 percent of the total workforce. Moreover, the agricultural sector has been playing an important role in meeting the nation's nutrition demands, ensuring food security, increasing export earnings, and improving the income level of the people as a whole. Agriculture sector in Bangladesh, despite the experience of severe famine in 1974, has been consistently enhanced the production of grain since its independence. Bangladesh agriculture contributed 15.89% to the GDP and only crop sector is 8.99% whereas annual growth of GDP by agriculture and forestry is 3.36% (BBS, 2014). The rate of growth of agriculture and its share in GDP is decreasing. The rate of growth in agriculture came down from 5.24 percent in fiscal year (FY) 2009-2010 to 5.13 percent, and then to 3.11percent and 2.17 percent in FY2010-2011, FY2011-2012 and FY2012-2013 respectively (Bangladesh Economic Update, 2014).

In line with the broad-based objective of the development agenda of the Government of Bangladesh (GoB), every year Bangladesh Bank (BB) formulates "Agricultural and Rural Credit Policy and Programme" to ensure adequate flow of funds to the agricultural and rural economy in a proper, timely and hassle-free way for the benefit of the farmers. With a view to improving the socio-economic condition of the country and emphasising the role of the agricultural and rural sectors, agricultural and rural credit policies and programmes have been implementing through all the scheduled banks operating in Bangladesh. During FY21, BDT 255.11 billion (97.03 percent of target) was disbursed as agricultural and rural credit through all scheduled banks, against the target of BDT 262.92 billion.

The major features and achievements of the programme implemented in FY21 were as follows:

- Around 3.06 million farmers availed agricultural and rural credit facility, of which 1.61 million women got BDT 92.88 billion from different banks.
- Around BDT 5.19 billion was disbursed among about 0.08 million farmers through 14,702 open credit disbursement programmes arranged by different banks.
- Around 2.25 million small and marginal farmers availed BDT 176.40 billion agricultural loans from different banks.

4.8.1 Challenges Towards Sustainable Growth of Agriculture: Agriculture in the country faces problems by a number of challenges every year. These challenges include population growth, climatic hazards, loss of arable land, lack of quality seeds, food habit of people (about 90 percent is rice based), inadequate credit support to the farmers, unfair pricing, insufficient investment in agricultural research and agricultural mismanagement in terms of irrigation, and use of fertilizer and pesticides. The majority are small and marginal farmers who are endowed with poor financial resources and cannot afford high cost of frontier technology. Despite many positive phenomena and policy initiatives, the agriculture sector is still facing challenges. Rapid shrinkage of agricultural land, agricultural land is rapidly decreasing due to alternate use for homesteads, population growth, industrial and commercial uses, urbanization growth, increase of roads and highways, establishment of brick fields, river erosion and unplanned extension of fisheries. The land loss indeed is very alarming for crop production in Bangladesh. It is a challenge as to how to protect agricultural lands. Flooded irrigation and broadcasting of fertilizers cause low efficiency of both irrigation and fertilizer. It is a great challenge to innovative methods of irrigation and fertilizer applications such as sprinkler, underground dropping irrigation or deep placement of fertilizers, and use of composite or liquid fertilizers. Under the current irrigation systems, contribution and management of surface water is inadequate. It is estimated that 4-14% of rice yield in Bangladesh is lost every year by different insect pests. Bacterial leaf blight and nematode are now the serious diseases in rice. But the technologies resistant to pests and diseases are still very limited. Despite of recent expansion of research and extension systems, updating information is weak due to weak researchextension-farmer-market linkage resulting slow technology transfer. Poor rural roads and other key physical infrastructure have led to high transportation costs for agricultural inputs and products. It also leads to spoilage of perishable commodities during transportation. This causes high losses to farmers. Weak agricultural research is resulting weak technology generation due to lack of high Sustainable Development of Agriculture in Bangladesh. Inadequate value addition, food processing and post-harvest losses: Farm level handling, packaging, preservation and transportation facilities are virtually absent. These tasks are still traditional resulting a very high level of post-harvest loss in fresh fruits and vegetables. Besides, value addition through processing, packaging and storages is growing very slowly in the private sector due to lack of access to technologies and adequate finance. It is also causing supply chain problem as urban population is demanding increasing volume of quality foods for which capacity of farming population needs to be upgraded with improvement of infrastructure and marketing systems. Farmers are increasing use of machineries. Trans-planters and combined harvesters have been introduced by private companies but their use is still at a very low level due to lack of finance and leasing facilities. Post-harvest losses are caused by poor handling and storage facilities. Extension services can be instrumental to help reduce pre and post-harvest losses caused by the above factors. Shortage of agricultural labor at peak planting and harvest seasons has been emerging as an acute problem. It is also caused by migration of both skilled and unskilled population from rural to urban areas for seeking employment, resulting seasonal labor shortage leaving behind less capable people in agriculture.

4.8.2 Opportunities Towards Sustainable Growth of Agriculture: Attaining irrigation and fertilizer efficiency: Irrigation, fertilizer and seeds technologies known as “Green Revolution” technologies have been playing major roles in the growth of agriculture production in Bangladesh. Use of irrigation and fertilizers has been increasing rapidly without change of method of application. All agricultural inputs which are involved directly or indirectly in any crop production must be adequate and accessible at farmers’ field during the total growing season. Food production can be increased through increasing irrigation facilities together with HYV It is well known fact that irrigation is the key variable which explains the variation in value productivity because it determines the use of other associated inputs such as fertilizer use. There is an urgent need to introduce measures to increase the use of surface water for irrigation and other uses. There is also a need to develop and invest in methods for holding wet season water in view of the long history of inefficiency of surface water management, and considering the strategic role of surface water in Bangladesh agriculture. Expanded use and availability of surface water will reduce the pressure on STW and will also reduce the cost of water. Furthermore, subsequent measures should move in tandem with the development of surface water use in a comprehensive and consistent manner. Required level research expertise, and adequate funding. Agriculture education system has been rapidly expanded.

So it is understandable that there are ample opprtunities to achieving the required agricultural productions through identifying and interpret the major obstacles that challenges development of agriculture. As such policy intervention is required to device agriculture and rural poverty policies and reducing problems of underemployment and low levels of living of the poor in some extent to build up a premise for the agriculturists, economists, food and nutrition scientists, planners and policy makers so that they can go for a policy decision for national development on agriculture.

Case Study

Case 1: Solar Irrigation System

Rahim Agro Enterprise, Pirganj Upazila, Rangpur applied to Rangpur branch of XYZ bank for funding under BB's low-cost green refinancing to adopt environment-friendly irrigation, i.e., solar irrigation system and shift from fossil fuel-based irrigation. The Credit Risk Management (CRM) team of the bank responded that the irrigation project is located in grid electricity coverage and as such, the solar irrigation project will not be financially viable. Furthermore, the entrepreneur does not have detailed solar power generation data for the irrigation project and no previous experience in this regard.

What is your bank's standpoint At this stage?

Bank's Standpoint: The entrepreneur is not informed of any agency or individual consultant that can provide the required assistance for the solar irrigation project. If necessary and in prime need of solar power generation, required solar power generation data and a project feasibility report can be submitted to the bank, which would create an opportunity to access low-cost Green Finance. The entrepreneur needs to prepare a project feasibility study considering project location, profitability, and other foreseeable challenges for the solar irrigation project. In this regard, necessary technical and financial assistance is essential from a specialist agency or individual consultant. Once Rahim Agro Enterprise are reorganized and is ready with the availability of the above opportunities, the SFDH desk of Rangpur branch will take necessary initiatives to move on.

Case 2: Rooftop Solar System

Tasneem Solar System, an entrepreneur was seeking low-cost Green Finance to install a rooftop solar system under net metering policy on the roof of a textile factory building. The entrepreneur submitted a project profile on how the rooftop solar system would be beneficial for the company and reduce dependency on grid electricity. In this regard, the client completed the necessary documentation with SREDA and other related regulatory authorities. The entrepreneur prepared a project feasibility report considering project location, profitability, approvals from related regulatory authorities, and other foreseeable challenges for the Net Metering Rooftop Solar System under the Green Refinance Scheme of BB. Tasneem Solar System also took necessary technical assistance from a specialist agency and finally submitted the project proposal to Gazipur Branch of ABC Bank under the BB's refinancing scheme of green products/projects/initiatives with an application for BDT three crore for five year tenor including six months grace period.

How will the bank respond? What is your view?

The proposition was submitted to ABC bank, Gazipur branch with rationale in a structured manner and the branch and bank management found it feasible for necessary approval for disbursing the requested amount. The bank has already disbursed the requested amount and now has applied to BB for refinancing of three crore against financing to Tasneem Solar System which is expected to be available within next few days.

Case 3: Solar Powered Reverse Osmosis Water Plant (ROWP) for drinking water

Tahrim 360^0 Solutions Ltd. a reputed company with their expertise has been working in the southern part of Bangladesh specially in the coast belt areas of Sathkhira, Shundarban now has applied under its ongoing project to Satkhira Branch of XYZ bank under BB's low cost green refinancing scheme for BDT three crore for 5 year tenor including 9 months grace period to install a solar-powered Reverse Osmosis Water Plant (ROWP) to provide drinking water commercially for nearby community members. The project location is in a coastal area where grid electricity is not reliable; therefore, the ROWP is designed with a grid-tied solar power system. The client provided a feasibility report containing necessary information about the project's viability and the demand for safe drinking water in the community.

What do you think about the ultimate fate of the project?

The bank branch reviewed the loan proposal where it has been considered the proposed project a project in real need for the community and got it approved by the competent authority. The bank disbursed the loan in favor of the company, Tahrim 360^0 Solutions Ltd. @ 5% for 5 year tenor including 9 months grace period.

Case 4: Socially Responsible Financing for Pure Drinking Water

It is evident that the water of the coast belt areas in the southern part of Bangladesh is not eligible for drinking because of salinity. The villages of Shundorban are in huge crises for drinking water. In this backdrop, GreenTech Foundation Bangladesh Ltd. a passionate organization that work for sustainability issues has launched a project where they will serve the communities of the 4 villages of Shundorban in a phase wise action plan in two year project tenor. GreenTech Foundation Bangladesh Ltd. has been serving in conformity with the SDG 6 for the last half a decade. The organization has applied under BB green refinancing scheme for BDT two crore term loan for a three year tenor including nine months grace period to serve shundorban village community through uninterrupted pure water supply. This will happen through installation of a number of Gazi tanks to keep water reserved from rainwater harvesting and the other source of drinking water will be from solar powered Reverse Osmosis Water Plant (ROWP). All the relevant documents for availing refinance has been provided including passed record and work experience of the entrepreneur those have been assessed under ESRM guidelines and the bank upon the approval of the competent authority has disbursed BDT two crore for three year tenor including nine months grace period @ 5% as requested.

Construct a similar case live with reverse approach from the entrpreneure where the bank may remain comfortable to reject the proposition.

Broad Questions

1. Write on concept of agricultural and rural financing.
2. Discuss agricultural finanacing.
3. Discuss rural financing.
4. How could you elaborate the importance of agricultural and rural financing?
5. What roles banks and FIs can play in agricultural and rural financing?
6. Please highlight the growth and performance of agricultural and rural financing in Bangladesh.
7. Describe sustainable agriculture.
8. What are the challenges and opportunities towards sustainable growth of agriculture?
9. Discuss Bangladesh Bank's Policies on Agricultural and Rural Banking
10. Sustainable finance for sustainable agriculture – explain.
11. How Sustainable agriculture is for sustainable development?
12. Write short notes on the following:

(a) Sustainable Agriculture (b) Sustainable Agriculture Sectors\Areas (c) Farm Storage Facilities Loans (c) Farm Operating Loans (d) Farm Ownership Loans (e) Contract Farming (f) Value Chain Finance (g)Fisheries Finance Program (h) Agricultural Finance (i) Rural Finance (j) Trade Credit (k) Warehouse Receipt Financing (inventory credit) (l) Microloans (m) Youth Loans (n) Emergency Loans.

Short Questions

1. What is Agricultural Subsidy?
2. What is Covariant Risk?
3. What is Index-based Insurance?
4. Write short notes on the following:
5. What is Rural Finance, Trade Credit and Warehouse Receipt Financing (inventory credit).
6. Write about Microloans, Youth Loans and Emergency Loans.
7. Mention about the two types of Rural Finance.
8. What are the challenges towards sustainable growth of agriculture?
9. What are the opportunities towards sustainable growth of agriculture?
10. What do you mean by ‘Agricultural Financing’ and ‘Rural Financing’?
11. Write about ‘Rural Financial Services’.
12. How financial services can support the development and commercialization of agriculture?
13. Give the elaboration of NFP. What is NFP aims at?
14. Give the elaboration of NSP. What is NSP aims at?
15. Give the elaboration of IPM. What is National IPM policy aims at?
16. What is Rural Credit Policy aims at?

Chapter 5

Module E: Green Banking and Green Financing

5.1. Concept of Green Banking: The term "green banking" generally refers to banking practices that foster environmentally responsible financing practices and environmentally sustainable internal processes minimizing GHG emissions and reducing carbon footprint from banking activities. It is also called as ethical banking or a sustainable banking.Green banking thus involves a two-pronged approach. Firstly, green banking focuses on the green transformation of internal operations of all banks and FIs. It means all the banks and FIs should adopt appropriate ways of utilizing different green product/projects/initiatives, automation and other measures to minimize carbon footprint from activities by banks and FIs. Secondly, all banks and FIs should adopt environmentally responsible financing; weighing up environmental risks of projects before making financing decisions; and in particular supporting and fostering growth of upcoming' green initiatives and projects.

Green Banking activities addresses six key work-streams - Green Finance, In-house green activities covering Carbon Finance and Carbon Footprint Measurements, Screening Process →ESDD under Environmental Social and Governance (ESG), Green Marketing/Awareness/Capacity Building, Reporting and disclosure on green issues. Green Finance as part of Green Banking, encourages 'environment-friendly initiatives everywhere by incorporating the spirit of green banking in its financing decisions as well, leading to greening in other sectors. It refers to banks'/FIs' 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 banks/FIs. Green finance is defined as one of a number of terms used to label activities related to the two-way interaction among environment, social, finance and investment. **Green Finance, In-house Green Activities covering Carbon Footprint Measurements and Carbon Finance, Screening Process →ESDD under Environmental Social and Governance (ESG) as part of Green Banking have been discussed in detail in the later part of this chapter**.

Green Banking has zero tolerance on information gap:With a view to an effective MIS, Banks and FIs are required to build an effective database of product based potential borrowers, suppliers, service providers, associations and chambers, vendors, manufacturers, certified energy auditors and concerns for a better contribution to green business and green economy.Banks and FIs will arrange events/programs involving all management level executives/officials (head office, zonal/regional office, branches, units, Sustainable Finance Dedicated Helpdesks), customers, entrepreneurs' associations, suppliers and service providers for Developing time bound action plan that addresses Information dissemination and awareness building, Training/seminar/workshop and knowledge sharing session, Maintaining training calendar, Establishing Knowledge Hub. Banks and Financial Institutions will disclose the initiatives/practices taken by them time to time in their respective websites.

Technological Advancement for Inclusiveness in Green Activities and Green Growth:
"Technological Advancement for Inclusiveness in Green Activities and Green Growth" is well covered in "Inclusion of Technological advancement" of Sustainable Finance Taxonomy and the theme is not required to mention separately again.As such Green Strategic Planning, R&D for Green Innovation, Product Marketing, Awareness and Capacity Building, Green Impact Assessment /Review and disclosure have been taken in due consideration while discussing earlier in Sustainable Finance Taxonomy in Chapter 1 on Sustainable Finance.

5.2 Regulatory Environment:

5.2.1:Environmental Conservation Rules (ECR): ECR 1997 for water and air quality standards, Standard Guidelines for Sludge and Waste management, Environment Friendly Brick kilnGuidance for Compressed Block Bricks, Foam Concrete/Non Fire Bricks/Auto Cleaved Concrete(ACC), Environment friendly brick kiln efficiency improvement systems- Hybrid Hoffmann Kiln (HKK), Tunnel Kiln (most environment friendly fire burn brick kiln efficiency improvement system in Bangladesh). This needs to be mentioned that Hybrid Hoffmann Kiln (HKK) and Tunnel Kiln have been declared as "Industry" by the Ministry of Industry(MoI), Govt. of Bangladesh. Bangladesh Environment Conservation (Amendment) Act, 2010; The ECA-2010 has stipulated the principle of sustainable development, intergenerational equity, polluter pays principle and precautionary principles those are in the core of the environmental jurisprudence worldwide.

As per ECR 1997 issued by DoE under MoEF&CC, all industrial units are categorized into Green, Orange A, Orange B and Red category with respect to pollution level. Among these industrial units, Orange B is considerably more polluted and Red category units belong to the most polluting industries. Sector Specific ESDD Screening for some more or most polluting priority industries like Textile, Steel, Cement, Brick Kiln, Tannery, Power Plant etc. are required to go under dedicated ESDD screening checks for greening those industrial units through fulfillment of required work conditions & compliances of DoE and accordingly installations/introductions of Green Products/Machineries/Projects for reducing emission to a required extent and thus green transformation will happen to these polluting industrial units.

5.2.2 Policy guidelines for green banking: The central bank issued policy guidelines for green banking in 2011 and 2013 for banks and FIs respectively.Accordingtotheguidelines,alloperatingbanksandfinancialinstitutionsneedtotakeeffectivemeasurestoconductenvironmentfriendlybankingactivitiesinthecountry.BangladeshBankhasalso issued a common reporting format to all the commercial banks to reportgreen banking activities including the extent of carbon footprint in astructured way.

5.2.3 Environmental and Social Risk Management Guidelines: Bangladesh Bank started its policy intervention on environment friendly banking practices by issuing Environmental Risk Management (ERM) Guidelines for Banks and FIs in 2011. Guidelines on Environmental and Social Risk Management (ESRM) for Banks and FIs[1] in Bangladesh along with an Excel-based Risk Rating Model have been issued in 2017 which became enforceable from January 01, 2018 replacing the Guidelines on ERM to all extent. Revisited Guidelines on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh has been issued in 2022 along-with 10 sector specific guidelines.

[1] SFD Circular No. 02/2017

5.3 **Role/Initiatives of Stakeholders at Local Level:**Bangladesh is committed to pursuing low-carbongreendevelopment withoutcompromisingtheimperative of faster economic growth and socialdevelopment.DevelopmentstrategiesoftheGovernmentofBangladeshlaiddowninthePerspective Plan (2010-2021) and the Sixth FiveYearPlan(FY 2011-15)declareclearcommitment of pursuing sustainable growth. The country's vulnerability to floods,cyclonesandtothethreatofinundationoflargecoastalareasfromglobalwarmingdrivensealevelrisemakessustainabilityaprimedevelopment concern. Financingpracticescancruciallyinfluencethespeedofadoptionofenvironmentallysustainableoutputpracticesintherealeconomy.Awareofitsresponsibilityofputtinginplacesociallyandenvironmentallyresponsiblepracticesinthefinancialsector,BangladeshBank,thecentralbankofBangladesh,hasspearheadedadoptionandpromotionofgreenbankingpracticesthroughoutthefinancial sector, towards safeguarding environmental sustainability. As aregulator of financial sector, the central bank already proceeded a longwayinimplementinggreenbanking.

BanksinBangladeshhaveenthusiasticallyrespondedtoBangladeshBank'sguidancetowardsgreen banking, with steps in environmentally responsible financing thatare beginning to make profound impact on environmental practices inthe real economy.Bangladesh falls into the group of most climate change vulnerable countries in the world despite her insignificant share of global greenhouse gas (GHG) emission in comparison with other developing and developed countries. In Bangladesh, the impacts of higher temperatures, more variable precipitation, more extreme weather events, and sea level rise are foreseen as likely continue to intensify. These changes are already having impacts on the lives and livelihoods of millions of poor people who remain exposed to climate risks. Bangladesh as a LDC is not obligated to mitigate or reduce GHG emission (in UNFCCC negotiation terms). Nevertheless,Bangladeshgovernmentconsciously opted for a low carbon development path, despite her resourceconstraints.Bangladeshhasmadesubstantialcontributiontowardsestablishing 'Green Climate Fund' and extending 'Second CommitmentPeriod of Kyoto Protocol'. 'Bangladesh Climate Change Strategy and ActionPlan (BCCSAP), 2009' has been drawn out to tackle challenges of climatechange.'ClimateChangeTrustAct,2010'hasbeenenacted. Bangladesh government has already invested USD 10 billion over the last 3decades to make the country climate resilient and less vulnerable todisasters. Over the past three fiscal years (FT 2009-10 to FT 2011-12), thegovernment has allocated USD 300 million (USD 100 million every year)under Bangladesh Climate Change Trust Fund (BCCTF), for projects largelyfocused on adaptation. Another Fund called Bangladesh Climate ChangeResilience Fund (BCCRF) has been established in 2010with funds providedbythedevelopmentpartners.

5.3.1 Bangladesh Bank (BB): BB review the national rules, regulations, guidelines, policies, perspective plans (2010-2021), 8th FYP, guidance notes, applicable SDGs and international standards intends to broaden space and scope of Green Finance through identifying nationwide green products/projects/initiatives in consultation with concerned/competent national authorities like SREDA, DoE under MoEF&CC. BB goes for experience sharing, lessons learning withpractitioners, product and Industry specific association,experts such as textiles and garments sectors etc. and technical service providers with a business case PP/concept notes and there-after necessary review for an agreeable decision approved by the competent respective authority. BB also considers suggestions, opinions or concepts on potential green products/projects/initiatives received from banks, FIs, BSEC, NBR, IDRA and other concern stakes.

5.3.1.1 Bangladesh Bank's Existing Sustainable and Green Policy – Snap Shot

- Green Banking Policy Guideline for Banks in 2011 (BRPD Circular # 02 dated 27 February, 2011).
- Green Banking Policy Guideline for FIs in 2011(BRPD Circular # 04 dated 05 September 2013)
- Formation and Management Procedure of Climate Risk Fund (GBCSRD Circular # 04 dated 09 July, 2015).
- Banks & FIs have been instructed to set up Solid Waste Management System, Rainwater Harvesting and Solar Power Panel in their newly constructed or arranged building infrastructure (SFD Circular # 01 dated 11 May 2016).
- All banks and FIs to establish Sustainable Finance Unit and Sustainable Finance Committee by abolishing both Green Banking and CSR units (SFD Circular # 02 dated 01 December, 2016)
- Formation and Formulation of Terms of Reference of Sustainable Finance Division in Banks and Financial Institutions (SFD Circular # 02 dated 04 December, 2016)
- Banks & FIs must ensure the establishment and activeness of Effluent Treatment Plant (ETP) during financing to all possible clients that is inconformity with the direction of Honorable Prime Minister (SFD Circular # 3, dated 08, December 2016).
- Guidance Note for on-lending/refinancing under Green Transformation Fund (GTF) (SFD Circular No. 04 dated 28 July, 2020)
- Regarding Green Finance Target. (SFD Circular Letter # 05 dated 09 September 2020)
- Sustainable Finance Policy for Banks and Financial Institutions (SFD Circular # 05 dated 30 December, 2020)
- Sustainability Rating Methodology for Banks and Financial Institution (SFD Circular # 06 dated 31 December, 2020)
- Target Fixation of Green Finance & Sustainable Finance (SFD Circular # 01 dated 11 January, 2021, SFD Circular Letter No. 03 dated 04 August, 2021).

- About Sustainability Rating Methodology for Banks &FIs(SFD Circular Letter No. 05 dated 17 August 2021).
- Policy Guidelines on Corporate Social Responsibility for Banks and Financial Institutions (SFD Circular # 01 dated January 09, 2022).
- Guidelines on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh (SFD Circular # 03, dated 26 June, 2022).
- BB's BDT 04 billion Refinancing Scheme for environment friendly green products/projects/initiatives (SFD Circular # 04, dated 24 July, 2022).
- Regarding Dedicated Sustainable Finance Help Desk (SFD Circular Letter # 02 dated 18 September 2022.
- Policy on Green Bond Financing for Banks and FIs (SFD Circular #5 dated 20 September 2022).
- Green Transformation Fund (GTF) in Taka for export and manufacturing-oriented industries (SFD Circular # 07 dated 07 December 2022).

5.3.1.2 Policy on Green Bond Financing for Banks and FIs: The policy contains a taxonomy that came out of mapping of Bangladesh's green investment targets to international standards. Green Bonds are **bonds where proceeds from** fixed-income and liquid financial instruments are applied and specifically earmarked to raise money, in part or in full, new and/or existing eligible climate-mitigation and adaption projects and other environmentally beneficial activities. These bonds are typically asset-linked and backed by the issuing entity's balance sheet. Green bond is a long term fixed income securities/instrument to finance or refinance the projects or activities which are recognized as green under the Green Bond Taxonomy stipulated in this policy. Bangladesh Bank has been at the forefront of driving a financial sector in Bangladesh that supports sustainable and green capital flows. Key milestones include: • The establishment of Green Banking Policy Guidelines in 2011. • The introduction Climate Risk Fund in 2015 and allocation of at least 20% of their Corporate Social Responsibility budget by Banks and FIs. • A requirement from 2016 that all banks and FIs establish a sustainable finance unit and sustainable finance committee. • The publication of a Green Bond Market Landscape report in October 2019. • The adoption of a Sustainable Finance Policy for Banks and FIs in December 2020.

Sectors of Green Bond Financing: Low-carbon electricity, heating and cooling, Green establishments and built environment, Energy and resource efficiency in industry, Low-carbon transportation, Circular economy, wastewater and water management, Agriculture and land use, Climate Resilience and Climate Change Adaptation Measure, Services Associated with the Low Carbon, Climate Resilient and Green Economy.

For issuers such as banks and FIs, it describes green investment priorities that could be supported by the proceeds of a green bond. Issuance of green bond is also a good business case yielding good return. The taxonomy provides a comprehensive list of projects and activities that could be supported by a green bond, and which corresponds to the significant green investment priorities and opportunities in the coming decades. The taxonomy both (1) helps issuers identify eligible projects and activities where proceeds of green bonds can be used, and (2) helps communicate the underlying green credentials of a green bond issuance and prospectus for potential investors. It provides consistency with a robust transparent framework, aligned to the country"s low carbon development, climate resilience and environmental sustainability objectives. Objectives supported by the Bangladesh Green Bond Taxonomy are Climate Change Mitigation, Climate Change Adaptation, Sustainable use of water and marine resources, Transition to a circular economy, Pollution prevention and control, Protection and restoration of biodiversity and ecosystem. Sectors covered under green bond taxonomy are - Low-carbon electricity, heating and cooling, Green establishments and built environment, Energy and resource efficiency in industry, Low-carbon transportation, Circular economy, wastewater and water management, Agriculture and land use, Activities to enhance climate resilience not elsewhere classified, Services to support the low-carbon, climate resilient and green economy.

For both the issuer and the investor - a bond is a very beneficial instrument. By issuing a bond - the issuer gets the required fund whereas the investors will receive interest and the principal amount. Bond Issuers may be the firms, governments, banks/FIs, supernatural entities, and city corporations, local municipalities/entities, SPVs, etc. The issuer of green bonds borrows the money from bond investors to mitigate climate change and adapt the same to build climate resilience projects and other environmentally beneficial activities. Green Bonds issued by bank/FI will be treated as "Green equity".

Key stakeholders in Bangladesh for green bonds **are -**

1. Ministry of Finance: Responsible for state budget, taxation and economic policy.
2. Bangladesh Bank: Sets (green) policies for Banks and FIs.
3. SREDA: Sets framework to develop pipeline sustainable energy projects.
4. BSEC: Sets regulations concerning trade of fixed income products.
5. NBR: Sets tax policy on fixed income products.
6. DSE & CSE: Stock exchanges where listed share/bonds are traded.
7. IDRA: Sets regulations for the insurance sector.

Banks and FIs, Ministry of Finance, Development Banks (e.g. BIFFL, IDCOL, etc.) are the possible issuers of green bonds in Bangladesh. On the other hand, possible investors for green bonds are - Pension Fund, Large corporate, Insurance companies, Asset managers, banks and FIs as well as International investors.

5.3.2 DoE and BB in Greening the Polluting Industries: Greening the polluting industries belong to one of the components of Green Taxonomy. As per ECR 1997 issued by DoE under MoEF&CC, all industrial units are categorized into Green, Orange A, Orange B and Red category with respect to pollution level. Among these industrial units, Orange B is considerably more polluted and Red category units belong to the most polluting industries. Sector Specific ESDD Screening for some more or most polluting priority industries like Textile, Steel, Cement, Brick Kiln, Tannery, Power Plant etc. will be required to go under dedicated ESDD screening checks for greening those industrial units through fulfillment of required work conditions & compliances of DoE and accordingly installations/introductions of Green Products/Machineries/Projects for reducing emission to a required extent and thus green transformation will happen to these polluting industrial units. BB has opened window in its low cost funding arrangement for greening the polluting industries, conversion of Fixed Chimney Kilns into Hybrid Hofmann Kiln (HHK) is an example to this.

5.3.3 Bangladesh Securities Exchange Commission (BSEC): In recent years BSEC has facilitated a significant increase in finance for green projects in Bangladesh and broader capital market development. Since the introduction of the green lending requirements in January 2016, green finance from Banks and FIs has increased from around BDT 30 billion per year to over BDT 100 billion per year since 2018. More recently, a range of reforms have driven an uptick in bond issuances, reaching BDT 90 million in 2020. These recent developments include: • The National Board of Revenue reducing stamp duty on BSEC approved bond issuances from 2% to 0.5%. • Development of benchmark yield curve by Bangladesh Bank in November 2020, made up of a list of 30 treasury bonds. • Listing and trading of government bonds on the major stock exchanges. In November 2020, BSEC announced government treasury bonds and bills can be traded through the public markets which will allow retail participation in the bill/bond market. • The International Finance Corporation issuing its first "Bangla Bond" in BDT November 2019, raising the equivalent of almost US$ 10 million. • The Bangladesh Securities and Exchange Commission (Debt Securities) Rules, 2021 opened the scopes for green bond financing. • Issuance of SUKUK, first of its kind in Bangladesh has brought an example of development in green finance.

5.3.4 Climate Fiscal Framework (CFF) – a govt. proclamation published in 2014 aiming at Establishing greater national ownership of climate finance; Promoting Government –NGO-Private Sector Partnership Harmonization; Enhancing result management; Increasing mutual accountability; Broadening the opportunity for resilient development and green growth in Bangladesh.

5.3.5 Sustainable and Renewable Energy Development Authority (SREDA):SREDA is an agency of the Government of Bangladesh under Power Division of the Ministry of Power, Energy and Mineral Resources. Its stated aim is to promote, facilitate and disseminate sustainable energy covering both the areas of renewable energy and energy efficiency to ensure the energy security of the country. It has been formed by S.R.O. No. 69 Law/2014 in exercise of the powers conferred by section 29 of the Sustainable and Renewable Energy Development Authority Act, 2012. The institution is an authoritative organization for the development of the renewable energy in the country, as a coordination body between different ministries and departments, including the Bangladesh Power Development Board ("**BPDB**"), the

Rural Electrification Board ("**REB**"), the Local Government Engineering Department ("**LGED**"), autonomous bodies like the Infrastructure Development Company Limited ("**IDCOL**") and also the private sector. SREADA's policy/Guidelines for identifying Renewable and Resource Efficiency Products/Projects/Initiatives. **SREDA** for nationwide promoting demand-side energy efficiency and conservation is in place. In conformity with Paris Agreement 2015, SREDA has formulated **"Energy Efficiency and Conservation Master Plan up to 2030",** Country Action Plan for Clean Cookstoves, Net Metering Guidelines and others.

5.3.6 BangladeshClimateChangeTrustFund(BCCTF): BCCTF Establishedin2009bytheGovernmentofBangladesh (GOB). ResourcedUSD100millioneachyearsince2009fromtheregularnational budget. 66% of the total fund isbeingspentfortheimplementation ofBangladeshClimate ChangeStrategyandActionPlan(BCCSAP)whiletherest34%isheldinreserveas'fixeddeposit'fortackl ingemergencysituationandgeneratingadditionalmoneytoimplementtheBCCSAP. 10%oftheabove66%isbeingspentbyNGOsundertheoverallsupervisionofPalliKarmaSahayakFound ation(PKSF),a government owned financier of microfinance institutions, andthe restby differentministries ofthe government.Over the past three fiscal years (FY 2009-10 to FY 2011-12), thegovernment has allocated USD 300 million (USD 100 million every year)under Bangladesh Climate Change Trust Fund (BCCTF), for projects largelyfocused on adaptation. The Climate Change Trust Act, 2010[4] was enacted on 11 October 2010. The core objective of this Act was to address the challenges created by climate change by working on institutional and social capacity building of citizens. It also aims to create public awareness on possible environmental disasters arising out of climate change as well as carry out emergency rescue operations due to a natural disaster arising out of climate change.

5.3.7 Bangladesh Climate ChangeResilience Fund (BCCRF):BCCRF aims to collect and disburse climate adaptation funding for Bangladesh. BCCRF, being a multi-donor trust fund, managedbytheGovernmentofBangladesh was established in May 2010 with the signing of a Memorandum of Understanding (MOU) between the Government of Bangladesh, development partners and the World Bank. This innovative mechanism is enabling the Government to channel grant funds to millions of Bangladeshis in order to build their resilience to the effects of climate change.Public sector projects approved by the Fund include projectslikefreshwatersupplytoclimatechangeaffectedpeople,protection project for char fashion sub-districts, excavation ofcanals, sustainablewaste managementproject, etc. World Bank is providing 'fiduciary' support to the BCCRF whichwill behandedover totheGOB withinnextthree years. BCCRFhasreceivedaroundUSD200millionfromdifferentdevelopment partners including the United Kingdom, EuropeanUnion, Denmark, Sweden andAustralia. 90% of the total amount will be spent by different ministrieswhiletherest10%willbemanagedbyPKSFtosupportinitiatives taken by NGOs.

5.4 Role/Initiatives of Stakeholders at Global Level:

5.4.1 Background: We all are aware that the world is facing the problem of rising sea levels and an increase in the number and severity of natural disasters such as heavy rainfall due to the progression of global warming. Therefore, the acceleration of efforts to achieve carbon neutrality is an urgent issue for the world. In 2015, the “Paris Agreement” was adopted at the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC). Under the agreement, it was stipulated that efforts should be made to hold the increase in the global average temperature to well below 2ºC above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 ºC. To this end, a universal long-term goal was set to peak out greenhouse gas (GHG) emissions as early as possible and achieve carbon neutrality in the second half of this century. In this regard, the United Nations Intergovernmental Panel on Climate Change (IPCC) released a Special Report "Global Warming of 1.5 ºC". The report points out that in order to achieve the 1.5°C effort goal, carbon neutrality must be achieved around 2050. Furthermore, at COP26, held in November 2021, the commitment to continue efforts to realize the 1.5°C target was reiterated, calling for intensified efforts in the "Decisive Decade" to 2030.

5.4.2UnitedNationsFrameworkConventiononClimateChange(UNFCCC):UNFCCC recognizes the special needs of developing country Parties, particularly those highly vulnerable to climate change. According to Article 4.4, developed countries are to assist developing countries vulnerable to climate change in meeting costs of adaptation. Article 4.9 attaches special priority to LDCs in relation to funding, which includes funding for adaptation.

5.4.3Roadmap to a Carbon-Free Future:United Nations Environment Program (UNEP) has developed a Six-Sector Solution to the climate crisis. It is a roadmap to reduce emissions in line with the 2016 Paris Agreement, across six specific sectors: Energy, Industry, Agriculture and Food, Forests and Land Use, Transport, Buildings and Cities.UNEP works across these six sectors to support the transition to a low-carbon, more resilient future where we reduce emissions and ensure the six sectors can also adapt to the climate impacts that are expected. We enable science-based decision-making, capacity support and institution strengthening and provide tools and guidance on legal and financial frameworks that enable climate -smart development.In the energy sector, UNEP can cut **12.5 giga-tons (Gt)** greenhouse gas emissions annually.UNEP has the necessary technology to make this reduction by shifting to renewable energy and using less energy.Industry can reduce its emissions by **7.3 Gt** yearly by embracing passive or renewable energy-based heating and cooling systems, improving energy efficiency and addressing other pressing issues, like methane leaks. New food production solutions can reduce emissions by **6.7 Gt** a year. Reducing food loss and waste, and shifting to more sustainable diets can reduce emissions **by more than 2 Gt a year.** Food getting spoiled happens from the farm to the fork and switching to a plant-rich diet is one of the biggest steps we can do to emit less Green House Gas. It’s also good for our health. Connected to our food systems, the world can reduce emissions by **5.9 Gt** annually if it halts deforestation, ecosystem degradation and restores ecosystems. These actions would also improve air quality, bolster food and water security and shore up rural economies. Most importantly, investments in land, freshwater and marine ecosystems can make a major contribution to increasing climate resilience. Transport is responsible for about one-quarter of all greenhouse gas emissions. And it is set to double by 2050. We can reduce that number with up to **4.7 Gt** by using electric vehicles, in private and public transport, and encouraging people to walk, cycle and use other forms of non-motorized transport by creating safe spaces. If we do not cut vehicle emissions, deaths from exhaust fumes in cities will rise by more than 50 percent by 2030. By 2030 buildings will account for about 12.6 Gt of energy-related emissions. But 70 percent of the urban infrastructure needed to accommodate a fast-growing world has not been built yet. By making the cities and homes of tomorrow fit for a low-carbon age—and by updating existing infrastructure— we can reduce emissions by **5.9 Gt. Across all sectors subsidies should be shifted from supporting high-emitting processes and behavior to pushing for sustainable low-carbon alternatives - or at the least, a level playing field.**

5.5 Inhouse Environmental Management in Banks and FIs: Banks are required to formulate appropriatepoliciesforselectionofunit/projectandlocationunderdifferent categories based on proper analysis of environmental risks andconcentrationthereinasperEnvironmentalConservationAct(ECA)1995,ECR(EnvironmentalConservationRules(ECR)1997,ERMguidelines,greenbankingguidelinesandotherrelevantinstructions issuedfromtimetotime.BankswillalsopreparesectorspecificenvironmentalguidelinestakingECR1997,EnvironmentalDueDiligence(EDD)checklistsandcurrentenvironmentalandclimatechange condition into consideration. Banks will prepare sector specificenvironmental guidelines only for the sectors covered in the respectivebank's portfolio. The most polluting industry units fall under the 'red'category,andtheremustbeapolicydecision(Y/N)aboutfinancinginthe 'red' category requiring detailed review for a decision to finance.Banksshouldhavespecificpolicyforprocurementandeffectiveutilizationofenergyefficientproducts,electronicappliances,motorvehicles etc. for eco-friendly atmosphere. Automation and improved in-housegreenactivities,requiredandrigoroustrainingprogramsfortop/mid/lowerlevelmanagementand theclientsaswellneedtobecarried on. Green banking initiatives in banks are to be backed by wholeheartedcommitmentoftheirrespectiveboards/seniormanagements,cascadingdownwardstomiddlemanagementandotheremployees.

The activities under the inhouse Environmental Management in Banks and FIs may start with the Green buildings of a Head Office and its branch offices those are designed to reduce the overall impact of the built environment on human health and the natural environment by Efficiently using energy, water, environment friendly glass fibers for sun heat protection and other resources; Protecting occupant health and improving employee productivity; Reducing waste, pollution and environmental degradation; Rain water harvesting, waste water recycling; Auto sensor for most effective utilization of water and motion sensor energy efficient bulbs supported by window based solar panels. Under the Inhouse Environmental Management Banks and FIs are required to reduce dependency on grid power by shifting to use of solarpower and other renewable energy sources to the maximumfeasible extent, follow greenarchitecturewhileconstructingbankoffices, useenergysavingtechnologiessuchasLED,CFLetc., useenergyefficientdigitaldevices, reduceuseofpaperbyadoptionofonlineautomatedworkpractices and conductenergyauditregularlytomonitorcarbonfootprint.

An inclined green intuitional structure must prevail to address green leadership. Green Governance should be reflected in the yearly board decisions that discuss and decide for the settlement or advancement of the green or sustainability issues.Performance of an Energy Auditor of a bank or in its in-house can play an effective and justified role while bank or FI in financing green machineries, green establishments including green appliances and green installation. Transportation arrangement under time, energy and cost efficient with respect to best use of fuel, gas and other sources accommodating work force in an efficient manner.Ensuring electronic file and registrars maintenance for better contribution to work from desks.E-recruitment, E-tendering, E-meeting, E-pass issuing, Video Conferencing, online banking, mobile financial services through mobile banking, digital financial services, solar powered ATM booths, Solar Powered Branch offices, online training etc. all these belong to inhouse environmental management.

Transparency, information dissemination ensuring zero information gap, reporting, disclosures, awareness programs, workshops, round table discussions, knowledge hub, MIS for maintaining a huge structured database containing data on sustainable and green banking reports, data of green product manufacturers, entrepreneurs, service providers, suppliers, associations, potential buyers and all other concern stakes.

5.5.1 Carbon Footprint Reduction Measures- A carbon footprint is the total amount of greenhouse gas emissions that originates from the production, use and end-of-life of a product or service. It includes carbon dioxide, the gas most commonly emitted by humans and others, including methane, nitrous oxide, and fluorinated gases, which trap heat in the atmosphere, causing global warming. BB is yet to collect & assess the energy consumption related data of Banks & FIs on a yearly basis for taking necessary steps to reduce the internal carbon emission of Banks & FIs; this will be done in a gradual manner where the Banks and FIs will be required to calculate and report the carbon footprint of their Headquarter and later other branches. This process will be aligned once the green branch policy will bring into light.

5.5.2 Carbon Finance- There are many ways and efforts underway to reduce carbon emissions and promote activities which help to convert into a tradeable financial instrument and made carbon reduction a valuable economic commodity. To find a common unit for this commodity all GHGs are converted to CO_2 equivalents (CO_2-eq). The CO_2-eqs or Certified Carbon Emission Reductions (CERs) or Voluntary Carbon Emission Reductions (VERs) Certificates are traded on carbon markets. Carbon Finance is earned by making investments in generation of greenhouse gas emission reductions that can be traded in carbon markets. Common Carbon Finance project types include cleaner production projects and projects that increase energy efficiency or generate power from renewable resources.

Banks & FIs could participate actively in carbon markets in various ways:

- Offering advisory services to clients entering or active in carbon markets, including marketing, structuring, transacting, and sales of carbon;
- Offering targeted financing to companies with GHG emission reductions projects and programs that generate a stream of carbon finance income;
- Selling emission reductions in the carbon market which they aggregate and purchase from portfolios of clients with smaller-scale GHG emission reductions projects;
- Making equity investments in companies that originate and transact GHG emission reduction projects and programs that earn carbon finance payments, and
- Receiving emission reductions in addition to interest payments as part of upside-sharing agreed with clients that generate carbon credits.

BB intends to introduce Carbon Finance as on demand in the financial market of Bangladesh. There are existing internationally accredited carbon reduction projects in Bangladesh in which the banks can participate to ensure sustainability and additional revenue for the project.

5.5.4 Economic activities for reducing negative impact on environment

Negative impact on the environment can be reduced through:

1) Use energy more efficiently
2) Install renewable
3) Conserve water
4) Reduce, reuse, recycle
5) Travel less
6) Consider near sourcing
7) Ship goods more efficiently

Pre-disbursement Screening for Potential investments of Banks and FIs are essential in both quantitative and qualitative judgments as well as stricter onsite and offsite monitoring immediate after disbursement must go on to maintain the quality of the assets remain unclassified.

5.5.3Banks'some other common In-houseGreenActivities

- Commonuseoftablestationeriesinsteadofindividualuse.
- Useofpaperonbothsidesforinternalconsumption.
- Introductionofe-statementforcustomersinsteadofpaperstatements.
- Useofonlinecommunicationinthebestpossiblemanner.
- Usingmoredaylightinsteadofelectriclightsandproperventilation in lieu ofusing air conditioning.
- Usingenergysavingbulbs.
- UseofEcoSavvyfontforprintinglightimpressiononbothsides of paper.

- Setting defaults like "Thinking twice before printing.", "Printingonlyitreallyneeds","Pleasecheckyourenvironmentalresponsibility" etc. inemail correspondences.
- Video/Audioconferenceinlieuofphysicaltravel.
- Conversionofbank'svehiclesintoCNGanduseofenergyefficient electronic equipment.
- Efficientuseofprintercartridges,photocopytoner,officestationary etc.
- Sharingelectronicfiles,voicemailande-mailinsteadofpapermemos.
- Use of solar energy/ renewable energy sources
- More concentration on developing a Green Office Guide for reducing the information gap/reducing hazards/increasing efficiency/awareness/reducing pollution/developing Green Banking for sustainable finance.

5.5.5 Green Finance Disclosure

- Green Taxonomy has been included as part of Sustainable Finance Taxonomy. Banks and Financial Institutions should disclose the initiatives/practices time to time taken by them in their respective websites. The following disclosure should be made and updated by all Banks and FIs:
- Updated and detailed information regarding Banks'/FIs' environmental activities and performances of major clients should be disclosed.
- Banks/FIs shall keep their annual report and websites updated with the disclosures on Green Banking initiatives/activities.
- Banks/FIs should incorporate a section/dropdown/tab for their existing Green products/projects/initiatives in their website.
- A customer complaint/feedback option should be in their website for any query made in this regard.
- Brief information regarding **BB Support Funds** under low cost Green Refinancing mechanism should be disclosed on website in a displayable tab.

5.6 Inhouse Environmental Management in Bangladesh Bank: WithamovetowardsencouraginggreenbankinginBangladesh, Bangladesh Bankinstalled 8 kilowatt solar powersystemonitsrooftopinMarch2010.This has been extended to cover more areas.LEDbulbshave beeninstalledtobringsignificantenergyefficiency. Aspartofcentralbankautomation,BangladeshAutomatedClearingHouse(BACH), Credit InformationBureauonline,EnterpriseResourcesPlanning(ERP),Enterprise Data Warehouse(EDW), e-tendering, and e-recruitment have come intoreality.NationalPaymentSwitchhas been introduced since 2013. The overall banking functions of Bangladesh Bank (including alldepartments andbranch offices relating to banking functions)have been brought under automation by implementing BankingApplicationPackagethatincludesCoreBankingModule,TreasuryManagementModuleand MarketInfrastructureModule.AllofficesanddepartmentsofBangladeshBankhavebeenbroughtunder acomputernetwork(LAN/WAN),connectingaround 4000 desktop/laptop computers.Pollutant generating process of incinerating non-issuable banknotes is being phased out, resorting instead of shredding andrecycling.Onlineissuanceofsalaryadviceandotherofficememos,personal file updating information, office orders, notification,online balance statements for all employees of BB, electronicpasses for visitors areinstantly available.BangladeshBank'sguidancecircularrequiresbankstoadoptgreenstrategic planning for 2013 and beyond. Vision and mission have beenincorporatedinthestrategicplanningcoveringbothin-housegreenbanking activities and green financing practices. WithamovetowardsencouraginggreenbankinginBangladesh, Bangladesh Bank installed 8kilowatt solar powersystemonitsrooftopinMarch2010.Thishasnowbeenextended to cover more areas. LEDbulbs have beeninstalledtobringsignificantenergyefficiency.

5.7 Green Financing: Green Financing is a part of ethical financing and subsequently of Sustainable Finance. It 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. Banks/FIs aiming to green themselves adopt cleaner energy sources such as solar power. Green Finance encourages ‘environment-friendly initiatives everywhere by incorporating the spirit of green banking in its financing decisions as well, leading to greening in other sectors. Green Finance should promote the usage of greener technology in other sectors through its lending products. It refers to banks’/FIs’ 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 banks/FIs. Green finance is defined as one of a number of terms used to label activities related to the two-way interaction among environment, social, finance and investment. Related terms include: environmental, social and governance (ESG), sustainable finance and climate finance.Not only green finance is included in Sustainable Finance it includes Climate Finance. Climate Finance can be associated to that component of green finance focusing on climate action in line with the Paris Agreement objectives.According to Definition of Climate Finance by UNFCCC Standing Committee on Finance:“Finance that aims at reducing emissions, and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts.” Policies those address climate change are Bangladesh climate change strategy and action plan

(BCCSAP), Nationally determined contribution (NDC) National Adaptation plan (NAP), Climate investment plan for environment forest and climate change (CIP-EFCC), Five Year Plans (FYP), Annual development programme (ADP). Bangladesh needs 230 billion USD up to 2050 to implement NAP. Bangladesh need around 125 billion USD for conditional NDC and 20 billion USD for unconditional NDC implementation up to 2030.

Green finance is used to increase level of financial flows (from banking, micro-credit, insurance and investment) from the public, private and not-for-profit sectors to sustainable development priorities. Importance of Green Finance is out-of-question - as it promotes and supports the flow of financial instruments and related services towards the development and implementation of sustainable business models, investments, trade, economic, environmental and social projects and policies. In fact, it is a part of Sustainable Finance. Green Finance refers to targeted financing - to Green Technologies/activities/products/projects/initiatives, to Green Companies or Institutions with good/better than average environmental performance and/. Moreover, Term Financing/Funding for Research/Innovation /Marketing/Capacity Building/Awareness and digging out/hunting/recognizing new green or environment friendly products/ projects/initiatives will be treated as Green Finance. An exhaustive Green Finance Policy has been thought for boosting Green Finance as part of Sustainable Finance to ensure and establish Sustainability.

Green Finance is a subset of a wider definition of Sustainable Finance. Green product-based term financing is named as Green Financing. Green products/projects/initiatives belong to Renewable Energy, Energy & Resource Efficiency and all other green categories are being facilitated by bank's own finance and also under low cost funding arrangements of Bangladesh Bank. Green Financing is to serve the UN agenda with a view to ensuring clean water and sanitation, affordable and clean energy, decent work and economic growth, industry, innovation and infrastructure, responsible consumption and production, climate action and partnership for attaining the goals.

All Banks and Financial Institutions shall determine their annual target on the basis of their immediate previous year's net outstanding amount and declare their yearly budget allocation both for Green Finance and Sustainable Finance at the beginning of the calendar year. Banks and FIs will determine their Green Finance and Sustainable Finance target on the basis of immediate previous year's Net Outstanding of loans and advances (Total Outstanding less staff loans, total classified loans and Credit Card exposure). In conformity with BB's guidelines, Banks and Financial Institutions shall set target of Green Finance and Sustainable Finance considering all potential area and product/projects with required justification. As per existing BB policy the attainment target of Sustainable Financing is 20% of the total funded loan and Green Finance minimum target is 5% of the total term loan disbursement and will remain within the sustainable finance target.

5.7.1 Term Financing to the following identified green product/project/initiatives belong to 11 green categories are termed as Green Finance:

A. Renewable Energy

1. Solar Home System 2. Solar Pico Grid 3. Solar Micro Grid 4. Solar Park 5. Solar Irrigation Pumping System 6. Solar Photovoltaic (PV) Assembly/Manufacturing Plant 7. Solar Water Heater Assembling/Manufacturing Plant 8. Solar Nano Grid 9. Solar Mini Grid 10. Net Metering Rooftop Solar System 11. Solar Pump for Drinking Water 12. Solar Cooker Assembly/Manufacturing Plant 13. Solar Air Heater & Cooling System Assembly/Manufacturing Plant 14. Solar Powered Cold Storage 15. Small size biogas plants[2] - 1.2, 1.6, 2.0, 2.4, 3.2 and 4.8 cubic meter gas production per day 16. Medium size biogas plant[3] - capacity 6 to 25 cubic meter gas production per day 17. Large size biogas plant[4] - capacity 26 to 200 cubic meter gas production per day and above 18. Integrated Cow Rearing and Setting up of Bio-gas Plant 19. Wind Power Plant 20. Hydropower Plant.

B. Energy & Resource Efficiency

21. Installation of Energy Auditor Certified machineries including boiler in industries for following purposes: i. Energy efficiency ii. Resource efficiency iii. Heat and temperature management iv. Air ventilation and circulation efficiency v. Waste Heat Recovery System/Unit

22. Auto Sensor Power Switch Assembly Plant 23. Energy Efficient Cook Stove Assembly Plant
24. LED Bulb/Tube Manufacturing/Assembly Plant 25. Energy Efficient Lime Kiln
26. Improved Rice Parboiling System

C. Alternative Energy

27. Pyrolysis Processed Oil/Bio-crude Oil/Bio Fuel Manufacturing Plant

D. Liquid Waste Management

28. Biological ETP 29. Combination of Biological and Chemical ETP 30. Conversion of Chemical ETP into Combination of Biological and Chemical ETP 31. Central ETP 32. Waste Water Treatment Plant 33. Sewage Water Treatment Plant

E. Solid Waste Management

34. Methane Recovery and Power Production from City/Municipal Waste Plant 35. Compost Production from City/Municipal Waste Plant 36. Hazardous Waste Management Unit/Plant 37. Medical Waste Management Unit/Plant 38. E-Waste Management Unit/Plant 39. Sludge Management Unit/Plant

F. Recycling & Manufacturing of Recyclable Goods

40. PET Bottle Recycling Plant 41. Plastic Waste (PVC, PP, LDPE, HDPE, PS) Recycling Plant
42. Paper Recycling Plant 43. Recyclable Bag Manufacturing Plant 44. Recyclable Poly Propylene Thread and Bag Manufacturing Plant 45. Battery (Solar/Led Acid/Lithium Ion) Recycling Plant

G. Environment Friendly Brick Production

46. Compressed Block-Brick 47. Foam Concrete Brick 48. Environment Friendly/Brick Kiln Efficiency Improvement Project (Tunnel Kiln and HHK)

H. Green/Environment Friendly Establishments

49. Establishment of Green Industry certified by appropriate authority (In Bangladesh - SREDA, Internationally - USGBC-LEED, BREEAM, CASBEE, EDGE, GRIHA) 50. Establishment of Green Building certified by appropriate authority (In Bangladesh - SREDA, Internationally - USGBC-LEED, BREEAM, CASBEE, EDGE, GRIHA) 51. Establishment Green Featured Buildings (Characteristics have been given in Annex-1) 52. Affordable Green Housing 53. Concerning Factory working environment and safety (Fire defense system, disaster defense and prevention system, workers' health safety system).

I. Green Agriculture

54. Earthworm compost manure (Vermi compost) production 55. Organic manure production from Slurry 56. Forestation (Social/integrated/Agro) 57. Organic Farming 58. Rooftop Agriculture/Vertical Farming or Gardening 59. Fish cultivation in cage 60..Biofloc fish cultivation 61. Integrated Recycling System (IRS) fish cultivation/Bottom clean fish cultivation 62. Financing in coastal Aquaculture 63. Floating system cultivation, Hydroponic cultivation/farming.

J. Green CMSME

64. Financing in Cottage Industry

K Green SRF

65. Community Investment for addressing Climate Resilience and Disaster Management in a concessional rate (finance to clean air, clean water, minimizing industrial and municipal waste, recovery and protection of water bodies, marshy lands, expansion of green coastal belt, water purification, sustainable sanitation, water blockage mitigation, soil and water salinity mitigation, river erosion prevention) 66. Financing in Green/Clean transportation projects (cycles, green vehicles those run on wind, solar energy, electricity, bio-fuels etc.) 67. Financing in Sand-witch Panel (Floating or Movable Houses in coastal areas or climate vulnerable zone) 68. Financing in Govt. approved Eco-tourism project

5.8 Bangladesh Bank's Green Refinancing Schemes:

5.8.1 BB's BDT 04 billion Refinance Scheme: BB's low cost/supporting fund is available to Participating Financial Institutions (PFIs) (Banks/FIs) against their financing of renewable energy generation and other environmentally benign projects. The size of the fund has been increased from BDT 02 billion to BDT 04 billion due to the growing demand for financing of environment friendly products/projects/initiatives. As per existing scenario the rate of interest at borrower level is 5% for tenor within 5 years, 5.5% for tenor within 8 years, 6% for tenor 8 years and above. The margin for the PFIs are 2%, 2.5% and 3% respectively. The scheme includes 68 green products/projects/initiatives (applicable for term finance) belong to 11 green categories.

Documentation Checklist for availing BB's 4 billion Refinancing Facility for Green Products /Projects/Initiatives

Name of the Project	:
Project Chairman/CEO	:
Name of the PFI PFI Contact person (Name, email, phone)	:

Loan/Investment by PFI	:	
Refinance Claimed	:	
Tenure and Grace Period	:	
As per SFD Circular No: 4, date: July 24, 2022	:	
Sector	:	
Product	:	
	:	
Category of industry (As per the ECR 1997)	:	☐Green ☐Orange A ☐Orange B ☐Red

Sl No.	Documentation Checklist
01	Application of PFI to Bangladesh Bank
02	Annexure as per SFD Circular No: 4, date: July 24, 2020
03	Application of Client to PFI
04	Sanction letter by bank in favor of the borrower
05	Resolution of the board approval in favor of the client
06	Loan approved by competent authority (with delegation of business power)
07	Loan Account Statements
08	Disbursement and amortization schedule. (Fixed principle method)
09	Credit Proposal
10	Project Profile
11	Banks Declaration regarding Clean CIB. (Mention CIB subject/borrower code)
12	Banks declaration about not taking finance from any other Concessional fund from Bangladesh Bank or International agencies
13	Certificate of Incorporation
14	Registration Certificate from relevant authority (RJSC Certificate/Trade License/Export Registration Certificate etc.)
15	Membership from relevant business bodies (BGMEA/BKMEA/LFMEAB etc.)
16	Form XII
17	Copy of LCs
18	Pro forma
19	Commercial Invoice
20	Bill of Lading/airway bill/truck receipt/delivery challan
21	Bill of entry
22	Detailed specifications of the machineries/accessories
23	Certificate of energy efficiency from Certified Energy Auditor(AEE/SREDA)/LEED Certification
24	Trial Run Certificate from PFI
25	Inspection report from PFI
26	Project completion report by PFI
27	Clearance from DOE (Department of Environment)
28	Permission from DC Office
29	Fire Fighting/Civil Defense Certificate from proper authority
30	Expense bills/quotations/money receipts/work orders for local procurement

31 Details of the items and amount against which refinance has been sought
32 Any other relevant documents that might be required from time to time

5.8.2 Green Transformation Fund (GTF) Guidance Note of BB is in place to guide BB GTF USD 200 (two hundred) million Refinance Scheme for all export-oriented industries for importing Green Machineries belong to (i) Water use efficiency in wet processing (ii) Water conservation and management (iii) Waste management (iv) Resource efficiency and recycling (v) Renewable energy and Energy efficiency (vi) Heat and temperature management and (vii) Air ventilation and circulation efficiency category.

BB GTF Euro 200 (two hundred) million Refinance Scheme is another window applicable for all export-oriented industries for importing Green Machineries belong to the above-mentioned green categories with an extension facility to solar energy and renewable energy under power sector. BB GTF Euro has also given scope for importing green capital machinery and accessories (including Buyer's Credit) and also can be used to import (only Buyer's Credit) industrial raw materials used in all manufacturing enterprises including both export oriented and deem exporters.

GTF of USD 200 million introduced in February 2016 available only for export oriented textile, leather and jute sectors. It became available for all export oriented sectors in June, 2019. Euro 200 million in April 2020 was added as separate window of GTF. Guidance Note for on-lending/refinancing under GTF was issued in July 28, 2020.

Eligibility of loans from GTF:GTF is used for payment of imports, Financing on long term basis (5 to 10 years), Eligible borrowers will have access to Taka term financing from banking system, Loan defaulters in banking system/defaulters in realization of export proceeds within statutory period or such extension as permitted by BB will not be eligible for financing from the Fund.

BB charges interest @ six-month USD LIBOR plus 1.00 percent and ADs charge for borrowers within the range of 1.00~2.00 percent above the cost of borrowing means LIBOR + 1% + 1.00~2.00. BB charges interest @ EURIBOR plus 1.00 percent. In case of EURIBOR remaining in negative territory,

BB charges interest only @ 1.00 percent. ADs charge the borrowers within the range of 1.00~2.00 percent above the cost of borrowing means Euribor + 1% + 1.00~2.00.
Guidance Note on GTF tells about Water Use efficiency in wet processing where Machineries and Accessories (M&A) reduce the current level [20% by 2022, 30% by 2023, 40% by 2024 and 50% by 2025, as per draft Integrated Water Security Plan (IWSP) national framework] of water consumption. Water conservation and management addresses Rainwater harvesting, Treated waste water & used water recycling – reuse of tap water & water flow tracking or metering system. Waste management includes Liquid Waste & Solid Waste Management and Sludge management. M&A to be used in any kind of resource recycling or reuse in the production process having Energy Auditor's Certificate under the green category of Resource efficiency and Recycling.

Borrowers/clients can avail finance facility from Banks/FIs and PFIs(Banks/FIs) can claim refinance facility under GTF from Bangladesh Bank upon fulfillment of the following documentations for Board Approval, Bank Finance and Refinance Claim to BB.

01	Annexure 1 of FE Circular 2/2016
02	Application of PFI to Bangladesh Bank
03	Application of Client to PFI
04	Sanction letter by bank in favor of the borrower
05	Board Approval in favor of the client
06	Loan Account Statements(Term Loan Details With respective GL)
07	Project Profile
08	Banks declaration about not taking financing from any other Concession fund from Bangladesh Bank or International agencies
09	Certificate of Incorporation
10	Registration Certificate from relevant authority(RJSC Certificate/Trade License)
11	Banks Declaration about Clean CIB of the client.
12	Copy of LCs (already opened)
13	Copy of PIs (pro forma Invoice) (against which LCs will be opened)
14	Commercial Invoice
15	Packing List
16	Bill of Exchange
17	Certificate of Origin
18	Bill of Lading/ Airway Bill/ Truck Receipt
19	Bill of entry
20	Supplier's Credit Report (for each individual suppliers)
21	Tentative disbursement and amortization schedule
22	Schedule of Import Payment
23	Foreign Exchange Rate Sheet
24	Detailed specifications of the machineries/ accessories
25	Green initiatives Category as per FE Circular 2/2016
26	Term Loan sanction and Disbursement statements in Case of Financing
27	Comply with ESRM circular. (SFD circular 02, Dated February 08, 2017.)
28	Clearance from DOE (Department of Env.)
29	Energy Audit report for Imported Machineries
30	Certificate of Energy Auditor

31 Detailed Term Loan Statement with Ledger.

32 Any other relevant documents that might be required from time to time

5.8.3 Refinance Fund on Technology Development/Upgradation Fund: Bangladesh Bank introduced BDT 10.00 billion refinance fund for technology development/up-gradation. The fund has been circulated for banks and NBFIs through the SFD circular in January 2021. It offers refinance facility for the modernization and technological development/up-gradation of export-oriented industries in Bangladesh. The fund facilitates 32 industrial sectors mentioned in the Export Policy, 2018-2021 under 11 initiatives/categories.

Purpose: Technological Development of Export Oriented Industries

Beneficiaries: Priority Areas belong to Special Development Sectors of Export Oriented Industries under Export Policy 2022 – 2026

Fund Size: BDT 1000 crore

Tenor: 3 to 10 years of Term Loan

Grace Period will not be more than 1 yr. but will be finally decided upon BB.
Interest Rate at PFI Level from BB = 1% below Bank Rate

Interest Rate at Borrower Level from BB = (1% below Bank Rate + 2% bank margin) for tenor within 5Yr.; (1% below Bank Rate + 2.5% bank margin) for tenor from 5 to within 8 Yr, ; (1% below Bank Rate + 3% bank margin) for tenor from 8 to above.

Eligibility for Availing Refinance Facility: NPL will not be more than 10%, Capital Adequacy, Required Provision, CRR and SLR Maintenance will be accordingly BB's requirement. Purpose of the disbursed amount must be assessed and justified at least by authorized Energy Auditors or equivalent teacher of universities. Application should be addressed to Director, SFD, BB, HO within the 90 days from the term loan disbursement.

5.8.4Environmental and Social Risk Identification and Mitigation Techniques related to Different Projects:

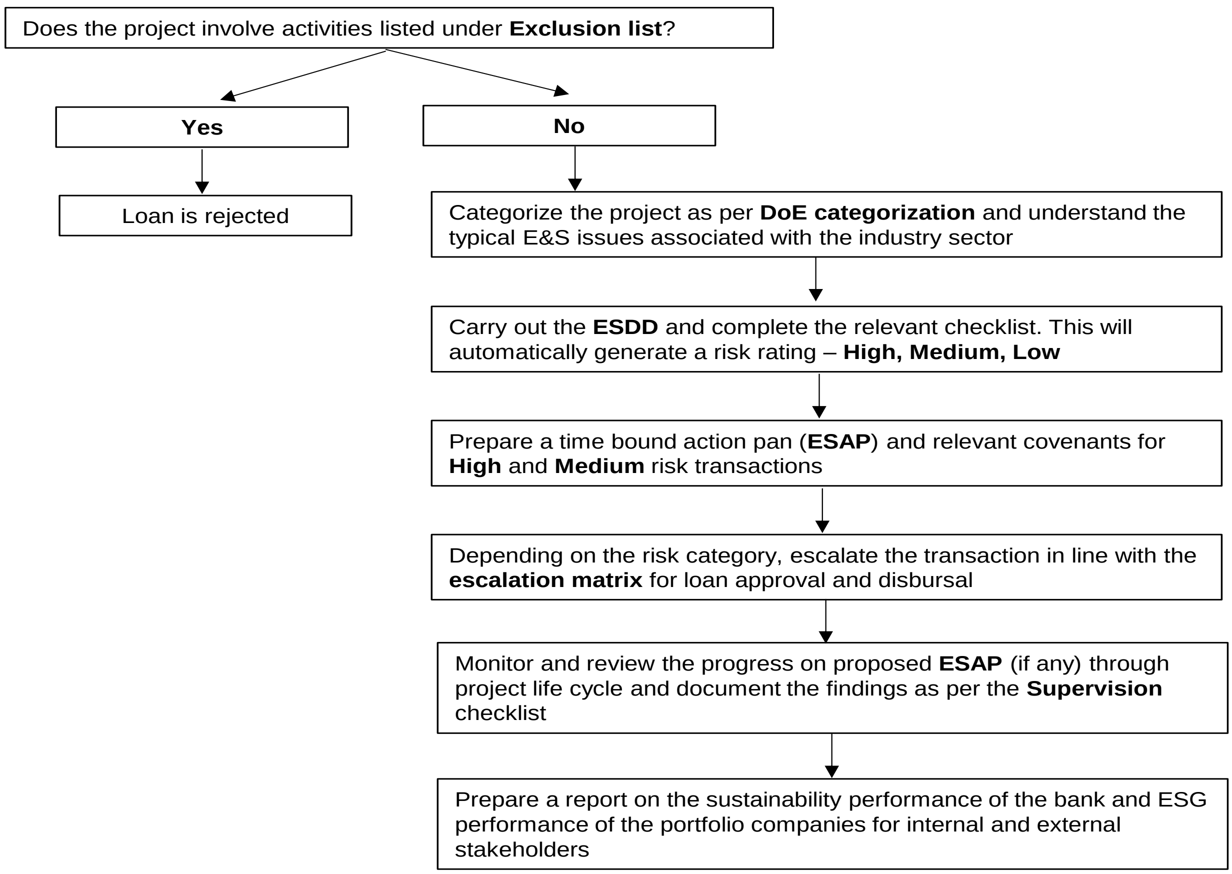
High Risk: Transactions typically involve clients with business activities with significant adverse E&S impacts that are sensitive, diverse, or unprecedented. A potential impact is considered sensitive if it may be irreversible (such as loss of a major natural habitat), affect vulnerable groups or ethnic minorities, involve involuntary displacement and resettlement, or affect significant cultural heritage sites. High Risk transactions.

Medium Risk: Transactions typically involve clients with business activities with specific E&S impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures and international best practice. Potential adverse environmental impacts on human populations or environmentally important areas are less adverse than those of

Low Risk: Transactions typically involve clients with business activities with minimal or no adverse E&S impacts.

All the low risk transactions may be approved by usual approval tier designated by the Credit/Investment Policy of bank/FI. All the medium risk transaction will be escalated to the

Head of Business for approval. All the high risk transactions will be escalated to the Board n case of local banks and MANCOM in case of Foreign Banks, after review by the MD/CEO, for approval. In absence of the Board, the high risk transactions can be approved by the Executive Committee.



5.9.1Screening Process: Pre-disbursement screening in both quantitative and qualitative judgment mode for potential investments of banks and FIs is essential. Banks/FIs will certainly set screening criteria which is essential to avoid significant harm to climate change mitigation and adaptation, and to environmental and social harmony. Accordingly, they will be fully aligned with the ethical strategy “Not doing any significantly harm to the other environmental objectives” and go through the technical screening criteria that determines whether an activity can be considered to substantially contribute to any of the six environmental objectives-Climate change mitigation; Climate change adaptation; Sustainable protection of water and marine resources; Transition to a circular economy, waste prevention and recycling; Pollution prevention and control; Protection and restoration of biodiversity and healthy ecosystems. The purpose for screening to meet a minimum standard – (i) Make a substantive contribution to one of six environmental objectives (ii) Do No Significant Harm (DNSH) to the other five, where relevant and (ii) Meet minimum social and governance safeguards.

5.9.2 Guidelines on Environmental & Social Risk ManagementESRM Guidelines (July 2022) issued by Bangladesh Bank (prepared in consultation and in conformity with international standards) and Off-site Reporting Format in place. On-site check list under on-site supervision manual for Sustainable Financing including Green Finance will also be in place. Product/Project/Priority Sector Specific ESDD screening as it deems fit. All loan proposals will have to be first screened against the exclusion list. Banks/FIs will use the industry specific ESDD if the project activities fall within textile and Apparel Sector, Tanning and Leather Finishing Sector, Cement Manufacturing Sector, Ceramic Tile and Sanitary Ware Manufacturing Sector, Fertilizer Manufacturing Sector, Pharmaceutical Sector, Ship Breaking Sector, Power Sector, Pulp & Paper Sector, Steel Re-rolling Sector.

(ESRM) for Banks and Financial Institutions in Bangladesh has included Excel based ESDD mechanism which provides a robust, auto generated, quantitative risk rating system to reduce the subjectivity of a qualitative risk assessment method and provides a bigger focus on social and climatic risks which are becoming relevant and crucial for Bangladesh. The ESRM Guideline define applicability based upon sector specific E&S impacts and the categories are expanded to include agriculture, cottage, micro, retail and trading enterprises, small enterprises, medium enterprises, large enterprises and infrastructure projects.

A client's ESG performance (on the basis of ESDD risk assessment tool as per ESRM guideline) is to assess existing and emerging ESG risks associated with a client's operations during the transaction. a review of periodic ESG performance reports submitted by the client and regular site visits of the client’s operations. Special attention should be paid to:

- Assessing implementation of any mitigation measures specified in the corrective action plan
- Monitoring for valid ESG permits or licenses
- Any fines and penalties for non-compliance with ESG regulations
- Recent reports from the relevant regulator or inspection authority confirming compliance with specified laws, including any emissions measurements proving that emissions are below the permitted limits
- ESG occurrences including major accidents or incidents associated with a client’s operations such as worker injuries and spills
- Media attention to ESG issues related to the client
- Any complaints submitted by stakeholders about a client and If Bank/FI staff identifies ESG issues, such as a client’s non-compliance with the ESG clauses stipulated in the legal agreement, banks/FIs should follow up with the client to resolve the issues without undue delay

All loan proposals will have to be first screened against the exclusion list (please see below after the flow chart). Both Exclusion List Ineligible for Finance and Sustainable Finance will not be needed to go under ESDD under ESRM guidelines for their products inclusion in the exclusion list.

5.9.2AExclusion List=> Ineligible for Finance: All loan proposals will have to be first screened against this exclusion list. Financing in any activity/area in the following list is not to be considered for financing.

Sector	Activities/ Areas
4. Agriculture CMSMEs and Large Industry (Manufacturing and Service) Trade and Commerce	Production or trade in any product or activity deemed illegal under laws or regulations of Government of Bangladesh or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under the Convention on International Trade in Endangered Species (CITES). A list of applicable national regulations and international treaties for this policy has been given in **Annex-2**.
	➢ Ship breaking/trading activities refers to: ➢ Ships with prevalent asbestos use (for e.g. passenger cruise); ➢ Ships listed on the Greenpeace blacklist*; ➢ Ships not certified "gas free" for hot work
	Drift net fishing, deep sea bottom trawling, or fishing with the use of explosives or cyanide
	Hydraulic horn and >75 decibel horns, polypropylene and polythene bags, two stroke engines.
	Operations impacting UNESCO World Heritage Site and/or Ramsar site
	Illegal logging, and logging operations or conversion of land for plantation use in primary tropical moist forests
	Production or activities involving forced labor/ child labor
	➢ Production or trade in: ➢ Weapons and munitions ➢ Tobacco ➢ Gambling, casinos ➢ Pornography (goods/stores/web/app-based) ➢ Brick production through Fixed Chimney Kiln (FCK)
	➢ Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples

5.9.2B Exclusion List=> Ineligible for Sustainable Finance: Any finance falls in the following list will not be eligible as sustainable finance.

Sector	Activities/ Areas
Agriculture CMSMEs and Large Industry (Manufacturing and Service) Trade and Commerce	If does significant harm to natural reserves, scenic spots, drinking water source reserves, basic farm land reserves, forest parks, geo parks, important wet lands, natural forests, important habitats for wildlife, key protected places for growth and reproduction of wild plants, natural spawning grounds, feeding grounds, wintering ground sand migration channels for important aquatic organisms, natural fishing grounds, water and soil.
	Use of thermal coal, high toxic and high residual/chemical pesticides/fertilizer, use of livestock and poultry food not approved by the government.
	• Upstream fossil fuel extraction and production (including gas, coal and oil) • New standalone fossil fuel electricity production • projects that lead to an increase in CO_2 emissions (through capacity expansion and increased output as a result of the project/investment) • Processing, storing, marketing of gas, and oil • Refining of oil • Nuclear power generation and related assets • Distribution or transport of fossil fuels • Construction, maintenance or expansion of roads • Heavy duty vehicles, infrastructure for fossil fuels (e.g., fuel stations) or bunker fueled shipping infrastructure
	Projects supported by the activities involving heavy metal contaminated soil.
	The projects do not support the processing, recycling and other activities of waste (solid and liquid).
	The projects do not maintain standard bio-safety level, fire defense system, workers health safety equipment.
	The projects include the storage, logistics and distribution of toxic, harmful and dangerous goods.
	The projects endanger local livelihoods; decrease the quality life of indigenous people.
	The projects do not include gender equality, freedom of association and right to bargaining of company employee/workers.
	The projects threaten community/public health

5.9.2C Applicability of the guideline by the transaction type

Transaction Type	Exclusion List	ESDD checklist	Third party ESIA
Financing in all agriculture activities related to farming with full organic and environment friendly practices.	Applicable	Not Applicable	Not Applicable
Financing in all agriculture activities related to farming if there is any environmentally or socially adverse agricultural practices involved such as use of pesticides, agro-chemicals leading to top soil depletion, ground water contamination; use of nitrogenous fertilizers instead of organic fertilizers leading to nitrous oxide emissions and the loan/investment proposal amounting to not more than BDT 2.5 million (25.00 Lakh)	Applicable	Not Applicable	Not Applicable
Financing in All agriculture activities related to farming if there is any environmentally or socially adverse agricultural practices involved such as use of pesticides, agro-chemicals leading to top soil depletion, ground water contamination use of nitrogenous fertilizers instead of organic fertilizers leading to nitrous oxide emissions and the loan/investment proposal amounting to more than BDT 2.5 million (25.00 Lakh)	Applicable	Applicable	Not Applicable
Financing in all types of Cottage Enterprises, all types of Micro, Retail & Trading Enterprises and Consumer Financing	Applicable	Not Applicable	Not Applicable
Financing in E&S sensitive retail & trading enterprises of any amount which include chemical or chemical ingredients, highly fire absorbent products, electronic appliances, combustible oil, paper and dry materials, plastic items	Applicable	Applicable	Not Applicable
Financing in Small Enterprises (manufacturing and services) and the loan/investment proposal amounting to not more than BDT 3.00 million (30.00 Lakh)	Applicable		
Financing in Small Enterprises (manufacturing and services) and the loan/investment proposal amounting to more than BDT 3.00 million (30.00 Lakh)	Applicable	Applicable	Not Applicable
Financing in all Medium Enterprises (manufacturing and services) amounting to not more than BDT 5.00 million (50.00 Lakh)	Applicable		
Financing in all Medium Enterprises (manufacturing and services) amounting to more than BDT 5.00 million (50.00 Lakh	Applicable	Applicable	
Financing in Small/Medium Enterprises (manufacturing and services) and the loan/investment proposal of any amount of following categories: a) Washing, dyeing and finishing units of RMG sector (water, chemical pollution) b) Small steel re-rolling mills (operational health and safety, thermal, air pollution) c) Brick kilns (air pollution, child labour, burning of fossil fuel) d) Units for tanning, dressing and dyeing of leather and fur (water, chemical, air pollution) e) Pesticides, agrochemical and nitrogen manufacturing units (land contamination, water, air pollution) f) Chemicals and chemical products manufacturing units (safety, pollution) g) Rubber and plastic products manufacturing units (pollution) h) Batteries and accumulators manufacturing units (chemical pollution) I) Any other industry or business segment falls under the red category of ECR (Environmental Conservation Rule) 1997	Applicable	Applicable	
Financing in all large manufacturing and service enterprises (other than CMSME, retail and trading enterprises)			
Financing in Infrastructure Projects	Applicable	Applicable	Applicable

The organisational roles and responsibility defined in the ESRM Guidelines are built upon the principles of integration of E&S risks into the bank or FI's overall credit policy. It clearly delineates the responsibility of different functions of a bank or FI in terms of E&S risk assessment and the decision-making process based upon E&S risk rating.

Environmental and Social risk is not a part of credit risk; rather it is a facilitatingelementofcreditriskwhenitislinkedwithcreditriskduetoenvironmentalcondition or climatechange.Astrongcreditriskgradedproject or business deal may be weakened by a high Environmental and Social RiskRating(EnvSRR)becauseofhighenvironmental and Social risktherein.Environmental and Social riskinthiscasehasagreaterimpactovercreditriskintheoverallcreditriskmethodology.Asaresult,environmental and Social riskisrequired to be incorporated in the Core Risk Management (CRM) thatmandatesconsideringEnvSRRintheoverallcreditriskmethodology.Incorporationofenvironmental and Social riskinCRMisalsoimportantforcomputationofadequatecapitalunderRiskBasedCapitalAdequacy(RBCA)andtheCAMELSratingunderoff-sitesupervision.Banksarenowassessing EnvSRR following the Environmental and Social Due Diligence(ESDD) Checklist ofEnvironmentalRiskManagementguideline.

The Environmental and Social Management System(ESMS) includes the E&S Policy and designated roles and responsibilities of different tires of the banks and FIs. It is implemented through a set of procedures for Screening Transactions, Categorizing transactions based on their environmental and social risk, Conducting ESDD, Decision-making process, Monitoring the client's E&S performance, and Managing a client's non-compliance with the E&S standards of banks/FIs.

5.9.2D Screening Transaction: If the activity falls on the Bank/FI's list of excluded activities, the financial transaction should not be considered. DoE categorization is important to understand sectoral risk, but Banks/FIs will be required to complete the ESDD to identify transaction specific risks.

5.9.2E Categorizing Transaction: To determine the extent of ESDD for a particular transaction, an E&S risk category needs to be assigned to each transaction.. Together with the findings of the E&S due diligence, this E&S risk category can be incorporated into the overall risk assessment of a transaction and factored into the decision-making process. This initial categorisation can be done by considering DoE categories of Green, Orange A, Orange B and Red. A list of business categories is available in the Environment Conservation Rules (ECR), 1997 and its subsequent amendments.

5.9.2F Steps for conducting ESDD:

Step1- Exclusion List: Screening of the project against a list of excluded activities adopted by the financial institution;

Step 2- DoE Categorization: Review of industry sector and environmental and social issues that are typically associated with this type of operation. The loan/investment applications do not fall into any category (Red/Orange A/Orange B/Green) defined by DoE, will be categorised as 'others' under this guidelines;

Step 3- ESDD: Review the project's compliance with applicable national environmental and social regulations; Review the project sponsors' track record on environmental and social issues, in terms of potential non-compliance with national regulations or negative publicity; Review the project's compliance against international standards or industry best practice regarding environmental and social issues; and Documenting all required information. Every loan file should have a fully completed E&S checklist, copies of all permits, clearances (DoE clearance certificate, fire license, buyer's financial audit report by external auditors), ESAP, E&S Covenants in loan agreement and after disbursement subsequent supervision reports.

Step 4- Generate Risk Rating: Upon completion of the relevant checklist a risk rating (High, Medium, or Low) will be generated automatically.

Step 5- ESAP:For High and Medium Risk transaction, a time bound action plan and relevant covenants have to be included in the loan documentation.

Step 6- Escalation: Depending upon the risk rating, the transaction has to be escalated to the relevant authority. Please refer to the escalation matrix (Annex-3) for the process to be followed.

Step 7- Monitoring: Review of the proposed actions (if any) to mitigate potential environmental and social issues associated with the project throughout all phases of the project life cycle.

Step 8- Reporting: The banks/FIs will have to report both internally to senior management and also externally to Bangladesh Bank, shareholders on their sustainability performance.

5.9.2G Decision making process

The banks/FIs have to document all findings from the due diligence, which will be considered during the decision-making process before proceeding with a transaction. The banks/FIs also need to ensure that the findings are reviewed and factored in to the decision-making process. The following flow chart in the next page summarizes the steps to be followed while conducting ESDD. Once the ESDD is completed the checklist will auto generate a risk rating- High, Medium or low.

5.9.3 Monitoring: Stricter Monitoring immediately after asset creation or disbursement by the banks and FIs must move on in a structured manner for ensuring the standard quality of the assets. An ESG framework to contribute to Screening on Environmental, Social and Governance issue is essential for the pre-evaluation of a project with respect to sustainability, but the permanence in sustainability will only be ensured if stricter monitoring in both offsite and onsite manner is carried on with regular intervention.

The purpose of monitoring a client's ESG performance (on the basis of ESDD risk assessment tool as per ESRM guideline) is to assess existing and emerging ESG risks associated with a client's operations during the transaction. Bank/FI needs to monitor the client's ongoing compliance with the ESG clauses stipulated in the legal agreement. The monitoring process generally involves a review of periodic ESG performance reports submitted by the client and regular site visits of the client's operations. Special attention should be paid with immediate action to (i) Assessing implementation of any mitigation measures specified in the corrective action plan (ii) Monitoring for valid ESG permits or licenses (iii) Any fines and penalties for non-compliance with ESG regulations (iv) Recent reports from the relevant regulator or inspection authority confirming compliance with specified laws, including any emissions measurements proving that emissions are below the permitted limits (v) Any time any other environmental or social issue during implementation period including public opposition has occurred.

5.9.4: ESRM Guidance Note for Textile and Apparel Sector

5.9.4A Introduction: The objective of this Guidance Note on ESRM for the Textile & Apparel Sector is to provide a high level indicative summary of potential environmental and social (E&S) risks and performance levels for transactions in the Textile & Apparel sector in Bangladesh. At all times, applicable national regulations are to be followed. Where national regulations differ from the levels and measures presented in this Guidance Note, loan proposals are expected to achieve whichever is more stringent. If less stringent levels or measures than those provided in this Guidance Note are appropriate, in view of specific loan proposal, a full and detailed justification for any proposed alternatives is needed as part of the site-specific environmental assessment. This justification should demonstrate that the choice for any alternate performance levels is protective of human health and the environment. For the purposes of this Guidance Note, Textile sector activities include, but are not limited to: Yarn Production; Fabric Production; Washing, Dyeing and Finishing (WDF); Ready Made Garment (RMG) Production; Polymer Synthesis and Natural Raw Material Production.

5.9.4B Industry Specific Impacts and Management

Environmental Issues:

Hazardous materials managementcover Textile manufacturing activities may include the use of hazardous chemicals mainly during pre-treatment and dyeing processes in WDF to provide the final product with desired visual and functional properties. These chemicals include surfactants (e.g. detergents, lubricants etc.), complexing agents (e.g. EDTA or polyphosphate), antifoaming agents (based on mineral oils or hydrocarbons) and textile preservation agents (e.g. brominated and chlorinated compounds, dieldrin, arsenic, and mercury).

Wastewateris the most prominent environmental issue of the textile manufacturing process. WDF is the major source of wastewater with high toxic load that, if not treated properly, may significantly contaminate surface and ground water, adversely impacting the environment and human health. Measures are mentioned below:

Recovery of heat from the final effluent should be practiced

- Use of bio-degradable or bio-eliminable chemicals during pre-treatment, dyeing and finishing processes should be adopted as discussed above
- Optimization of mechanical removal of water prior to the drying process
- Implementation of mechanical liquor extraction to reduce dye liquor carryover and improve washing efficiency
- Installation of ETP adhering to national standards
- Adoption of Bio-filtration process in ETP (combined aerobic, anaerobic process)
- Residual liquor during wet operations should be minimized through reduced application, reduced tank volumes and padding liquor recycling

- If possible, use of continuous and semi-continuous dyeing processes to reduce water consumption with respect to more traditional batch dyeing processes
- Replacement of chrome dyes with reactive dyes, liquid sulfur dyes with sulphide free or low sulphide dyes, adoption of low-salt, pH controlled dyeing process as applicable

Water Consumption: The wet processing operations involved in WDF are water intensive. Water consumption in textile manufacturing has a significant environmental footprint in terms of wastewater/sludge production, ground and surface water contamination (impacting community health as well), and energy used in water pumping and heating. Keeping these in mind, it is important to have water meters installed at key processes and locations to track the quantity of water being consumed in various operations. Some of the effective techniques to optimize water consumption are as follows:

- Installation of water meters on dyeing and rinsing machines
- Use of water flow control devices
- Elimination of water leaks and reduced hose pipe use
- Reuse of cooling water from dyeing machine
- Reuse of dye baths, preparation and finishing water
- Counter current rinsing or reusing waste water from one process for another with less exacting water requirements. For example, using bleaching rinse water for textile washing or washing the floor.

Air Emissions: Textile manufacturing operations that may generate significant sources of air pollutants include Raw Material Production, Yarn Production and WDF. The possible sources of air emissions and the mitigation measures are listed below. In addition there are exhaust gases from combustion of fossil fuels for heat/steam generation.

Energy consumption

Textile manufacturing may involve significant use of energy resources. Heat consumption is particularly significant in drying and curing operations and in activities involving wet treatments. A list of basic low to moderate cost energy saving techniques are provided below some of which have been implemented by a few textile manufacturing units in Bangladesh leading to significant energy savings.

- Insulation of steam pipes
- Retrofitting boilers
- Recovery of waste heat from flu gas, steam
- Insulation of pipes, valves, and flanges
- Use of energy efficient motors
- Replacement of old spinning and weaving machines
- Use of servo motor based sewing machines
- Use of air nozzles to save compressed air

Solid and liquid waste: Wastes specific to the textile industry include trials, selvedge, trimmings, cuttings of fabrics, and yarns; spent dyes, pigments, and printing pastes; and sludge from process wastewater treatment containing mainly fibers and grease. Solid and liquid wastes generated in textile industries should be effectively recycled or reused within the process or external activities (e.g. waste fibers, cuttings, and trimmings can be recycled as a feedstock for other operations, including low-grade products non-woven, insulation etc.). Management and disposal of hazardous and non-hazardous wastes should be in line with Environmental Conservation Act, 1995 (ECA) and Environmental Conservation Rules, 1997 (ECR) that have provisions for environmentally sound use, storage, transportation, import and export of hazardous and non-hazardous wastes or its components.

Health and Safety Issues: Common Structural, Fire & Electrical Safety Issues and Common Occupational Health Issues, Community Health & Safety

As discussed earlier, one of the major concerns for community health is the wastewater from the WDF units that can potentially contaminate the surface and ground water. Odours from dyeing and other finishing processes by oils, solvent vapours, formaldehyde, sulfur compounds, and ammonia can also impact community well-being. Measures to reduce toxicity in the wastewater, control odorous emissions are discussed in earlier sections.

An additional community health and safety issue concerns the use of chemicals and their potential risk to the health of consumers who purchase garments produced by the textile industry. Specific consideration should be given to ensuring that these products are safe for human use. The manufacturer should avoid using allergenic dyestuffs and dyestuffs that form carcinogenic compounds. Adequate testing for pH, pesticides, heavy metals, formaldehyde, chlorinated phenols, chloro-organic carriers, and biologically active finishes should be conducted to assess textile characteristics according to the typical conditions of their use prior to entry into the markets.

Social Issues: Gender Discrimination, ,Working Condition, Working Hours, Maternity Leave, Minimum Wages, Forced and Child Labour, Workers' Rights, Collective Bargaining, Workers' Skills are covered under social issues.

Working conditions and the management of worker relationships. The project should have established policies and procedures for human resources management; working conditions and terms of employment; worker organizations and collective bargaining; non-discrimination and equal opportunity; and managing retrenchment, and worker grievance mechanisms.For example, the project should have established policies and procedures to protect against child and forced labour. The project should also provide for a safe and healthy work environment, with consideration of inherent risks in the sector and specific classes of hazards in the client's work areas, including physical, chemical, biological, and radiological hazards.

Workers engaged by third parties and supply chains. For example, the project should ensure that contracted workers and workers of companies within their supply chain are managed according to national regulations, or in their absence.

5.10: Green Investment: Green Investments are focused on products/projects/initiatives committed to the conservation of natural resources, the production and discovery of alternative energy sources, the implementation of clean air and water projects, or other environment-friendly business practices. Green investments belong to following categories:

5.10.1 Investment in Green Bond/Green SUKUK: Bangladesh is highly vulnerable to climate change risk. In this context, GoB has developed a master plan to combat the impending threats. Accordingly, it is necessary to build-up eco-friendly industries/concerns, infrastructures and plants for green energy production. All those projects require long-term mega investments. As issuance concerns, green bond/green SUKUK issuers commit to provide investors with detailed information on the projects and infrastructure supported with the proceeds. These are typically asset-linked and backed by the issuing entity's balance sheet, so they usually carry the same credit rating as their issuers' other debt obligations.

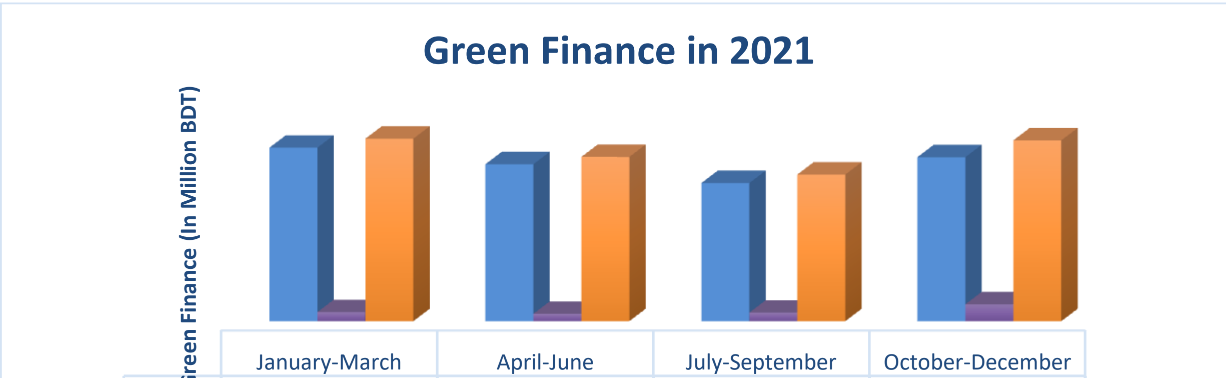
5.10.2Green Investment →Investment in Impact Fund: Bangladesh Bank issued a guideline in 2015 for the scheduled banks and another in 2016 for the financial institutions for investing in Special Purpose Vehicle, funds not listed in the capital market, Alternative Investment Fund or any such funds registered by the Bangladesh Securities and Exchange Commission (BSEC)[5]. Investment by scheduled banks and financial institutions in any impact fund which is registered under the BSEC (Alternative Investment) Rules, 2015 and formed for the following sectors/purposes will be considered as Green Investment.

1. Resource Efficiency
2. Air Emission and Quality Efficiency
3. Resource Recycling
4. Waste Management (both solid and liquid)
5. Renewable Energy
6. Land Contamination Prevention/Mitigation
7. Energy Efficiency
8. Land Acquisition and Resettlement Management
9. Water Management and Conservation
10. Labour and Working Condition Management
11. Water Use Efficiency
12. Community Health and Safety Management
13. Waste Water and Effluent Treatment Management
14. Indigenous People and Cultural Heritage
15. Heat and Temperature Management
16. Women and Child Right Protection
17. Air Ventilation and Circulation Efficiency
18. Environment/Climate Friendly Industry/Building/Brick Kiln
19. Environment/Climate Friendly Transportation/Vehicle
20. Nature Conservation
21. Environment Friendly Agriculture
22. Any other deemed Eligible by BB

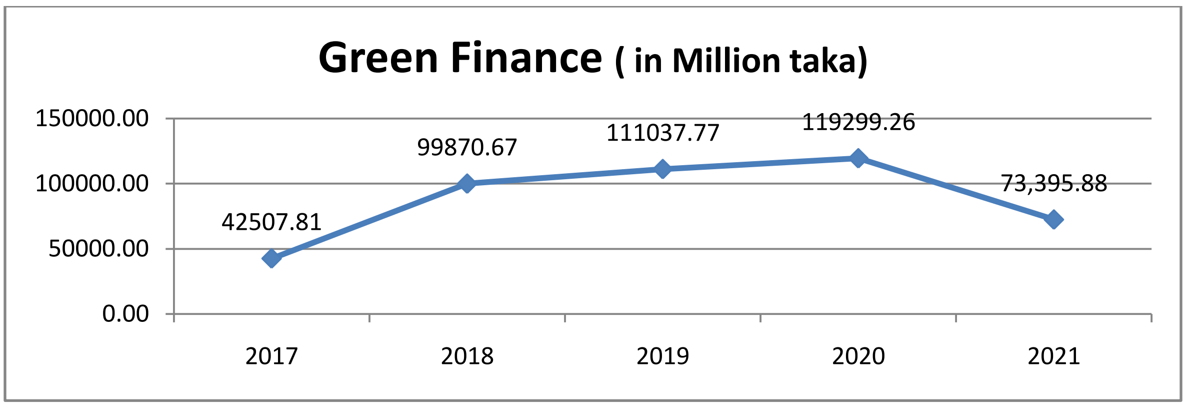
5.11Role and Performance of Banks/NBFIs in Green Banking: Green Finance, Utilization of Climate Risk Fund, Environmental and Social Risk Rating of the Projects and Environmental Conservation in Business Centers are the major performing indicators of green banking.

[5] DOS circular No.-02/ 2015, DFIM circular No.-04/ 2016

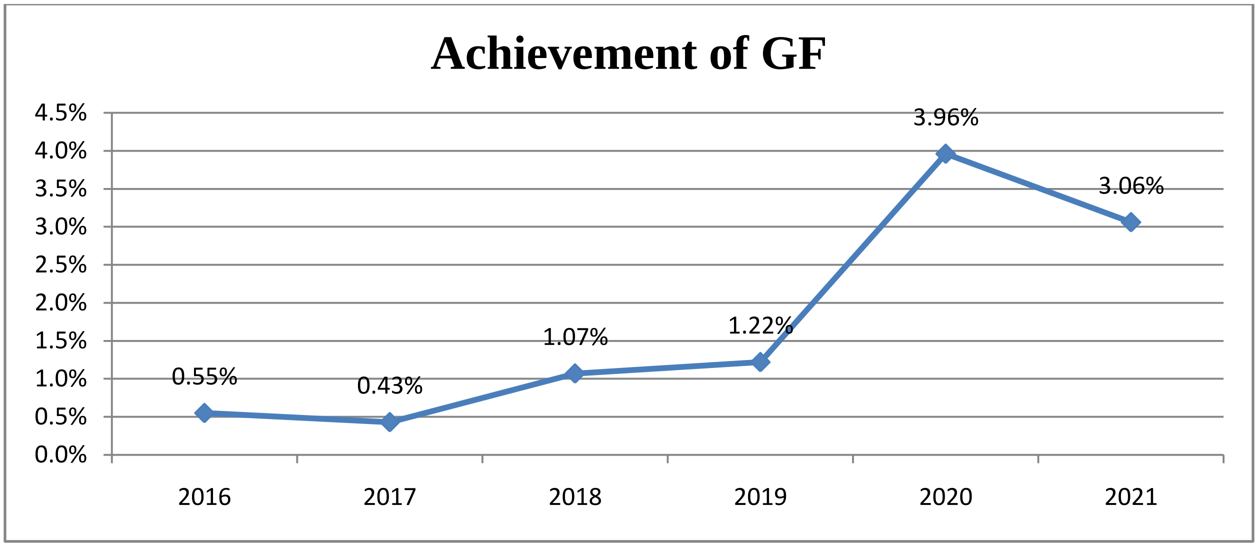
5.11.1 Green Finance: According to the existing policy of BB, Green Finance by banks and Financial Institutions since 2021are beingcomputed on the basis of term loan disbursement. The existing target of attaining green finance by a bank or a FI is 5% of its total term loan disbursement.



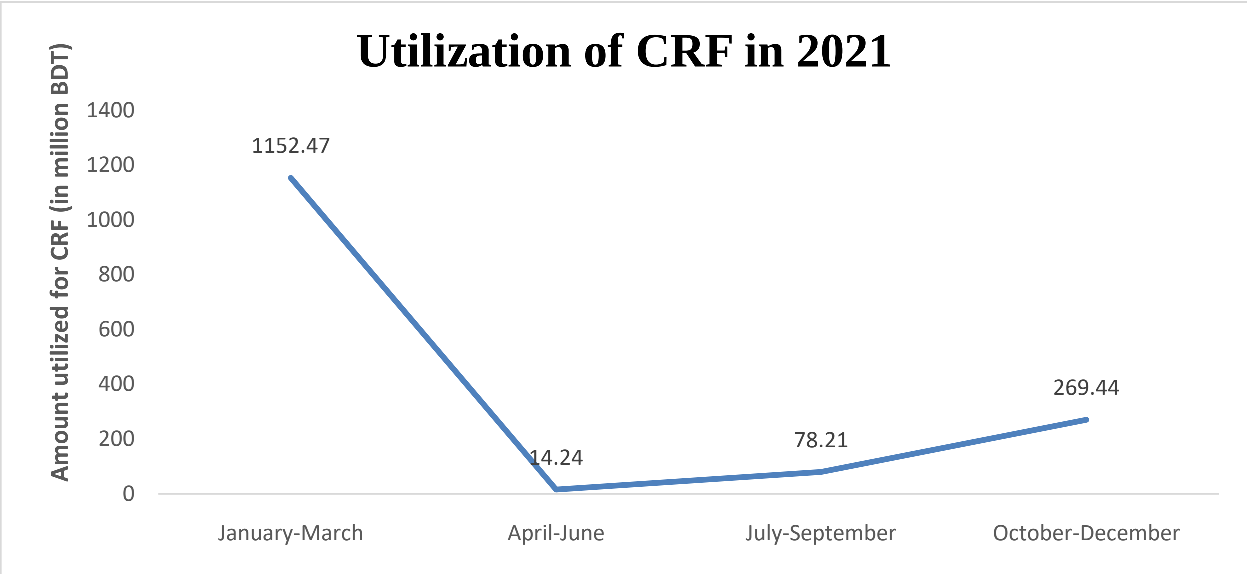
	January-March	April-June	July-September	October-December
Banks	18,881.04	17,081.49	15,034.95	17,850.37
Fis	985.33	799.49	928.85	1,834.36
Total	19,866.37	17,880.98	15,963.80	19,684.73



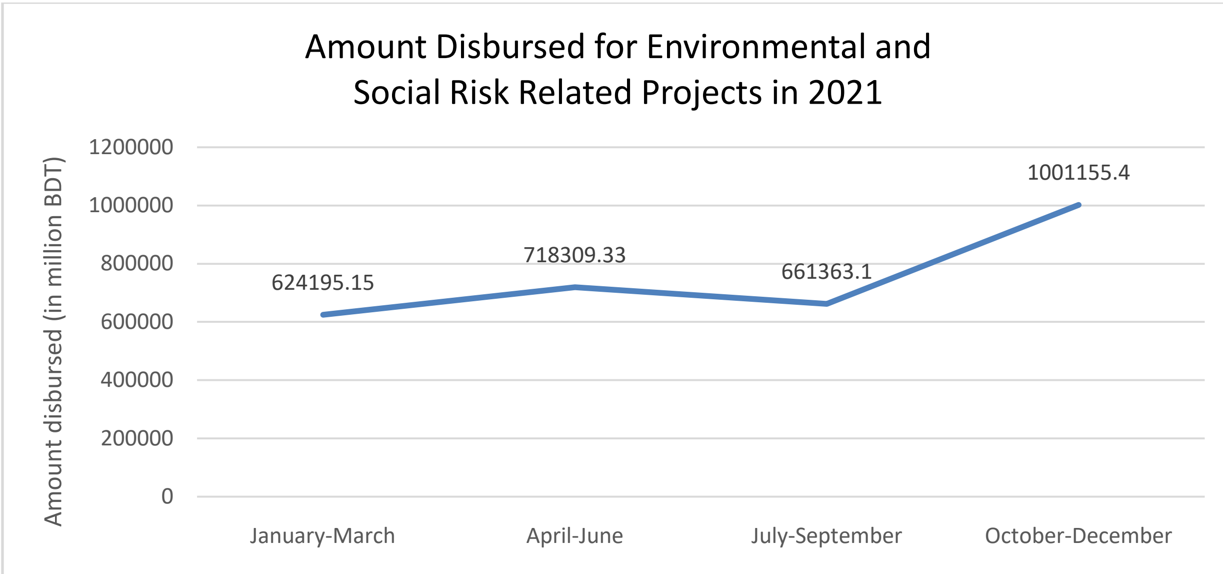
Banks and FIs disbursed green finance amounting to BDT 73,395.88 million in 2021 (Fig. 1). Banks and FIs have an upward trend as it is evident from 2017 onwards to 2021 (Fig. 2). Banks and FIs are now more encouraged and concentrating than previously which resulted in good contribution over the period of five years and the achievement of green financing is around 3% (Fig. 3).



5.11.2Utilization of Climate Risk Fund: As per CSR guidelines,Banks and FIs are advised to spend at least 20% of their total CSR expenditurefor Environment and Climate change mitigation & adaptation sector. In 2021, 76.10% has been utilized in the first quarter out of total BDT 1,514.36 million CSR expenditure. Utilization of Climate Risk Fund in the 2nd, 3rd and 4th quarter is 0.94%, 5.16% and 17.79% respectively for the year 2021.



5.11.3 Environmental and Social Risk Rating of the Projects: Amount disbursed for Environmental and Social Risk Related Projects has an upward trend with a bit decline in the third quarter of year 2021. Otherwise it has a got a pretty upward trend giving an indication that more green projects with bigger amount are being facilitated.



5.11.4 Environmental Conservation in Business Centers (Data Shown as Cumulative):

Issue	Banks	FIs	Total
Number of Solar Powered Branches	792	2	794
Number of Branches with Rainwater Harvesting	5	2	7
Number of Branches with Solid Waste Management System	16	2	18
Number of Solar powered ATM Booths	138	-	138
Number of Solar Powered Agent Outlets	22	-	22
Online branches (as % of total branches)	99.28%	N/A	N/A

It is much appreciated that banks' environmental Conservation in Business Center has covered all the information including online branches which is 99.28%.

Case Study

Case 1: Green Industry

ABC Textile Ltd. is an export oriented industry and a client of XYZ Bank, Narayanganj Branch. The factory is in Narayanganj. The client has prepared a project proposal with an intension to build a green industry where the total project cost is BDT 2 billion. The client is maintaining a very good banker customer relationship and Bank has accepted to offer 80:20 debt equity ratio where debt is BDT 1.6 billion and equity BDT 0.40 billion. Repayment Tenor is 10 years with a one year grace period. As per ECR 1997, ABC Textile Ltd. belongs to Orange B category. Bank finance is for the establishment of Green Industry under the Green Establishment Category. The client has expressed an intension to avail facility of low cost funding arrangement under BB refinance scheme with reference to existing SFD circular 04 dated July 24, 2022. According to the circular, the bank on behalf of its client can apply to BB for Refinance claim up to BDT 1.6 billion out of BDT 1.6 billion. On the other hand, it requires around 2 years or more to build a green industry. The green industry will be established under the authenticated certification of USGBC LEEDS and this is the major requirement for a regular client. It is expected that there will be a successful completion of the Green Industry with phase-wise certification by USGBC LEEDS and submission with the required documentation, the XYZ bank will be in a position to claim up-to BDT 1.6 billion to BB. ABC Textile is expressing its discomfort with the commercial interest/investment at 8% and demanding to avail the fund @6% for BDT 1.6 billion from the very beginning.

In this context, How could you ensure the fulfillment of eligibility criterion for (i) Board Approval (BA) (ii)Bank Finance (BF) and (iii) Refinance Claim(RC) to BB.

Guideline Support: Please go through the following documentation checklist carefully. Please specify the documents required correctly to qualify (i), (ii) and (iii). In this connection you need to put applicability of "Y" for "Yes" or "N" for "No" or "NA" for "Not Applicable" for the Columns BA, BF and RC.

Sl	**Documentation Checklist***	**BA**	**BF**	**RC**	Remarks
01	Application of PFI to Bangladesh Bank				
02	Annexure as per SFD Circular No: *, date: ******				
03	Application of Client to PFI				
04	Sanction letter by bank in favor of the borrower				
05	Resolution of the board approval in favor of the client				
06	Loan approved by competent authority (with delegation of business power)				
07	Loan Account Statements				
08	Disbursement and amortization schedule. (Fixed principle method)				
09	Credit Proposal				
10	Project Profile				

11	Banks Declaration regarding Clean CIB. (Mention CIB subject/borrower code)				
12	Banks declaration about not taking finance from any other Concessional fund from Bangladesh Bank or International agencies				
13	Certificate of Incorporation				
14	Registration Certificate from relevant authority (RJSC Certificate/Trade License/Export Registration Certificate etc.)				
15	Membership from relevant business bodies (BGMEA/BKMEA/LFMEAB etc.)				
16	Form XII				
17	Copy of LCs				
18	Pro forma				
19	Commercial Invoice				
20	Bill of Lading/airway bill/truck receipt/delivery challan				
21	Bill of entry				
22	Detailed specifications of the machineries/accessories				
23	Certificate of energy efficiency from Certified Energy Auditor(AEE/SREDA)/LEED Certification				
24	Trial Run Certificate from PFI				
25	Inspection report from PFI				
26	Project completion report by PFI				
27	Clearance from DOE (Department of Environment)				
28	Permission from DC Office				
29	Fire Fighting/Civil Defense Certificate from proper authority				
30	Expense bills/quotations/money receipts/work orders for local procurement				
31	Details of the items and amount against which refinance has been sought				
32	Any other relevant documents that might be required from time to time				

As per your specification please answer the following questions and give rationale/justification in support to your answer.

Do you expect that there will be a decision in the board meeting in favor of ABC Textile Ltd. Y/N?

Will the client have X bank's sanction advice - Y/N?

Should the Bank have refinancing facility from BB? Yes or No? Justify

Case 2: Affordable Green Housing for an Institution (loan under BB BDT 4 billion low cost funding arrangement)

It is tough to define a Green Building in a single definition. But may be defined with the components for what constitutes a Green Building. A Green Building can thus be defined as a high-performance building designed, built, operated and disposed of in a resource-efficient manner with the aim to minimize the overall (negative) impact on the built environment, human health and the natural environment. A green building also contains the features of site and orientation, efficient use of materials and resources, indoor environmental quality and innovation.

Affordable Housing cost fit within the budget of households at the local lower and lower middle-income level. Affordability is commonly defined as not spending more than 30 percent of household income on housing. Given the higher exposure of low-income households and the need for public assistance, the most salient features of green affordable housing are energy use, material use/durability and a healthy indoor environment.

ABC Builders Ltd. is a real estate company. ABC has applied to XYZ bank for BDT 50 crore under BB BDT 4 billion refinance scheme. XYZ bank asked ABC for the site and land clearance from DoE under MoEFCC, Approval from RAJUK along-with all other required documents. The land area of ABC has been mortgaged with the bank. After having all the documents XYZ has asked ABC for USGBC's representative PQR, the certifying authority to reach to a tripartite agreement where ABC, PQR and XYZ will work combinedly under legal bindings. As part of the agreement PQR will be with ABC and PQR from the very beginning and PQR will prepare and provide with a surface plan to ABC Builders for the Green Housing to be built. ABC has submitted the surface plan as prepared by PQR to XYZ. Under Low Cost Funding Arrangement, Loan Limit Maximum 50 crore, Loan Tenor 15 years, rate of interest 5% at client level up to 5 yr. tenor, 5.5% up to 8 yr. and 6% up to 15 yr, tenor. XYZ will disburse BDT 50 crore loan on phase by phase disbursement condition upon respective certification by PQR. XYZ will now disburse first disbursement of BDT 5 crore. After some months there will be another certification by PQR for the 2nd crunch of disbursement. In such manner, phase wise disbursement upon phase wise certification will take place and Green Affordable Housing will be built within 24 months time and every corner will remain happy.

Now client/borrower ABC is appealing for the lower rate of interest under BB BDT 4 billion Refinancing Scheme. XYZ has reached to an agreement incorporating all necessary conditions to go with the client's appeal including the necessary acceptance from ABC client/borrower.

Will the bank at this stage be in a position to claim refinance in this case? Yes or No? Justify. What adjustments can you go for availing refinance from BB? Answer from a banker's point of view.

Case 3: Affordable Green Housing for Individual (preferably lower income and lower middle income earner) under BB BDT 4 billion low cost funding arrangement

Target Group: Lower income earners

Flat Size: Maximum up to 900 sq. ft. for Lower Income Earner. Fund Limit: 30 lac

Loan Tenor: up to 15 Years. Grace Period: up to 18 months.

Rate of Interest at client level: up to 5% for 5 yr. tenor, 5.5% up to 8 yr. and 6% up to 15 yr, tenor.

Target Group: Lower Middle Income earners

Flat Size: Maximum up to 1200 sq. ft. for Lower Middle Income Earner. Fund Limit: 50 lac

Loan Tenor: up to 15 Years. Grace Period: up to 18 months.

XYZ has reached to an agreement incorporating all necessary conditions to go with the client's appeal including the necessary acceptance from ABC client/borrower (Lower Income Earner)

Rate of Interest at client level: up to 5% for 5 yr. tenor, 5.5% up to 8 yr. and 6% up to 15 yr, tenor.

Flat should be ready or almost ready and the flat will be mortgaged to the respective bank branch. ABC Builders will pay for its A1 flat and new liability will be created for Lower Income Earner in XYZ.

Is the above project eligible for availing BB BDT refinance? What adjustments do you need here for your bank's claim for refinance?

Case 4: Solid Waste Management: Access to Finance for a Waste Collector or an Aggregator (an example of inclusive green finance) under BB BDT 4 billion low cost funding arrangement

In Gulshan 1 and 2 area say there are 100 workforce belong to 2 marginal groups. One is Waste Collector and the other group is Waste Aggregator. Waste Aggregator after sorting the waste aggregators buy sorted kitchen wastes, medical waste, sludges and fickles etc. from the waste collectors and then sell to a superior group who are the owner of recycling waste plants where recyclable products are produced and sold to the market. If we look at the current scenario, the manufacturers or producers of recyclable goods have an access to finance from the bankers for importing and installations of the solid waste management plants. But the collector and aggregator collecting and aggregating Solid Wastes should have a bankable project to have access to finance.

As a banker how could you include the collectors and aggregators in the project to have access to finance from your bank?

Case 5: Solid Waste Management: Access to Finance for a Waste Management Plant (an example of inclusive green finance) under BB BDT 4 billion low cost funding arrangement

Project Name: ABC Solid Waste Management Plant

Product: PET Bottle and Recycling Plant

Debt Equity: 80:20

Loan Size: BDT 4 Crore

Loan Tenor: 5 Years including Grace Period of 9 months

Rate of Interest: 5%

Please try to construct a case with the above information and justify whether the project would be eligible for claiming refinance from BB.

Case 6: Solid Waste Management (an example of inclusive green finance) under BB BDT 4 billion low cost funding arrangement

A graded contractor **Omi Enterprise** enlisted with Dhaka North City Corporation (DNCC) has been awarded a work order to complete a drain age system addressing solid waste management in North Badda covering 10 km. length. The task need to be completed by December 2024. A term loan will be created for 2 years 3 months. Grace period: 3 months. Loan Size: 50 Lac, Rate of Interest 5%. Debt Equity 80:20. Here the work order will be treated as a definite guarantee by the Govt. and collateral may be avoided. Bank Branch will be required to go through ESDD under ESRM Guidelines and assess ESG of the project.

Please describe the scenario with appropriate interpretation in case of loan tenor within one year in place of above term loan of 27 months. In that case will this loan belong to green finance – Answer Y/N? Will the bank be in a position to claim refinance from BB? Yes or No? Please justify your answer.

Case 7: Green Transformation Fund

X Bank Ltd. Gulshan Branch Financed USD 9,20,000/- to Y Fashion Wear Ltd., Gulshan an export oriented industry located in Gazipur which belongs to Textile sector.

The Client applied to X Bank Ltd, Gulshan Branch along with the required documents for bank finance. Accordingly, the branch did the needful and forwarded to Head Office for necessary approval. This is to mention that the client had expressed its intention to be facilitated under USD GTF of Bangladesh Bank(BB).

In this context, How could you ensure the fulfillment of eligibility criterion for (i) Board Approval (BA) (ii)Bank Finance (BF) and (iii) Refinance Claim(RC) to BB.

Guideline Support: Please go through the following documentation checklist carefully. Please specify the documents required correctly to qualify (i), (ii) and (iii). In this connection you need to put applicability of "Y" for "Yes" or "N" for "No" or "NA" for "Not Applicable" for the Columns BA, BF and RC

Sl No.	Documentation Checklist (If Applicable)	BA		BF	RC	Remarks
01	Annexure 1 of FE Circular 2/2016					
02	Application of PFI to Bangladesh Bank					
03	Application of Client to PFI					
04	Sanction letter by bank in favor of the borrower					
05	Board Approval in favor of the client					******
06	Loan Account Statements(Term Loan Details With respective GL)					
07	Project Profile					
08	Banks declaration about not taking financing from any other Concession fund from Bangladesh Bank or International agencies					
09	Certificate of Incorporation					
10	Registration Certificate from relevant authority (RJSC Certificate/Trade License)					
11	Banks Declaration about Clean CIB of the client.					
12	Copy of LCs (already opened)					
13	Copy of PIs (pro forma Invoice) (against which LCs will be opened)					
14	Commercial Invoice					
15	Packing List					
16	Bill of Exchange					
17	Certificate of Origin					
18	Bill of Lading/ Airway Bill/ Truck Receipt					
19	Bill of entry					
20	Supplier's Credit Report (for each individual suppliers)					
21	Tentative disbursement and amortization schedule					
22	Schedule of Import Payment					

23	Foreign Exchange Rate Sheet					
24	Detailed specifications of the machineries/ accessories					
25	Green initiatives Category as per FE Circular 2/2016					
26	Term Loan sanction and Disbursement statements in Case of Financing					
27	Comply with ESRM circular. (SFD circular 02, Dated February 08, 2017.)					
28	Clearance from DOE (Department of Env.)					
29	Energy Audit report for Imported Machineries					******
30	Certificate of Energy Auditor					******
31	Detailed Term Loan Statement with Ledger.					
32	Any other relevant documents that might be required from time to time					

As per your specification please answer the following questions and give rationale/justification in support to your answer. Also we are looking for your remarks in the star-bites (******). Do you expect that there will be a decision in the board meeting in favor of Y Fashion Wear Ltd. - Y/N?

Will the client have X bank's sanction advice - Y/N?

Should the Bank have refinancing facility from BB?. Y/N - Justify Your Answer.

Case 8: Access to Finance for Sand-witch Panel (an example of inclusive green finance) under BB BDT 4 billion low cost funding arrangement

Name: ABC Ltd. in the name of ABCSPVG(ABC Sand-witch Panel for Vulnerable Group) has applied loan to X branch of XYZ on behalf of the vulnerable groups living in coastal areas or climate vulnerable zone.

Project Name: ABCSPVG(ABC Sand-witch Panel for Vulnerable Group)

Product: Sand-witch Panel

Debt: Equity: 80:20 Loan Size: BDT 4 (estimated at actual cost) Loan Tenor:5 Years, Rate of Interest: 5%

Please go through the documentation checklist under Refinancing and ESDD under ESRM Guidelines and make PP for a Bankable Project to avail loan under BB BDT 4 billion low cost funding arrangement.

Case 9: Green/Clean Transportation Project [Electric Vehicles (an example of inclusive green finance)]

Project Name: ABC Vehicles Ltd.

Product: Electric Vehicles with Battery Management (this vehicle run on wind/solar energy/electricity/bio-fuels etc.)

Purpose: Ensure environment friendly affordable transportation facility for the mass people and employment generation through sustainable bankable project.

Loan Size: BDT 20 Lac

Debt Equity: 80:20

Loan Tenor: 5 Years including Grace Period of 9 months

Rate of Interest: 5%

Please go through the documentation checklist under BB Refinancing and ESDD under ESRM Guidelines and make PP for a Bankable Project to avail loan under BB BDT 4 billion low cost funding arrangement.

Case 10: Green Building

Mr. Shohan Sohrab is a prominent real estate businessman having a 35 years long real estate business career. He completed Leeds certified Gold Green building named "Green Shower" in between Gulshan 1 and 2 avenues one year back. Now he is approaching for green loan and applied to 'Z' bank, Y branch under BB's refinancing for BDT 10 crore for a 10-year tenor.

Bank branch went through exclusion list but could not attend proposition even a negative decision yet. The concerned official of SFDH desk, Mr. Noman Ahmed looked into the assignment and he came up with a comment that finance is required for serving a purpose but he added that in this case there is no scope for financing as the green building has been established a year ago. Since the purpose has already been served and BB low cost funding for environment friendly products/projects/initiatives for already purpose served projects do not exist. So the bank branch has rejected the proposition.

Under what scenario your bank could finance and claim refinance from BB? Make required adjustment in the above mention case to a go ahead decision.

Broad Questions

1. What is Green Banking? Describe the concept of Green Banking with its components.
2. What is Green Taxonomy? State in brief for each of the components.
3. Define Green Finance. Name the Green Categories and Green Products/Projects/ Initiatives as included in the Categories.
4. DescribeRole/Initiatives of Stakeholders at Local Level while discussing regulatory environment of Green Banking and Green Finance.
5. Describe Role/Initiatives of Stakeholders at Global Level while discussing regulatory environment of Green Banking and Green Finance.
6. Bangladesh Bank's Existing Sustainable and Green Policy – give a Snap Shot

7. What is all about In-house Green Activities of banks/FIs?
8. How Bangladesh Bank addresses its In-house Green activities?
9. What are the low cost funding arrangements or green refinancing schemes of Bangladesh Bank or Discuss on Bangladesh Bank's Green Refinancing Schemes.
10. Give an overview of existing arrangement of BDT 4 billion Refinancing Schemeof Bangladesh Bank and the documentation check list.
11. Give an overview of existing arrangement of BDT 4 billion Refinancing Scheme of Bangladesh Bank and the documentation check list.
12. Give a detailed scenario of existing GTF of low cost funding arrangement of USD 200 million and Euro 200 million.Point out the required documentation check lists for availing Refinance from GTF.
13. Discuss Screening Process through ESDD under ESRM Guidelines.
14. Write down the steps of ESDD of ESRM Guidelines.
15. Discuss main points on sector specific guidelines on textiles.
16. Write Notes on the Followings:

i. Green Banking ii. Green Financing iii. In-house Green Activities iv. BB's Green Policies
v.Sustainable and Renewable Energy Development Authority (SREDA)
vi. DoE and BB in Greening the Polluting Industries
vii. BangladeshClimateChangeTrustFund(BCCTF)
viii.Bangladesh Climate ChangeResilience Fund (BCCRF)
ix. UnitedNationsFrameworkConventiononClimateChange(UNFCCC)
x. United Nations Environment Program (UNEP)
xi. Carbon Footprint Reduction Measures
xii. Carbon Finance
xiii. Economic activities for reducing negative impact on environment
xiv. Green Finance Disclosure
xv. Steps for conducting ESDD
xvi. High Risk, Medium Risk, Low Risk with respect to E&S Impact
xvii.Investment in Impact Fund
xviii.Water consumption in textile manufacturing
xix.Air Emissions and Energy consumption in Textile manufacturing operations
xx. Role of Bangladesh Securities Exchange Commission in promotion of Green Finance

Short Questions

1. What is Green Taxonomy. What are the components of Green Taxonomy.
2. What is Green Banking? What are the components of Green Banking?
3. What is Green Financing?
4. How Green Finance is a Subset of Sustainable Finance?
5. Define Clean Energy.
6. Pin Point the Inhouse Green Activities of a bank and FI.
7. Name the existing product based green categories include 68 green product/project/initiatives.
8. Mention the six environmental objectives and performance thresholds.
9. Present the flow chart of Screening Process under ESRM Guidelines.
10. What do you think the top 5 challenges and top 5 opportunities in Green Financing?

11. How could you define Carbon Finance and Climate Finance?
12. How Climate Change Adaptation is Different from Climate Change Mitigation?
13. Site five examples on Socially Responsible Financing Product/Projects/initiatives contributory to Socio Economy.
14. Mention Chronologically the Steps for conducting ESDD.
15. Mention about Green Governance. How Green Finance and Green Inhouse activities can be blessed with Green Governance.
16. How Green Finance Target and Sustainable Finance Target are computed? Mention with examples.
17. What do you mean by Technological advancement. Give an example in green brick production.
18. What do mean by circular economy. How is this linked to solid waste management.
19. Name 10 products belong to Solid and Liquid Waste Management.
20. Define Green Building and Green Industry.

Chapter: 6
Module F: CSR and Sustainable Banking

6.1 Concepts of CSR

6.1.1 Introduction: Corporate Social Responsibility (CSR) is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives, while at the same time addressing the expectations of shareholders and stakeholders.The perspective taken is that for an organization to be sustainable, it must be financially secure, minimize (or ideally eliminate) its negative environmental impacts and act in conformity with societal expectations. CSRisnowbeingconsideredasanacceptabletoolallA properly implemented CSR concept can bring along a variety of competitive advantages, such as enhanced access to capital and markets, increased sales and profits, operational cost savings, improved productivity and quality, efficient human resource base, improved brand image and reputation, enhanced customer loyalty, better decision making and risk management processes.overthe world to promote equitable and sustainable development, maintain consistent higher growth of the economy, decrease the inequality of a society and mitigate environmental degradation. Key CSR issues are environmental management, eco-efficiency, responsible sourcing, stakeholder engagement, labor standards and working conditions, employee and community relations, social equity, gender balance, human rights, good governance, and anti-corruption measures.

There are four major types where CSR activities are addressed:

Environmental responsibility refers to the idea that organizations should behave as environmentally friendly away as possible. It’s one of the foremost common styles of corporate social responsibility. Some companies use the term “environmental stewardship” to discuss such initiatives.

Ethical responsibility: it’s concerned with ensuring a company is working fairly and honestly. Organizations that embrace moral responsibility aim to treat all stakeholders fairly, including leadership, investors, employees, suppliers, and customers.

Philanthropic responsibility refers to a business’s aim to actively make the globe and society a higher place.

Economic responsibility: it's the practice of a firm backing all of its financial decisions in itscommitment to try and do good within the areas listed above. The top goal isn't to quickly maximize profits but positively impact the environment, people, and society.

6.1.2 Definition: CSR is both short- and long-term time bound strategy to achieve a balance of economic, environmental and social imperatives (Triple Bottom Line Approach). CSR is not only philanthropic but also address the key sustainable development challenges through actionable programs and community investments to a considerable extent. CSR to reduce all forms of poverty, inequality, social exclusion, improve the quality food, healthcare availability and living standards of vulnerable groups of the society for the sustainable and equitable development of the country.

6.1.3Objectives ofCSR: The main objective of CSR initiatives is to protect, preserve and uphold the basic rights of the underprivileged/non-privileged/distressed/helpless/marginal/hardcore poor and socially backwards sections of the population with a view to eliminating all forms of poverty and inequality from the society ensuring that no one should left behind.

6.2 CSR and SustainableBanking:

According to authors Olaf Weber and Blair Feltmate "*Sustainable Banking* is a must read for anyone interested in how those in the financial sector can become active participants and contributors to achieving sustainable development. As providers of financial capital and risk management products, those in the financial sector are acutely aware of the risks of doing nothing. *Sustainable Banking* offers anyone interested in finance and sustainability some much needed guidance."*Sustainable Banking* introduces business leaders in many ways in which financial institutions can manage their environmental and social impact and meet the needs of the current generation without compromising the needs of future generations. Sustainable Banking is based on certain principles that not only consider profit but also economic and social benefits. The main objective of sustainable banking is to maintain financial and social stability.Sustainable banking as a decision, taken by banks, to only finance customers (private and corporate) whose activities do not harm the environment and society.

CSR practices have become a crucial part of business success. These initiatives should focus on long term high impact driven business strategies. This is right time to work in partnership to protect the environment and society and encourage all concerns small or large, public or private to work together, to take collective action to serve the prime agenda sustainability.

CSR meets Sustainability as an Integral Part of Core Business Strategy: A Critical Perspective

Over the last few decades, there has been an emerging interest in the importance of CSR integration into the business context, as a value-adding process. Specific CSR policies are connected to strategic corporate goals, which are oriented to long—term performance benefits like social legitimacy , corporate reputation, brand image/equity, consumer loyalty/satisfaction. Furthermore, empirical evidence has shown CSR commitment to building stronger relationships with stakeholders, through increased transparency and accountability creating stakeholder value, which is important for business viability and, therefore, financial performance (short-term performance benefits). In addition, CSR-engaged firms seem to perform better risk management, recruiting more talented employees.Furthermore, it is often alleged that many incentives are given to firms which undertake CSR initiatives, such as tax reductions. Therefore, these companies gain competitive advantage over others.

As a rule, companies express their CSR commitment through social or sustainability reporting, as the best way for communicating the required information publicly. Sustainability reporting is triple bottom line reporting, integrating information on a firm's economic, environmental and social performance into a single publication, also known as 'public disclosure', or 'non-financial disclosure/information'. A sustainability report is not just an official report composed by collected numerical data. In contrast, this is supposed to initiate a dynamic process, through which CSR commitment is properly articulated, so that both internal and external stakeholders could be engaged.

Under closer scrutiny, corporate social and environmental activities have been indirectly linked to corporate business performance, as expected outcomes are becoming evident in the long-term. For example, good governance enhances financial performance, through transparency, accountability. Moreover, there is growing empirical evidence under green governance through its ethical leadership that ESG-prone companies financially outperform their counterparts in the long-term, due to higher reputation and better risk management.

GRI reporting acts as the declaration of ESG commitment. In other words, sustainability/ESG reporting is the ultimate tool for companies to demonstrate their CSR commitment to all their stakeholders, informing them in detail about their performance on specific targets.

Bangladesh Bank (BB) has been integrating 'sustainability' into core banking practices through green banking, corporate social responsibility, financial inclusion and financial education. These environment oriented banking practices gradually created the concept of sustainable banking.Sustainable banking involves strategic planning and execution of banking operations and business activities while taking into consideration the ESG impact. Banks stand to play a major role in achieving the United Nations' SDGs.

CSR activities are directly or indirectly linked to many of the Sustainable Development Goals (SDGs).In this context, Banks and FIs must adoptastrongcommitmenttoensuresustainabledevelopmentthroughpositivesupportstowards social, economic and environmental responsibility to the society and the country as a whole. Banks/FIs should put great emphasis on complying with these guidelines accordingly and exhaustively that will reflect on the sustainability rating of Banks andFIs.

BB's time to time Sustainable Banking Initiatives under CSR

- BB issued many circular/circular letters on CSR due to any emergency in the country; i.e. any natural disaster like Flood, drought, cyclone, lands slide erosion, river erosion etc. BB requested to the Banks/FIs to provide financial assistances/relives to the distressed and the poor.
- On the other hand BB issued circular letters to helping out under privileged people regarding Manga, enclave dwellers, Third generation etc.
- BB issued circular letters to helping out epidemic/pandemic situation in country like Dengu, Covid-19 etc.
- BB also requested to the Banks/FIs to distribution of blanket to the vulnerable poor people.

6.2.1 Gender Issues under CSR Practice addressing Sustainable Banking:

Promoting gender equality in the work places an important element of CSR obligations both in terms of ensuring human rights and as a prerequisite for inclusive economic growth. Banks/NBFIs are paying due attention to gender fairness issues in their internal work environment, recruitment, Day care center, maternity leave policies and awareness building/policies of sexual harassment etc. are reporting to BB on gender issues.

CSR Initiatives for womenempowerment addressing Sustainable Banking:

Women in Bangladesh struggles, face barriers in nearly every aspect of their lives, including access to health services, economic opportunities, professional participation and access to finance. Banks and FIs may take the CSR initiatives to Support to female education through financialassistance/stipend; Skill development programs for unskilledwomen; Supply of equipment to the trained women forself-employment; Financial support to women for astartup; Food, shelter and on-hands training to helpless/vulnerablewomen; Financial assistance/concessional credit to women withoutcollateral; Construction of women hostelbuildings; Construction of separate wash blocks for female students in school and collegepremises; Providing separate transportation facilities for womenemployees; Women's participation inemployment; Assistance toBirangana.

Socially Responsible Financing (SRF) underCSR is linked to Sustainable Banking. According to the Sustainable Finance Policy, socially responsible financing are communityinvestmentforaddressingclimateresilienceanddisastermanagement fund ina concessional rate (finance to clean air, clean water, minimizing industrial and municipal waste, recovery and protection of water bodies, marshy lands, expansion of green coastal belt, water purification, sustainable sanitation, water blockage mitigation, soil andwater salinity mitigation, river erosion prevention); Financing in Green/Clean transportation projects (cycles, green vehicles those run on wind, solar energy, electric vehicles with battery management, bio-fuelsetc.);Financing in Sand-witch Panel (Floating or Movable Houses in coastal areas or climate vulnerablezone);Financing in Govt. approved Eco-tourismproject.

Banks and Fls may finance in concessional rate of interest from their CSR fund in the above-mentioned fields. Concessional amount of interest will be treated as CSR where the interest rate is lower than the weighted average cost of fund. Utilization of such CSR fund will be applicable only upon Bank/Fls' own source financing at concessional rate of interest.

CSR Activities for Inclusivity and Sustainability

Banks and Fls must have due diligence checklist before disbursement of CSRfund;
All financial transactions related to CSR activities must be executed through proper bankingchannel;
CSR activities need to cover all divisions of thecountry;Banks and Fts should take utmost care to check and avert duplication/double counting in CSR activities while distributing the CSR fund toindividuals/projects;Timely intervention in proper manner as per BB's time to time instruction through CSR for any nationalemergency/crisis.

6.2.2 Target Beneficiaries under CSR:

Project based structured CSR activities for the target beneficiaries could be better examples in conformity with sustainable banking. Such as: Vulnerable and undernourished men, women and children of all ages living in poverty line;Under privileged students, street children;Indigenous peoples, family farmers, pastoralists and fishers;Unemployed youth and adults;Climate vulnerable and coastal women, children and old aged people; People living in slums, informal settlements, remote area, hill tracts and islands;Climate refugees; Students, unskilled and unemployed women and youths, pensioners and old age people; CMSMEs, micro-merchants and low-income households, freelancers, migrants etc.

6.2.3 Screening and Monitoring for CSR Activities - Precondition's for SustainableBanking

Screening: The verification and assessment of the purpose, Identifying the target group, Concern area selection, Assessment of fund requirement/budget estimation, all these factors are covered under the screening process which can make a CSR project/initiatives sustainable.

Monitoring: The CSR activities of Banks, Fls and Foundations will be under the oversight of the Sustainable Finance Department and all other supervision departments of Bangladesh Bank; The CSR activities of banks and Fls will be under the oversight of their internalaudit;

Any suspected event project of any institution/individuals having CSR assistance is charged with abuse of CSR assistance will be ineligible to access for any further assistance and may be reported to law enforcement agencies for penal proceedings according to relevant laws andregulations;Everybank/financialinstitutionshallberesponsibleforthemonitoringoftheproper utilization of the CSR support assistance for intendedpurposes; InthecaseofCSRallocationtoinstitutions/organizations,itisadvisablefortheSFUsto monitor the phased disbursements commensurate with progress in properend-use; SFUwillcollectrequireddocumentstoensureproperend-useofassistanceto institutions/individuals; Boards of Banks/Fts and MANCOM/competent authority (in case of FBs) willreview reportsofCSRallocationandend-usemonitoringbeforeapprovingnewallocationsfor subsequentyears; All records of CSR activities along with end-use monitoring documents should bekept available for onsite inspection by BB/internal and external audits.

6.3 CSR activities by Banks and Financial institutions in Bangladesh: CSR activities directly/indirectly linked to the development priorities in national and international plans adopted by the Government of Bangladesh; such as Perspective Plan of Bangladesh(2021-2041), Government 8th Five Year Plan, National Sustainable Development Strategy, National Social Security Strategy (NSSS) of Bangladesh, Bangladesh Climate Change Strategy and Action Plan, National Agricultural Policy, Intended Nationally Determined Contributions (INDC), National Disaster Management Policy 2015, National Financial Inclusion Strategy, UN declared Sustainable Development Goals(SDGs). Considering recent financial developments and changes in the global economy, it is high time to generalize, emphasize and organize CSR activities in conformity with sustainable banking for the environmental, social, equitable and sustainable development of the country. International guidelines/principles (Equator principles, UNGC, ISO-26000, ILO, SDGs-2030 and GRI), existing CSR strategies, policies, and procedures have been taken into due consideration in preparing the CSR guidelines by Bangladesh Bank for Banks and FIs for the smooth functioning of their CSR activities in a structured and effective manner which will enable Banks and Fls to contribute in the manner that it demands in a wider range ofscopes.

The mainstreaming of CSR activities in the financial sector was issued by BB in June 2008. These initiatives have inspired banks and financial institutions directly and indirectly to promote various activities, e.g. relief and supportive programs for disaster management, working in areas like health and education, environmental decay-resistant 'greening' programs etc. These initiatives have also inspired increasing the depth and diversity of CSR engagements of banks and Fls, both in direct budgetary expenditure and in financial inclusion drives, in greening of their internal practices and processes and lending to environmentally benign projects. On the other hand, these increasing levels of financial involvement in CSR activities have raised concerns about the proper allocation of CSR budgets, insider interests and proper monitoring of fund usage. Considering all these issues, indicative guidelines on CSR programs of banks and FIs were issued by BB in December2014.

6.3.1 CSR Activities area of banks and FIs: Bank's/NBFIs attention on Financialinclusionof less privileged population segments and underserved economicsectors, promotionof health, education and cultural/recreational activities foradvancement and wellbeing of underprivileged population segments, iii) promotion ofenvironment friendly projects, iv) adoption of energy efficient, carbon footprintreducing internal processes and practices in own offices and establishments was goingon expenditure for Banks and FIs covers sectors like education, health, environment,climate change mitigation and adaptation, income-generating activities for the underprivilegedpopulation, disaster management, infrastructure development, sports, culture and others.

Education: Banks and FIs spend minimum 30% of their total CSR expenditure for education sector that includes Scholarships/stipends for students from low-income families in academic and vocational training institutions (selection processes for scholarships and stipends should elicit enough information to preclude applicants from drawing benefits from multiple banks / financial institutions); Support towards the upgrading of facilities in academic and technical/vocational training institutions substantially engaged with the students and the trainees from underprivileged rural and urban population; Job focused vocational training in widening advancement opportunities for the underprivileged population; Support towards mentally/physically challenged/blind children's education to prevent dropout; Scholarship/stipends for employee's children and training/awareness programs for harassment prevention in own institutions; To set up libraries for spreading knowledge and education all over the country; To set up ICT and science laboratories for schools/colleges in underprivileged and remote areas to build up an advanced nation; Awareness raising program for child abuse, early marriage, human trafficking, sanitary hygiene etc.; Financial literacy related programs; Related Research Issues.

Health: Banks and FIs spend minimum 30% of their total CSR expenditure for health Sector that includes: Preventive and curative healthcare support assistance for the underprivilegedpopulation;Assistancesincludingdirectgrantstowardscostsofcurativetreatmentofpoorvulnerable individual patients for expensive treatments (e.g. cancer, kidney disease, heart disease, liver disease, accidental operation, fire burn, acid burn, cataract eye operation,etc);Costs of running hospitals and diagnostic centers engaged substantially in the treatment of patients from the underprivilegedpopulation; Costs of preventive public health and hygiene initiatives like provision of safe drinking water, hygienic toilet facilities for poor households and for the floating population in urbanareas;Costs of preventive public health for combating pandemics and epidemics likeCOVID-19, SARS, AIDS, dengue, malaria, and other fatal diseases;Reducing child mortality and improving maternal health by providing quality hospital facilities and low-costmedicines;Supporting welfare organizations for thewell-being of mentally/physically challenged people;Health services to the poor and helpless elderly/old agepeople;Medical facilities for their employees and their dependents who are not at the executive level;Safety and wellness initiatives for theiremployees;Related ResearchIssues;

Climate Change Resilience: Banks and Fls should spend minimum 20% for Environment and Climate change mitigation & adaptation sector of their total CSR expenditure that includes:River/canal/wetlandde-silting;Embankments/polders/submersibledykes;Urban drainage/stormsewerage;Solar Energy/powerplants;Roads, bridges/culverts in vulnerableareas;Housing/cluster villages/growthcenters;Cyclone shelters/floodshelters;Strengthening embankment systems along coastalzones;Sandwich Panels for the coastalinhabitants;Assistance for the affectedfishermen;Assistance for livestocksector;Maintaining and constructing cyclone shelters and climate-proofhousing;Adaptationinthehealthsector(i.e.implementingsurveillancesystemsforexistingand new diseaserisks);Implementing pure drinking water and sanitation programs in areas at risk fromclimatechange and disaster-prone areas;Developing efficient water irrigation and water managementsystems;Promoting diversified cropproduction;Coastal forestation and treeplantation;Climate change related researchwork;Banks and Fls may spend on the basis of the requirements that it demands. This sector includes:Forming the farmers group. Assistance for farmer's access to better technology inthe fields of crop diversification, livestock, fisheries, andpoultry; Creating new job opportunities, self-employment, and skill development programs for youth helping the youth to participate in national social serviceprograms; Supply of equipment to train the youth forself-employment; Support towards blind people with equipment forself-employment; Food, shelter and on-hands training to helpless, orphans, blind, physically challenged and old agedpeople; Trainingandcapacitybuildinginitiativesfordistressed,vagabond,handicapped,andhomeless people; Related researchissues;

Income-generatingActivities: Banks and Fls spend on the basis of the requirements that it demands. This sector includes: Forming the farmers group. Assistance for farmer's access to better teleology inthe fields of crop diversification, livestock, fisheries, andpoultry;Creating new job opportunities, self-employment and skill development programs for youth; Helping the youth to participate in national social serviceprograms; Supply of equipment to train the youth forself-employment; Support towards blind people with equipment forselfemployment; Food, shelter and on-hands training to helpless, orphans, blind, physically challenged and old agedpeople;Trainingandcapacitybuildinginitiativesfordistressed,vagabond,handicapped,andhomeless people;Related researchissues.

Disaster management: Banks and Fts may spend for disaster management on the basis of the requirements that it demands. This sector includes: Providing financial assistance to those organizations which are involved in disaster managementactivities; Awareness building programs for disastermanagement (seminars, workshops, advertisements, leaflets, booklets,etc.); Training for human resource development to ensure disaster managementefficiently; Emergency disaster relief (for losses in flood, cyclone, tornado, tidal bore, earthquake, landslide, fire burn, extreme cold, drought, heavy rainfall, sudden river erosion,etc.); Upgrading facilities and lifesaving equipment in emergency rescue services (fire brigades, coast guards,etc.); Related researchissues;

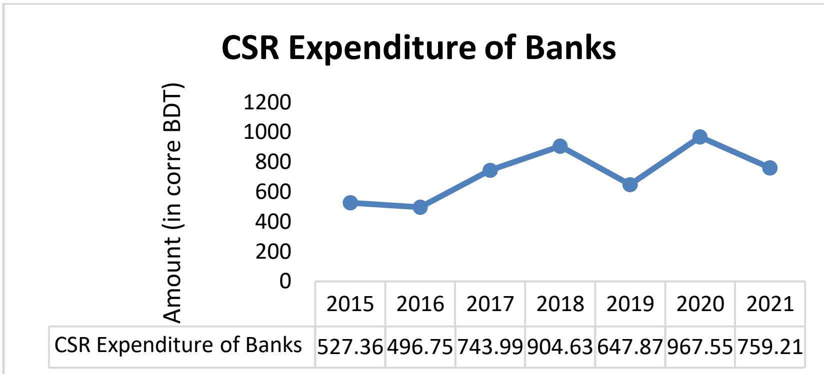
InfrastructureDevelopment: Banks and Fls spend for InfrastructureDevelopment on the basis of the requirements that includes: Establishment of school buildings for vulnerable groups, libraries, children's parks, playgrounds,recreationcenters,andculturalcenters(relatedtoart,music,dance,painting etc.); Development of village market infrastructure for better marketing of localagro-products; Solar power generation project and bio-gas generation project in remoteareas; Establishment of infrastructure/shed/building for cottage and micro productclusters; Infrastructure development for the tourism sectors in promisingareas; Infrastructuredevelopment/maintenanceandoperationalcostforoldage homes/orphanage; Establishment/maintenance and operational cost of daycarecenters; Related researchissues.

Sports & Culture: Banks and Fls spend to promote artistic, cultural, literary, sports and recreational facilities for the underprivileged, sports and cultural development in remote/underprivileged areas as part of their CSR activities on the basis of the requirements that it demands. This sector includes:Providing necessary funds for assisting domestic nonprofit events/projects; Providing financial assistance for arranging training/sports materials for players in group/individual in rural areas; Providing financial assistance for reconstruction and preservation of our national heritage;Providingfinancialassistanceforarrangingfolkculture(jatra,drama,jarigaan,palagaan,gambhira, folksongs dance etc.) and traditional sports (nouka-baich, latthikhela, kusti etc.); Financial assistance for arranging various indoor and outdoor sports competitions like football, volleyball, cricket, hockey, ha-du-du, kabadi, chess, swimming, etc. in rural areas; Financial assistance for the vulnerable players or really deserving ones having serious injury. This assistance will also be applicable for trainers, teachers, writers, poets, singers, social workers, sports organizers as well as reputed persons from various recognized occupations; Allocating CSR funds to the organizations who are working on nurturing and bloomingof the country's history, tradition, culture, Liberation War-related publications, awakening the spirit of the Liberation War and organizing related programs;Operatingexpenses,developmentandmaintenancecostsofmuseumsandlibrariesforthe public interestetc.;Providing funds for contemporary research works and projectstaken on Bengali literatureand language and others;

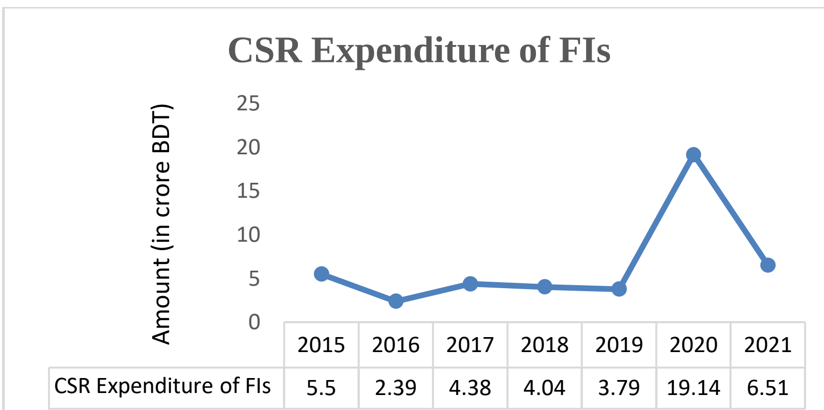
Banks and FIs provide CSR assistance if they feel that a person/institution/entitylike Government organization is eligible or requirement of PM office to get a grant from CSR programs.

6.3.2 CSR Expenditure Trends

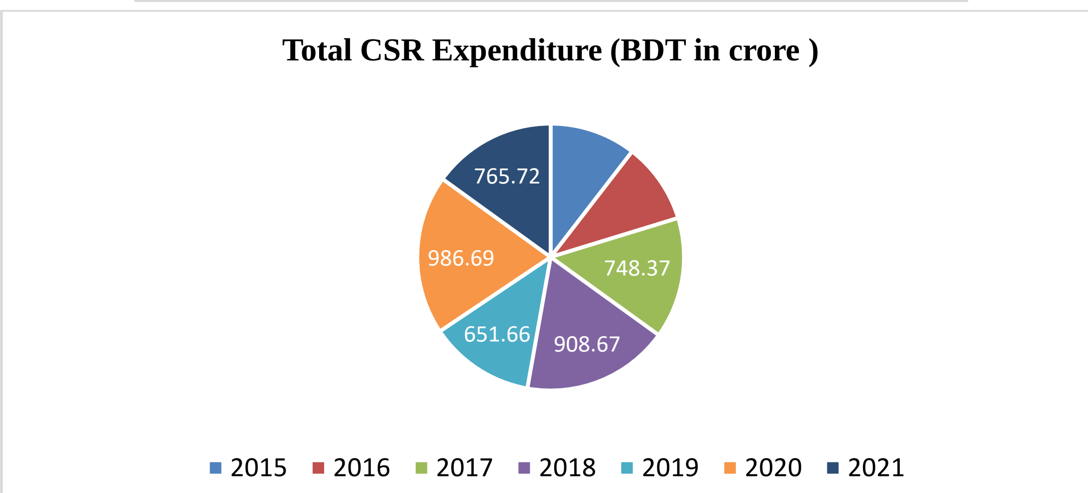
CSR Expenditure by Banks during 2015 to 2022

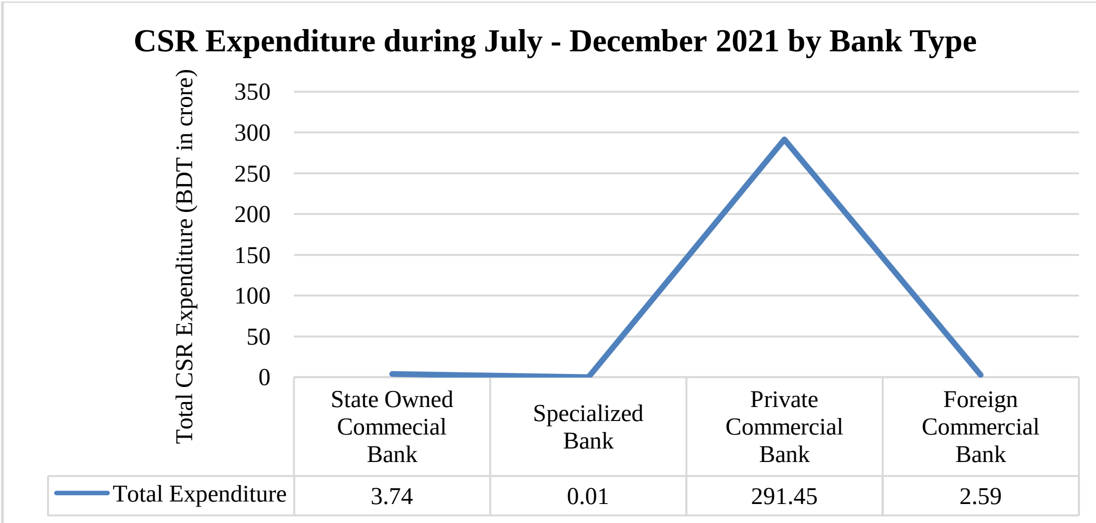


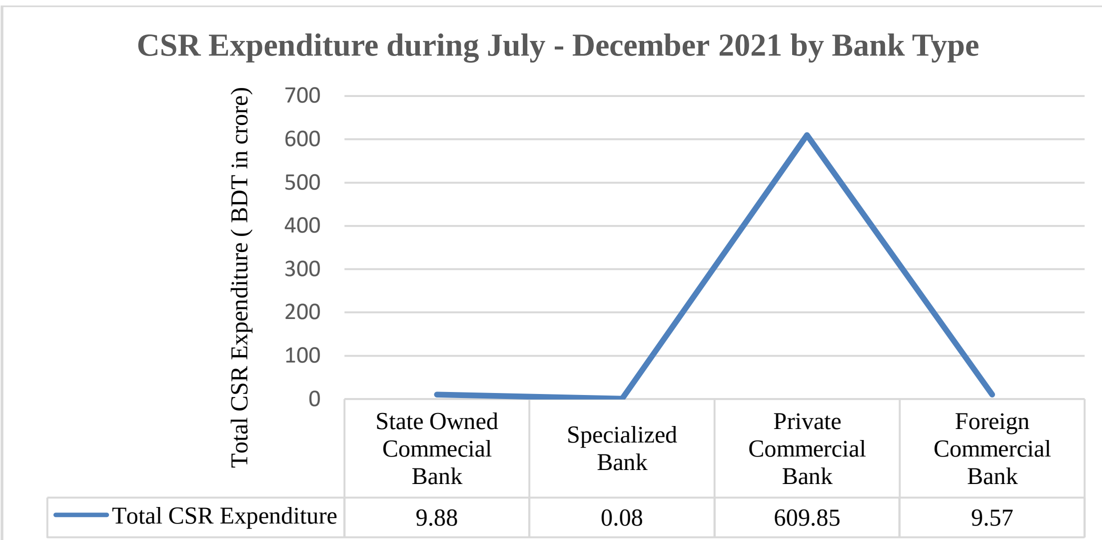
	2015	2016	2017	2018	2019	2020	2021
CSR Expenditure of Banks	527.36	496.75	743.99	904.63	647.87	967.55	759.21

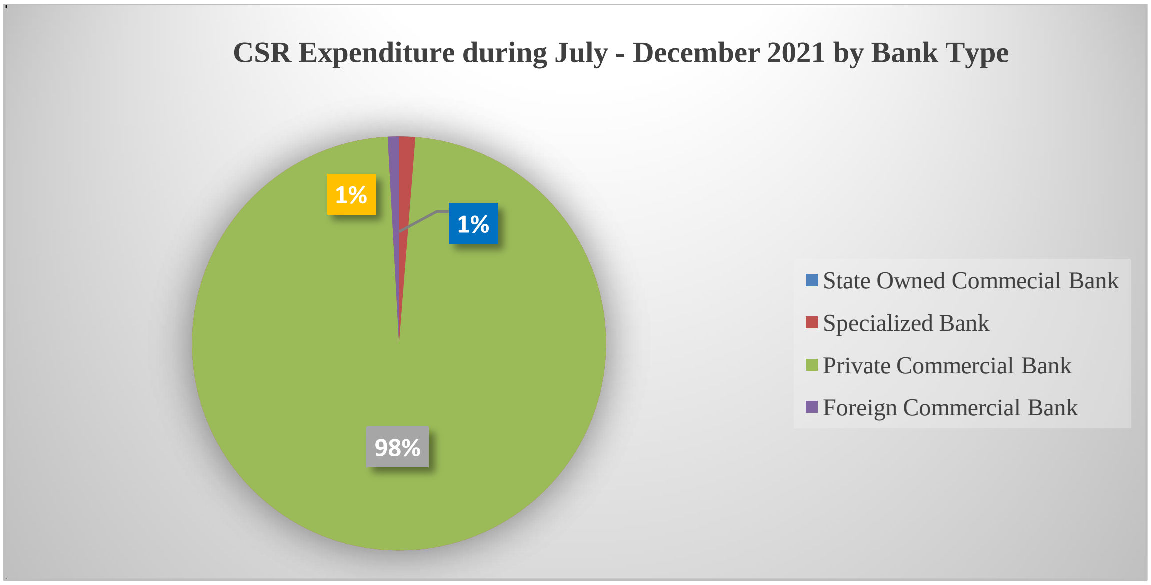


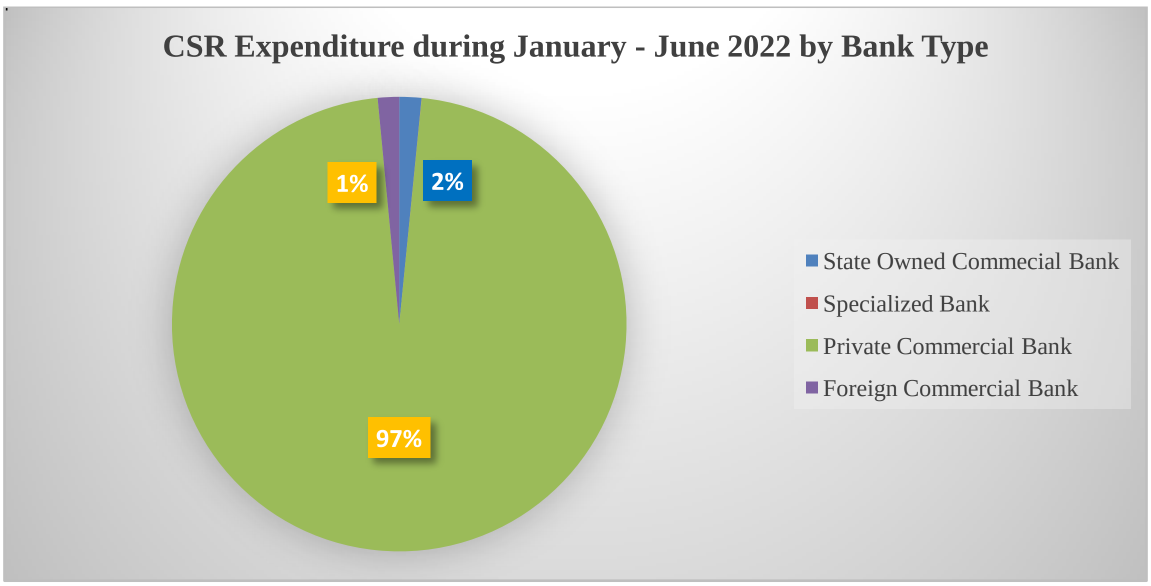
	2015	2016	2017	2018	2019	2020	2021
CSR Expenditure of FIs	5.5	2.39	4.38	4.04	3.79	19.14	6.51




CSR Expenditure during July - December 2021 by Bank Type
Total CSR Expenditure (BDT in crore)
350
300
250
200
150
100
50
0
State Owned Commecial Bank
Specialized Bank
Private Commercial Bank
Foreign Commercial Bank
Total Expenditure
3.74
0.01
291.45
2.59


CSR Expenditure during July - December 2021 by Bank Type
Total CSR Expenditure (BDT in crore)
700
600
500
400
300
200
100
0
State Owned Commecial Bank
Specialized Bank
Private Commercial Bank
Foreign Commercial Bank
Total CSR Expenditure
9.88
0.08
609.85
9.57





6.3.3 Prohibition in CSRActivities: Sustainable Banking does not allow the following CSR activities:

- Activities related to under-aged/child labor/forcedlabor;
- Threats to social value/public image in thecommunity;
- Sponsorship in sports and cultural activities at internationallevel;
- Branding/advertisement/businessdevelopment;
- Activities not supported by the country's laws andregulations;
- Threats to environmentaldegradation;
- Aid/abet/finance to militancy and terrorism(AML/CTF).

Case Study

Case 1: Pathfinder is a social organization which works for mentally and physically challenged children in Khulna. They provide daily necessary and educational materials for the challenged students. A few days back, Pathfinder had to take the responsibility of a number of physically challenged students. Because of growing demand to a great extent, the organization is now not in a position to take care of all the students out of their own source. As such the organization are looking for CSR fund from some Banks passionate to serve the non-privileged physically challenged group. In this context, Pathfinder applied to XYZ bank for CSR fund with a proposition in a two-year project manner containing phase wise planning of actions to take proper care of the target physically challenged students. XYZ bank has reviewed the project proposition along with all the documents submitted and approved BDT 10 lac in two instalments. Five lacs for the first year and five lacs for the second year upon the best utilization of the first instalment.

Construct a case for bank`s CSR fund for a similar case for different segment of target group.

Case 2: Mr.Shahidul Islam, local Chairman of BhangaUpazila has drafted a project for fixing and restoring a school that has been damaged due to various reasons such as floods, excessive rain and neglects. The objective of the project is to bring the school back to its original state or even better, ensuring that it is safe and comfortable for students, teachers, and staff. The project covers activities such as reconstructing roofs, walls, windows, fixingelectrical systems, and some other adjustments in the classrooms.He on behalf of BhangaUpazila has applied to ABC bank for a CSR fund to get the project activities done as mentioned.

Being a banker, what should be your course of action in this case?

Case 3: ABC trust is an organization which has been dedicated for the last three years for community service. After the COVID-19 pandemic hit, they took initiatives for providing essential supplies and financial support to communities in need. Some companies also partnered with them to increase the impact of their efforts. Account manager, Mr. Rajib recently asked for more support from other organizations. They applied for financial assistance from XYZ Bank. Although there are much controversy about the integrity and overall responsibility of Mr. Rajib. Based upon the thorough investigation, Bank declined to provide such financial aid ABC trust.

Under the above circumstance, how ABC trust can recover their image to get a positive response from XYZ bank.

Case 4: Mr. MoinulAlam, secretary of ABC Tech Foundation, a technology-based NGO. The members of the organization specially women are highly engaged with embroidery activities. Recently the foundation has been requested from XYZ, an agent of Aarong to supply one thousand pieces of exclusive embroidery designed three pieces. ABC Tech Foundation is very intended to accept the request from such an organization linked to Aarong in one way, but overburdened with the existing order of regular customers.

In such above scenario, what should be the best possible strategy for ABC Tech Foundation to move on?

Broad Questions

1. Mention Bangladesh Bank's initiatives in mainstreaming CSR actives.
2. Describe the following points of Existing CSR Guidelines for Banks and FIs.
3. CSR and Sustainable Banking – How can you establish the interlinkage between the two themes?
4. What is your Concept on CSR in general, its definition, types and objectives.
5. Discuss Bangladesh Bank's time to time Sustainable Banking Initiatives under CSR.
6. Describe CSR activities by Banks and Financial institutions in Bangladesh.
7. 'Gender Issues under CSR Practice addressing Sustainable Banking and'CSR Activities for Inclusivity and Sustainability' – Discuss in details.
8. Discuss on (i) CSR Initiatives for womenempowerment addressing Sustainable Banking (ii) Socially Responsible Financing (SRF) and (iii) CSR Activities for Inclusivity and Sustainability.
9. Point out your observation with graphical representation of CSR activities by banks during 2015 to 2022.
10. 'CSR is not only philanthropic but also address the key sustainable development challenges' – Justify this statement.

Short Questions

1. Define CSR.
2. Describe the four major types where CSR activities.
3. What is the definition and objective of CSR.
4. Mention 8 sectors and different sub-sectors of CSR with different threshold.
5. Explain CSR Alignment with SDGs.
6. Discuss Screening process of CSR activities.
7. Mention the contents of the existing CSR Guidelines.
8. Mention the target groups those required to be facilitated under the existing CSR Guidelines.
9. Highlight BB's Adaptation Program of Action under CSR due to covid -19 pandemic.
10. What is the Role of initiating CSR Activities by Banks/NBFIs?
11. What are the Gender Issues under CSR Practice in the Financial Sector?
12. What do you mean by Climate Change Resilience.
13. What do you mean byDisaster Management?
14. What isincome-generatingCSRactivities?
15. What are the components included in InfrastructureDevelopment?
16. What are the CSR activities by banks and FIs under 'Sports & Culture' segment.
17. List down the activities prohibited under CSR.

Chapter 7

Module G: Digital Financial Services and Inclusive Banking

7.1 Concept: Digital Financial Services (DFS) include a broad range of financial services accessed and delivered through digital channels, including payments, credit, savings, remittances and insurance. Digital channels refers to the internet, mobile phones, ATMs, POS terminals etc. It also includes mobile financial services. Digital financial services (DFS) allow users access to services like banking and utility/merchant payments at their time and place of leisure instantly and companies to save costs of servicing in person. DFS contains Mobile Financial Services (MFS). Bangladesh Mobile Financial Services (MFS) Regulations, 2022 has been effective since 15 February 2022 replacing the Bangladesh Mobile Financial Services (MFS) Regulations, 2018. MFS refers to E-money services provided against a particular mobile/cell phone number of a client (termed as Mobile Account), where the record of funds is stored on the electronic general ledger. These services can be draw down through specific payment instructions to be issued from the bearer's mobile phone or through alternative digital process or device by ensuring authenticity of the transaction. The purposes of these Regulations are to: (i) Provide regulatory framework to create an enabling and competitive environment to cater cost efficient and prompt MFS; (ii) Promote convenient access to formal financial services at an affordable cost especially for the poor and unbanked population segments; and (iii) Ensure compliance with Anti Money Laundering and Combating Financing of Terrorism (AML/CFT) standards set by AML/CFT rules, regulations, guidelines and instructions issued by Bangladesh Financial Intelligence Unit (BFIU). MFS provider to carry out financial transactions for mobile financial services. MFS is a model where Mobile Financial Services Provider (MFSP) will be a subsidiary of a scheduled commercial Bank/FI licensed by Bangladesh Bank or Government Entity with at least 51% of the share held by the Bank/FI/Government Entity with control of the board. Distributors/Super Agents have an agreement with MFSP and is liable for nominating or selecting and managing the retail agents. Distributors/Super Agents will only deal with e-money in bulk with MFS provider and sell/purchase the e-money to/from the retail agent. A distribution channel is a chain of businesses or intermediaries through which electronic money passes from MFS provider to Distributors/Super Agents to Agents/Retail Agents to the end users/customers. Electronic money (e-money) means electronically stored monetary value issued against or as an alternative to legal tender; which can be used as a mode of payment; and is accepted by any person including its issuer.

Given the environment of radical changes, technological innovations, and complexities in economic activities around the globe, digital financial services are changing rapidly. Pertinently, digital financial innovation (i.e. Fintech) is playing a significant role to build digital financial infrastructure by creating new business models, providing financial inclusion through a new type of financial services. To materialize the benefit, it is immensely important to make coordination between innovation, risk, and policy measures.

7.2 **Benefits:** The financial sector in Bangladesh is continuously growing in response to the evolving needs of the growing economy. Rapid expansion of mobile phone users, modernization of payments and financial systems based on IT infrastructure, country-wide reach of mobile network and internet have boost up the opportunities for enhancing Mobile Financial Services (MFS) to offer convenient payment mode which is cost efficient and prompt for the underserved, un-banked/under-banked and low income group of population of our country. Leveraging digital technology to make services more accessible, especially for the poor and marginal, is gaining momentum as a core strategy for inclusive development all over the world. This can be observed across a growing number of sectors – from healthcare to education and sustainable development. The financial sector is no exception. And when it comes to utilization of digital innovations to enhance financial inclusion, Bangladesh perhaps is one of the pioneer countries. "Payment services provider" refers to an entity licensed by Bangladesh Bank to provide electronic money services to its customers and keep the aggregate balance of the issued e-money to a Trust Cum Settlement. BB permits Bank/FI/Government Entity-led MFS providers as PSP to deliver the following broad categories of payment services in Bangladesh: (i) 'Cash-in' to and 'Cash-out' from MFS accounts through agent locations, bank branches, ATM, Cards, linked bank accounts and other methods approved by BB; (ii) Person to Business payments like utility bill payments, educational institutional fees payment, merchant payments, mobile top up, deposits into savings accounts/schemes with banks/non-bank financial institutions (NBFIs), loan repayments to banks/non-bank financial institutions (NBFIs)/non-governmental organizations-microfinance institutions (NGO-MFIs), insurance premium payments to insurance companies and so forth; (iii) Business to Person payments like salary disbursements, dividend/refund warrant/ discount payments etc. (iv) Person to Person payments such as one MFS personal account to another MFS personal account with the same MFS provider or another MFS provider as well as the payments from one MFS account to a bank account and vice versa; (v) Business to Business payments like vendor payments, supply chain management payments etc. (vi) Online and e-commerce payments; (vii) Government to Person payments such as pension payments, old age allowances, freedom-fighter allowances, subsidy payments to farmers and so forth; (viii) Person to Government payments such as tax, fee, levy payments, toll charge, fine etc. (ix) Disbursement of inward foreign remittances in accordance with the regulations; (x) Loan disbursements to borrowers, vendor payments etc. (xi) Other payments approved by the BB. Digital technologies offer financial services at lower costs, fostering opportunities for large-scale inclusion by enabling institutions to serve lower-income customers profitably. Such broadened financial access can sustainably transform emerging economies. Digital finance can lead to greater financial inclusion, expansion of financial services to non-financial sectors, and the expansion of basic services to individuals since nearly 50% of people in the developing world already own a mobile phone. Digital payments can increase an entrepreneur's profitability by making financial transactions with customers, suppliers, and the government more convenient, safer, and cheaper. Paying wages digitally benefits employees and is safer and more cost-effective for employers. With digital banking, any bank branch services are available and accessible 24/7 on mobiles, computers, and compatible smart devices. It means availability of all banking activities online. Financial inclusion refers to providing greater access to financial services for poor and low-income individuals, as well as businesses with limited resources. Financial inclusion initiatives help boost the economy of poorer regions and countries. the degree of financial inclusion is determined by three dimensions: usage, barriers (i.e. quality) and access. Digital financial inclusion involves the deployment of the cost-saving digital means to reach currently financially excluded and underserved populations with a range of formal financial services suited to their needs that are responsibly delivered at a cost affordable to customers and sustainable for providers. Using cross-sectional instrument variable procedure, it has been found that the exogenous component of digital financial inclusion is positively associated with growth in GDP per capita during 2011-2018, which suggests that digital financial inclusion can accelerate economic growth. One of the most significant advantages of digital payment is the seamless experience they provide to customers. Reduced dependency on cash, fast transfer speed, and the ease of transacting make online payments a preferred option.

7.3 Strategies and Policy Initiatives of Digital Financial Services and Inclusive Banking:

As of 2018, 50 percent of Bangladesh's population had access to formal financial services, an increase of 57 percent since 2013. This has been possible because of the government's campaign for achieving "Digital Bangladesh" since 2009-10. Complementing this drive of the government, the central bank of the country started moving towards using technology more actively to expand financial services to the doorsteps of people, including those living in hard-to-reach areas. BB's success in utilizing digital financial innovations to serve the underserved over the last decade or so requires revisiting, especially in the context of the pandemic-induced global economic slowdown and the subsequent process of recovery. Bangladesh certainly deserves to be recognized as an "early starter" as far as digital financial innovations are concerned. Key measures taken to digitize the financial services in Bangladesh over the last decade can be summarized as: Introduction of automated Credit Information Bureau (CIB) to enable effective credit risk management and ease doing business in Bangladesh, automated cheque processing, National Payment Switch, BEFTN and RTGS introduced to enhance speed as well as reliability of banking services; Linking the KYC process with the national database maintained by the National Election Commission (through utilizing the NIDs); Implementation of online and paperless supervision, ISS (Integrated Supervision System), has been a great success; Major changes in traditional reporting of trade services by launching online reporting of all inward and outward remittance transactions of authorized dealers; Digitization of financial services (online banking, mobile financial services, and agent banking) has revolutionized access to finance in Bangladesh; Banks in Bangladesh have already started adopting blockchain technology, which, on a broader scale, will significantly help the country in trade-related transactions making it paperless, real-time, low-cost, faster, and free of errors. Above all, backed by the innovative initiatives of Bangladesh Bank, today the banks are using core banking software and have dramatically automated most of their internal and external operations. This drive for digitization has, as expected, yielded significant positive impact in financial inclusion in Bangladesh. This is clearly visible in the periodical Financial Access Survey (FAS) conducted by the International Monetary Fund (IMF). Digitization of financial services has revolutionized access to finance in Bangladesh. And of course, this will be pivotal in making the country's economic recovery desirably inclusive. But there is no alternative to "learning by doing". At the same time, special care needs to be taken to ensure that digital infrastructure and access-to-internet become affordable and sustainable. Moreover, a policy environment focusing on customer benefit must be the top priority, which necessitates ensuring interoperability, favorable tax policy etc. Gaining and maintaining customer confidence is also pivotal. DFS needs to ensure that customers get acclimated to the "new normal" and fraudsters do not spoil the show which has been developed with painstaking efforts.

Digital financial service (DFS) has made reaching the "bottom of the social pyramid" possible for the financial service providers at a low cost and with high pace. DFS has not only proven its efficiency and reliability to the private sector and/or the non-state actors, but also the government itself. In January 2010, with prudent directives from the central bank, the retail banks started allowing ultra-poor citizens of the country to open no-frill accounts worth BDT 10 (approximately USD 0.1) so that they may receive Social Safety Net Program (SSNP) support from the government via these accounts. Indeed, the proliferation of Mobile Financial Service (MFS) and agent banking services in Bangladesh have proven that early policy moves towards the right direction can provide cushion in case of shocks. And Bangladesh is now reaping the benefits of its early moves in the arena of DFS.

Review of the datasets of the FAS 2015 and FAS 2020 reveals that: Number of commercial bank branches per 100,000 adult persons in Bangladesh has increased from 8.61in 2015 to 8.99in 2020 (4 percent increase in 5 years). Number of ATMs per 100,000 adult persons in Bangladesh has increased from 7.09 in 2015 to 10.18 in 2020 (44 percent increase in 5 years). Number of registered mobile money agent outlets per 1,000 square kilo-meter has increased from 4,408 in 2015 to 8,141 in 2020 (85 percent increase in 5 years). Number of registered mobile money accounts per 1,000 adult persons in Bangladesh have increased from 310 in 2015 to 825 in 2020 (166 percent increase in 5 years). Value of mobile money transactions as percentage share of GDP has increased from 11.26 in 2015 to 20.45 in 2020 (82 percent increase in 5 years).

Almost a decade ago, BB, after considering the prospects and challenges of MFS, chose to implement the "Bank-led Model" of MFS in the country. Within three to four years, virtually all citizens were brought under MFS coverage. The country is now enjoying the wider benefits of that prudent and early decision amidst the pandemic. In the face of the new challenges brought by Covid-19, people from all walks of life in Bangladesh are increasingly depending on digital solutions and MFS perhaps is the most prominent among them. Between March and November 2020, approximately 15 million new MFS customers have joined in. This makes the total number of MFS users almost 100 million.

In November 2020, monthly transactions rose to more than BDT 500 billion (a 30 percent increase in less than a year). During this period (March-November 2020), monthly merchant payments via MFS more than tripled to almost BDT 19 billion; the monthly utility bill payment via the same almost doubled to over BDT 8.3 billion.

Gaining confidence based on this increased reliance of the people on MFS, Government of Bangladesh opted for cash assistance through four major MFS operators to five million vulnerable poor families hit by the coronavirus pandemic. In the post-Covid period, it is expected that more people will be relying on MFS. And experts believe that MFS proliferation will become a key determinant in the growth of MSMEs in Bangladesh. Already some experiments are being conducted on how banks can utilize the robust database of MFS providers to provide them smaller ticket credit package without human intervention. If pursued, this will revolutionize the depth and breadth of DFS in Bangladesh. In fact, City Bank and bKash have already joined hands in rolling out this Nano credit with appropriate regulation from the central bank. It is expected that other banks will also come forward to take advantage of this digital financial inclusion related regulation.

A nationwide survey conducted by Unnayan Shamannay, in 2018, has revealed that: 52 percent of the agent banking service users reported they are saving time because of agent banking outlets being close to their place of work/residence 67 percent of them reported they do not have to spend additional money to travel to the outlets (previously they had to spend money for travelling to the nearest bank branches). Most importantly, 20 percent of these respondents claimed that they were not able to save any money before agent banking was available in their respective localities. As a result, this model of financial service has become increasingly popular within a matter of only a few years. As of

October 2020, the total number of agent outlets stood at over 14 thousand. Of course, the pandemic has made agent banking deliver further on its great potential. Only a year ago, this number was below 10 thousand. During the same period, the number of accounts facilitated by agent banking outlets almost doubled to 88 million. And deposit mobilized through these accounts more than doubled to BDT 137 billion. Most importantly, remittance received by these accounts quadrupled amidst the pandemic. These encouraging figures further emphasize the need to properly harness the potential of agent banking in the process of economic recovery. It must be noted that running a bank branch costs BDT 0.5 to 0.7 million whereas agent outlets are much cheaper. It is also a model that is easily accessible by the common customers. This, indeed, can be a reliable means to ensure access to finance for hard-to-reach areas. This last mile service to the earlier unbanked and underbanked people of Bangladesh holds promise for digital transformation of Bangladesh which is simultaneously inclusive.

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way. Digital financial inclusion involves the deployment of the cost-saving digital means to reach currently financially excluded and underserved populations with a range of formal financial services suited to their needs that are responsibly delivered at a cost affordable to customers and sustainable for providers.

The Digital Banking definition is banking done through the digital platform, doing away with all the paperwork like cheques, pay-in slips, Demand Drafts, and so on. Digital banking involves the digitalization of all traditional banking products, processes, and activities to service customers using online channels.

Different studies and expert opined that financial inclusion requires provision of access to a range of financial products that goes beyond micro-credit to include savings, micro-insurance, payment facilities, remittances, money transfer. It also stresses the need for providing quality financial services at affordable prices. A Financial Inclusion Policy aims to include everybody in society by giving them basic financial services regardless of their income or savings. It focuses on providing financial solutions to the economically underprivileged. Digital financial inclusion curbs the negative consequences associated with the prevalent usage of cash in the economy. These include the high cost of cash handling, and high risk of theft and other fraudulent activities originating outside the formal economy. A national financial inclusion strategy (NFIS) is a comprehensive public document formulated at the national level to systematically accelerate the level of financial inclusion in a particular country. Our government is in the process of implementation of the National Financial Inclusion Strategy (NFIS) that has been approved by the Cabinet in July 2019. 'Financial Inclusion Department (FID)' of BB has actively been engaged in handling policy and regulatory issues of the central bank associated with financial inclusion. No Frill Accounts (NFAs) and refinancing activities targeting vulnerable sections of the society facilitated by the FID has been expanding. Adoption of technology brought changes in the policy and regulatory approach of the BB in the areas of technology driven services like mobile banking and agent banking. 'Payment Services Department (PSD)' has been playing an important role in this regard. In addition, Know Your Customer (KYC) issues to facilitate smooth inclusive drives are handled by the Bangladesh Financial Intelligence Unit (BFIU). In January 2020, BFIU issued an electronic Know Your Customer (e-KYC) guideline to open accounts in the financial sector without filling up any paper-based documents. Based on a pilot programme at 52 locations in 33 districts involving 19 banks, a non-bank financial institution (NBFI) and a mobile financial service (MFS) provider, e-KYC accounts have been allowed ranging from BDT 20 thousand to BDT 5 lakh. As per the BB guideline, e-KYC came into force in January 2020, but the countrywide lockdown due to coronavirus impeded banks to implement e-KYC fully with some other related barriers like vendor selection for the e-KYC implementation project, lack of customers' awareness, number of smart phone users, and integrating risk division with e-KYC systems. The enforcement of guideline is expected to help opening accounts by those who are illiterate, as traditional paper-based documentation for account opening requires applicants' signatures.

Policy initiatives and responses by the banks have been contributing in financial inclusion through different avenues. Expansion of branches has been an important channel of financial inclusion. However, technology driven modes like mobile financial services (MFS) and agent banking are contributing a lot in offering access to the financial services. Technology adoption and policy support help promote mobile banking, agent banking and other digital payment and financing services. Covid-19 situation prompted policymakers of the country to give a big push to technology driven financial services, and banks of the country are also responding to the policy interventions.

7.4 Different Approaches of Digital Financial Services and Inclusive Banking

Digital payments, digital lending and digital remittances have grown in recent years. Digital payments are non- cash transactions processed through digital channels. These include digital commerce and mobile point-of- sale (POS) payments. Using computers and mobile phones, a person can access his/her bank account, verify account details, transfer funds, deposit cash, renew deposit, pay bills, book tickets, etc. Also, the invention of ATMs reduced the time taken to withdraw money from banks. There has been a significant change in scoped of DFS. It includes financial services that are of interest encompass but are not limited to: payment systems, investment and loan products, insurance and digital currency systems. Of particular interest are micro-finance (payments, loans and insurance), peer-to-peer lending, crowdfunding services and cryptocurrencies.

DFS is different from Fintech. Fintech competes against old traditional financial banking methods and long-standing institutions with new technology-thinking products and services.

Digital banking, on the other hand, is digitized traditional banking services, activities, or products offered via online channels, applications, and mobile platforms. Digital money (or digital currency) refers to any means of payment that exists in a purely electronic form. Digital money is not physically tangible like a dollar bill or a coin. It is accounted for and transferred using online systems. One well-known form of digital money is the cryptocurrency Bitcoin. Digital Transformation in finance is now a realistic goal due to the widespread availability of business data; teams' ability to process large sets of data using now-accessible algorithms and analytic methods; and improvements in connectivity tools and platforms, such as sensors and cloud computing. So it can be an important role-player.

There are some current trends in financial services:

- Trend 1: Digital money.
- Trend 2: The future of money – will physical money disappear?
- Trend 3: The rise of finance apps.
- Trend 4: Consumer expectations for more personalized, intelligent services.

  Additionally, a 2020 Insider Intelligence survey of banking executives found that 66% believe new technologies like blockchain, artificial intelligence (AI), and the Internet of Things (IoT) will have the greatest impact on banking by 2025.

Challenges to Digital Financial Inclusion are: (i) The Need to Improve Financial Literacy (ii) Lack of Formal Identification Documents (iii) Consumer Protection (iv) The Rural Poor and Gender Inequality (v) Promoting the Use of the Transaction Account.

For Inclusive Digital Finance the challenges regarding proper and adequate/best-possible use technology come as opportunities to the above challenges. Digital payments, digital lending and digital remittances have grown in recent years. Digital payments are non- cash transactions processed through digital channels. These include digital commerce and mobile point-of- sale (POS) payments.

7.5 Mobile Financial Services

7.5.1: Introduction: Mobile Financial Services (MFS) refer to branchless banking or mobile banking services offered to both the banked and unbanked population groups at affordable rates. Through MFS, users in remote locations can add money to their mobile accounts at nominal charges without visiting a physical bank branch.

MFS has been playing a crucial role to attain the target of ‘Financial Inclusion for All by 2024’ by BB. Indeed, nationwide advancement in power connectivity, hasty growth of mobile phone users, digitization of payment procedures and IT-based financial systems, augmented countrywide network coverage of mobile operators and availability of internet throughout the country unwrapped the prospects of financial inclusion through MFS.

MFS in Bangladesh opened up the opportunity of access to payment and finance for the underserved, unbanked/under-banked and a low-income group of population to reach the country's sustainable development goals (SDGs). BB allows bank-led MFS providers only to operate in the country under some broad categories, such as: i. 'Cash-in' to and 'Cash-out' from MFS accounts through agent locations, bank branches, ATMs, linked bank account and other methods determined by BB; ii. Person to business (P2B) payments like utility bill payments, merchant payments, mobile top-up, deposits into savings accounts/ schemes with banks, loan repayments to banks/ non-bank financial institutions (NBFIs)/ non-governmental organization's - microfinance institutions (NGOs-MFIs), insurance premium payments to insurance companies and so forth; iii. Business to person (B2P) payments like salary disbursements, dividend/refund warrant/ discount payments, etc.; iv. Person to person (P2P) payments (one MFS personal account to another MFS personal account with the same MFS or another MFS provider as well as the payments from one MFS account to a bank account and vice versa with the same parent bank or of another bank); v. Business to business (B2B) payments like vendor payments, supply chain management payments, etc.; vi. Online and e-commerce payments; vii. Government to person (G2P) payments such as pension payments, old-age allowances, freedom-fighter allowances, subsidy payments to farmers and so forth; viii. Person to government (P2G) payments such as tax, fee, levy payments, toll charge, fine, etc.; ix. Disbursement of BDT against inward foreign remittances collected by banks; x. Loan disbursements to borrowers, vendor payments, etc.

BB will take appropriate steps towards protecting legitimate interests of the MFS account holders and other stakeholders of the accused MFS provider. Schedule of Charges MFS providers should inter alia include: (i) Inclusivity of Distributors/super agents and Agents; (ii) Technical competence for and track record of the intended role; (iii) Financial soundness, business reputation and no record of bankruptcy; (iv) Standards of security and internal control, audit coverage, monitoring and reporting; (v) Capability of meeting commitments under adverse conditions; (vi) A self declaration that partners and agents do not have a past criminal record. and KYC compliance: MFS providers shall comply with the provisions of existing Money Laundering Prevention Act, Anti Terrorism Act and respective Rules issued therein under, instructions and guidelines issued by Bangladesh Financial Intelligence Unit (BFIU) from time to time. MFS providers shall remain responsible for authenticity and timely updating of the KYC records as per the instructions of BFIU as and when required. MFS providers shall follow the ICT Act, 2006 (amended in 2013) and the Guidelines on ICT Security for Scheduled Banks and Financial Institutions, 2010 issued by BB in addressing ICT security issues in respect of MFS. The properties need to be addressed (i) Confidentiality: Property ensuring that transaction information cannot be viewed by unauthorized persons. (ii) Integrity: Property ensuring that the transaction information remains intact during transmission and cannot be altered. (iii) Authorization: Property ensuring that the authentic user has proper permission to perform the particular transaction. It ensures how the system decides what the users can do. (iv) Non-repudiation: Property that the particular transaction initiated by a user cannot be denied by him/her later.

The MFS providers shall design their systems and procedures such that all MFS providers are capable of providing fund transfer service in a completely interoperable way which may include fund transfer from one personal MFS account to another MFS account with the same MFS provider or another MFS provider as well as the payments from one personal MFS account to a bank account with the same bank or another bank and vice versa. MFS providers will be under off-site and on-site supervisions of BB. Firstly as PSPs extending mobile financial services and secondly as agents of banks and financial institutions in offering mobile phone-based banking and other financial services. MFS providers shall have to follow rules, regulations, guidelines and instructions issued by BB from time to time. The MFS provider shall ensure that they are sufficiently equipped to keep track/log of all disputes and review status of each dispute and redressal of the same within stipulated time.

A well-functioning and efficient payment system is indispensable for an economy. It supports the financial activities of individuals and corporates and thereby props up financial intermediation through facilitating the payment and settlement of transactions among participants at an affordable cost. Any failure or disruption in the payment system could destabilize financial markets and cause widespread economic disruption. BB has issued Bangladesh Payment and Settlement Systems Regulations-2014 (BPSSR 2014) with a view to promoting, regulating and ensuring secured and efficient payment systems in Bangladesh. BB is vigilant for the smooth functioning of the payment ecosystem of the country through formulating effective regulations and ensuring a congenial atmosphere for all concerned stakeholders, even amid the pandemic.

Mobile Financial Services to promote and ensure efficient, secured, and cashless payments in the country. BB issues licenses to FinTech businesses in two major categories, such as payment system operator (PSO) and payment service provider (PSP). Generally, PSPs deliver e-wallet services while PSOs provide merchant aggregation, merchant acquiring, white label ATM, payment gateway and switching solution services. BB is entrusted with the responsibility of managing and regulating the country's payment systems and issuing rules, regulations and guidelines thereto. Currently, BB regulates the payment system of the country largely through: ….

Higher growth in the value of instruments compared to the growths of the volume in both windows of BACPS show the consistent market responses with the expansionary and accommodative monetary policy stances during the prolonged pandemic. Being under a paperless, cost-effective, secured and efficient payment method, BEFTN settles a wide range of credit transfers (e.g., salary payments, foreign and domestic remittances, social safety net payments, interest and principal payment of national savings certificates, company dividends, retirement benefits, etc.) and debit transfers (e.g., utility bill payments, loan repayments, insurance premiums, corporate to corporate payments, etc.).

To facilitate interbank electronic payments originating from different alternative delivery channels, such as automated teller machines (ATM), point of sales (POS), internet, etc. BB introduced National Payment Switch Bangladesh (NPSB) on 27 December 2012.

7.5.2 PSO and PSP as Entity: According to BPSSR 2014, Payment System Operator (PSO) refers to an entity licensed by the BB for operating a settlement system for payment activities between/among participants of which the principal participant must be a scheduled bank maintaining accounts with the BB for meeting Cash Reserve Requirements. In line with the definition, a PSO shall have the following characteristics: (i) PSO shall be licensed by Bangladesh Bank; (ii) PSO shall provide the payment services as approved in its license; (iii) PSO shall not issue e-money or payment instrument in any form; (d) Settlement of transactions shall be done through scheduled commercial bank.

7.5.3 Documents Required under Approval Procedure for PSO/PSP: Documents required are (i) Personal Information (Full Name & Particulars): (ii) Educational Qualification (Name of degree, institutions/universities and completion year) (iii). Training and Professional Education (iv). Experience Employment/ business details, designation and period of experience (v). Other Business Information particulars of all businesses, including proprietary/partnership/companies in which the owner has been associated as a proprietor, partner or a director. (vi). Declaration "I have not been adjudicated as bankrupt by a court. I am not a defaulter as per section 5(GaGa) of Bank Company Act, 1991 (Amended 2013). I have not been involved with management/ownership of a company/firm whose registration and, or license has been revoked or cancelled or gone into liquidation or other similar proceedings due to mismanagement, financial misconduct or malpractices. I have not been convicted by any court for criminal offence. There is no adverse observation against me in any verdict of the court. I am not a defaulter of tax."

7.5.4 Digital payments way: Mobile Financial Service Providers (bKash, D-Money Bangladesh, iPay Systems, Nagad, SureCash) leading the digital payments way

- **bKash:** bKash Limited (bKash) is a Bank-led Mobile Financial Service Provider in Bangladesh operating under the license and approval of the Central Bank (Bangladesh Bank) as a subsidiary of BRAC Bank Limited. **iPay Systems:**bKash started as a joint venture between BRAC Bank Limited, Bangladesh and Money in Motion LLC, USA in 2010. In April 2013, International Finance Corporation (IFC), a member of the World Bank Group, became an equity partner and in March 2014, Bill & Melinda Gates Foundation became the investor of the company. The ultimate objective of bKash is to ensure access to a broader range of financial services for the people of Bangladesh. It aims to serve the low-income masses of the country to achieve broader financial inclusion by providing services that are convenient, affordable and reliable.

- **D-money Bangladesh:** D-money is a digital wallet that provides lifestyle, payment and financial services within a single app. Its mission is to break cash-to-digital barriers, transform the digital payment experience and leverage technology to build an ecosystem by bringing together partners, stakeholders and consumers on to the D-money platform and network. D-money users can transfer money to D-money wallets, pay for purchases, add and withdraw money from bank accounts, pay utility bills, book tickets, make savings, and make donations through the wallet. It also offers a bill collection platform for businesses.

- **iPay Systems:** iPay is a digital payments company with a goal to build a secure payments ecosystem that people and businesses in Bangladesh choose to securely transact with each other online, in stores and on mobile devices. iPay provides high value to the safety of people's financial information and smoothness nd ease of use in payment experience. Keeping this fact in considerations iPay is determined to create a safe network of payment for individuals and businesses. iPay has a solid investment portfolio to build, operate and scale the network for Bangladesh and international market. iPay investors include proven entrepreneurs who are involved in many Banks, financial institutions and high-tech industries in Bangladesh and abroad.

- **Nagad:** Bangladesh Post Office (BPO) launched 'Nagad' a Digital Financial Service (DFS) in November 2018 with the aim to spearhead the DFS revolution in Bangladesh. Nagad combines the Electronic Money Transfer System (EMTS) and Postal Cash Card service previously announced by the BPO. Nagad MFS platform covers money transactions via Cash-In, Cash-Out, and Send Money. It also includes popular services like mobile recharge. The upcoming services include utility bills payment and an e-commerce payment gateway.

- **SureCash:** SureCash is one of the fastest growing FinTech Companies in Bangladesh. Starting its services in 2014, it has created an open payment network in partnership with 5 local banks, including one of the largest state banks and more than 650 payment partners. SureCash has developed its own proprietary technology and software development team initially focusing on connecting schools, colleges, government education programs reaching the last mile and utilities that touch most lives. This has resulted in a broad and deep network and customers with a low median age, acquired at minimal Customer Acquisition Cost (CAC) by aligning and leveraging its payment partners and securing a young customer base with significant Customer Long-term Value (CLV).

7.5.5 **Allowance, Compliance and Prohibition for MFS Providers:**

(A) No loan is permissible against the Trust Fund and/or any other instruments that are derived from the Trust Fund. Banks holding trust funds of the MFS providers are supposed to be entitled with the role of a custodian. With other operational accounts of the MFS providers, Bank(s) providing mobile financial services without forming a subsidiary but MFS account holders are not under deposit insurance coverage of BB

(B) MFS provider under subsidiary model need to maintain the balance of all MFS account in trust cum settlement. According to Bangladesh Mobile Financial Services (MFS) Regulations, 2022 MFS need to invest not less than 25% of the physical cash balance in Government Securities on the basis of calculation on the last working day of June and December each year. Remaining cash balance has to be kept with settlement bank(s).

(C) Bank/s providing mobile financial services without forming a subsidiary and MFS account holders are under deposit insurance coverage of BB, will be waived from investing in Government Securities

(D) MFS providers will handle foreign inward remittances only if received through credits in Nostro Accounts of scheduled commercial banks in Bangladesh and pay out the same only in Bangladeshi Taka (BDT) to MFS accounts of the beneficiaries. No outward or cross-border payment transactions shall be undertaken by MFS providers, as these can only be handled by the AD branches of scheduled banks in Bangladesh.

(E) MFS providers are strictly prohibited to engage in taking deposit and lending from their own funds. MFS account holders are free to mobilize balances of their MFS accounts to their deposit accounts with scheduled commercial banks. MFS providers will act immediately on request of customers for transferring balances from their MFS accounts to their deposit accounts with scheduled commercial banks. MFS providers will draw up annual accounts and financial statements in accordance with prevailing accounting and reporting standards and submit the ones duly audited by reputed audit firm(s) to BB within 3(three) months after the end of the accounting year.

(F) Suspension and cancellation of MFS providers by BB reserves the right of withholding, suspending and cancelling its approval for operation of an MFS provider, if BB deems actions of the accused MFS to be detrimental to public interest.

7.6 Agent Banking

7.6.1 Introduction: Agent Banking is defined as the banking services provided outside of regular bank branches by engaged agents under a valid agency agreement. Agent banking is another digital finance innovation brought in by BB in 2013.The aim is to provide financial services to the underserved and poor segments of the population, especially those from the geographically dispersed locations. This innovative digital financial service model has become especially favored by bankers who intend to expand their businesses through covering those customers living in hard-to-reach areas without incurring high costs for running their own branches. This is like a franchise business for the banks as well. Two important success stories in fintech development. How the silent revolution of digital finance in Bangladesh has helped the country in coping with the pandemic can perhaps be most vividly described through the successes of the MFS and agent banking in the country. The faster pace of internet banking has also been equally helpful to the digital banking, particularly during the periods of lockdown. The collaboration between banks and fintech companies to mutually expand their services has also proved beneficial to the users of the financial services. More particularly, the country went onboard with these two digital finance innovations relatively early due to prudent and bold policy moves by the central bank.

7.6.2 Agent Banking Highlights: Agent Banking is bringing the previously unbanked to Banking. It has been a catalyst in financial inclusion in Bangladesh. According to a report by the Bill & Melinda Gates Foundation, participation in financial services in the country has increased to reach an all-time high of 47 percent in 2018 as a result of a 5 percentage-point surge (20% to 25%) in registered bank users. The aggressive growth of agent banking has been credited for this surge. The latest data from Bangladesh Bank shows there are 7.6 million accounts associated with agent banking in July 2020, representing year-over-year growth of 114 percent. According to the Global Findex Database 2017 of the World Bank, only 40 percent of people above 15 years of age in rural areas in Bangladesh have an account at a bank or a financial institution. Agent Banking has led to a huge segment of this excluded population to create accounts and access financial services. Most of the agents (86 percent of total) and outlets (88 percent of the total) associated are located in rural areas. The model is highly suitable for rural hard to reach areas and high proliferation in rural areas have led to rural agent banking subscribers outnumber those in urban areas. Growth is higher as well as the number of bank accounts in rural areas grew by 139 percent from July 2019 to July 2020 compared to only 60 percent in the urban areas showing a trend to better serve the rural community.

7.6.3 Factors for Adoption: The higher growth of rural accounts shows that agent banking is providing banking services to the main group of the population. Primary data collected by Light Castle reveals some factors for such high adoption of agent banking by the previously financially excluded groups. I. Acceptability of the agent by locals: Licensed banks try to select locally known and acceptable individuals/institutions from these eligible entities as agents. The familiarity of the selected agents among the local population helps convince the latter to form bank accounts. II. Proximity and hospitality of outlets: The formal physical environment of a typical retail bank branch is often perceived as alien by a prospective rural bank account holder. On the other hand, an agent bank outlet is located in a prospective customer’s known environment and conducted by someone known. These features make the outlet environment accommodating to the customer so that he/she is comfortable going to the outlet and carrying out banking activities. III. Use of IT devices to reduce hassles: All agent banking outlets are equipped with IT devices like point of sale (POS) devices with biometric features, barcode scanner to scan bills for bill payment transactions, and Personal Identification Number (PIN) pads. Typical banking operations would require the usage of identification cards, numbers, and codes to make transactions. Most people in rural areas do not maintain all of these documents.

But with the help of the aforementioned devices, agent banking customers can easily carry out activities using only the customer's fingerprint or mobile number.

7.6.4 COVID-19 led to a greater growth of Agent banking

The government limited commercial banking operations during the two-month public holiday that ended on May 30 to control the spread of COVID-19. Agents, being third-party entities, were not bound by the restrictions. They were still given the autonomy to choose whether to carry out operations. Most agents decided to carry out operations: Around 60 percent of Light Castle's agents decided to continue work. The continuation allowed customers to carry out transactions at the agent outlets. But the greatest blessing came in the form of government assistance to vulnerable populations. The government announced a series of stimulus packages worth BDT 1.0 trillion to mitigate the economic effects of COVID-19. At the same time, the government increased the allocation of social safety nets to BDT 76,000 in order to accommodate more beneficiaries. As the main beneficiaries were located in rural areas and distribution of the funds digitally was prioritized, agent banking along with Mobile Financial Services (MFS) became the ideal candidates for the disbursement of these funds. These two candidates were also seen as more reliable media for distribution than direct cash transfer, which might have led to misappropriation. People thus become more aware and accepting of agent banking as a trusted source for financial services. Consequently, the number of accounts and the volume of transactions increased.

7.6.5 Loan Disbursement towards CMSME Financing

In spite of the rising number of deposits, loan disbursements by agent banking are still very meager. In July 2020, for example, deposits amounted to BDT 107.88 billion while loan disbursements amounted to only BDT 949 million which means less than 1 percent of the deposits were given as loans. This low loan to deposit ratio suggests agent banking is missing out on providing credit to Cottage, Micro, Small and Medium Enterprises (CMSME). The use of formal finance by CMSMEs in Bangladesh is quite limited and the finance gap is estimated to be worth BDT 237 billion or USD 2.8 billion. There are bottlenecks to unlocking this huge opportunity. CMSMEs in Bangladesh face financial constraints including poor quality of the collateral, inadequate documentation and ill-defined business plans. As a result, banks it takes time to process loan applications. The turnaround time for loan applications is thus 7 to 10 days. The higher turnaround time makes agent banking unattractive to SMEs for financing as they can access credit from Microfinance Institutions (MFI) at a faster rate.

7.6.6 The Way Forward: Collaboration and Creating Synergies

Although agent banks have accelerated financial inclusion in the country, especially in rural areas, more needs to be done. Most of the labor force in Bangladesh is employed in the informal sector where they lack options for savings and obtain loans. Engaging these huge populations into formal financial services help them to save and access credit for entrepreneurial ventures. The way forward for agent banking is to partner with each other and with Mobile Financial Service (MFS) providers. Such partnership will create synergies that will increase accessibility to financial services. Allowing Interoperability among Banks means that a customer can access banking service of one bank using the outlet or branch of another. Such connection will allow customers to make emergency deposits or withdrawals anytime at any outlet or with any agent located nearby. Although BB regulations allow agents to work for multiple banks at a time, they can represent only one bank at the customer end point. The existing regulation, thus hinder interoperability among banks in case of agent banking.

7.6.7 Collaboration with Mobile Financial Services (MFS): Both agent banking and MFS have been important for spearheading financial inclusion in the country. Therefore, the collaboration of these two will naturally create synergy that will advance inclusion and adoption of financial services. For example: Agent banks can analyze the creditworthiness of loan applicants (a form of eKYC) using the latter's' transaction information on MFS. It can then be possible for agents to provide applicants with lower cost loans without the need for collateral. Another way collaboration can be done where MFS works in the front end and Agent banks in the back. MFS can promote savings and loan schemes to prospects while agent banks provide the services. The partnership among banks with agent banking operations and with MFS will not only benefit customers, but will also benefit the banks and providers. Both banks and providers can extend their offerings to customers at a lower cost. It also gives both of them access to each other's customer base. Thus, collaboration ensures a win-win for all.

7.10 NGO MFI Linkage

In Bangladesh there are mainly four types of institutions involved in micro-finance activities. These are 1) Grameen Bank (GB), a member owned specialized institution, 2) around 1500 Non-Governmental Organizations (NGO) like BRAC, Proshika, ASA, BURO-Tangail, BEES, CODEC, SUS, TMSS, Action- Aid etc. 3) Commercial and Specialized banks like Bangladesh Krishi Bank (BKB), Rajshahi Krishi Unnayan Bank (RAKUB) and 4) Government sponsored micro finance projects/ Programs like BRDB, Swanirvar Bangladesh, RD-12 and others which are run through several ministries viz., Ministry of Women & Children Affairs, Ministry of Youth & Sports, Ministry of Social Welfare etc. All the programs are targeted at the functionally landless rural poor. All the MFIs provide mostly small, un-collateralized one-year term loans to individuals belonging to jointly liable peer groups, and they use similar on-site loan disbursement and weekly collection methods by forming village organizations or centers.

A research reveals that NGOs started credit program in mid eighties and their activities increased noticeably higher after 1990 (CDF, 2000). With the increasing number of collateral free micro credit disbursement by MFIs, some Nationalized Commercial Banks (NCBs), and Specialized Banks like BKB and RAKUBhave been encouraged to provide a considerable amount of their rural credit to the poor without security. However, the amount is much less compared to the deposit mobilization from the rural sector of the country. Today, some of the Private Commercial Banks (PCBs) have also started direct and linkage programs with NGOs. Total loan disbursement (cumulative) by these four kinds of institutions till December 2001 was taka 434.55 billion; of which disbursement under Government program was taka 37.77 billion (8.69%), Grameen Bank disbursed taka 154.11 billion (35.46%), other Banks and MF-NGOs disbursed taka 78.41 billion (18%) and taka 164.26 billion (37.80%) respectively. Recovery rate of all these organizations excluding formal banks and government sponsored programs stood at 95 percent.

All the non-government organizations are involved in micro-finance activity but they are not under the same regulatory authority / monitoring agency. Therefore, there is no single source of information about them. However, Credit and Development Forum (CDF) an NGO who collects information of MF-NGOs reveals that 629 MF-NGOs have mobilized about 13.85 million poor people (11.24% of the total population who are under absolute poverty), among them 11.85 million are female and only 2 million are male. Out of 13.85 million of poor people near about 9 million are outstanding borrowers. About 90% of the borrowers of those MF-NGOs are from rural area and only 10% are from urban area. These MF-NGOs disbursed taka 164.26 billion with outstanding loan amount of taka 25.88 billion. The outstanding amount of micro-finance extended under government program is taka 7.46 billion, the outstanding balance of Grameen Bank is taka 12.73 billion and that of other banks is taka 7.55 billion. Grameen Bank, BRAC, ASA and Proshika are top four MFIs in terms of loan disbursement, outstanding loan and saving mobilization. It has been seen that top 4 institutions including Grameen Bank served more than 70% of the market.

Initially foreign donation was the major source of fund for these organizations, contribution of which stood to near about 50% of the total fund until 1996. But after 1996 it had declined sharply and became only 17% of the total fund in December 2001. With the declining trend of foreign donation, the MF-NGOs have concentrated on accumulating funds from internal sources such as saving mobilization from their members. Therefore, it has been seen that members' saving has increased over time and in December 2001 it has contributed 25% of total Revolving Loan Fund. The contribution of service charge in Revolving Loan Fund has also increased with the decreasing rate of foreign donation. Now the contribution of service charge in Revolving Loan Fund in terms of percentage is same as that of foreign donation.

At present, one of the major sources of funds of the NGO-MFIs is the savings of its members. They do not accept deposits from the general public like that of formal financial institutions. The interest rate they offer to the members for saving mobilization is less than the interest rate offered by government and commercial banks. In spite of that as of December 2001, the major sources of fund of 629 MF-NGOs were members' savings and that was 24.13% of the total RLF; PKSF[2] supplied 23.49% and direct foreign donation was 17.36%. However, a significant portion of the funding (16.76%) was actually generated from service charges. Service charges vary from 8% to 37% depending on the method followed by the MFIs.

Though direct donation from international donors comprise only 17.36% of total Revolving Loan Fund (RLF), MF-NGOs are getting soft loan and subsidies from other sources like GOB, PKSF and other big national and international NGOs/banks. Their members' savings, service charges and own fund (3%) comprise only 44.14% of the RLF that does not seem enough to make up the cost of their loan operation which is about 50% of their total expenditure. Therefore, it is obvious that this sector is highly subsidized by different donor and sympathetic groups. It is also widely believed that the large MF-NGOs are also engaged in other profitable businesses from which they earn handsome profit and also use a part of it for cross subsidization of their micro finance activities. Annual financial reports of Grameen Bank and some other NGO-MFI show that their program is not financially sustainable without subsidized loan or donation. Actually the issue of sustainability in this case is very much related to the following questions:

� Whether these MF-NGOs are business institutions or charity organization?

� Can they be the bankers and social workers at the same time?

NGOs who are serving in the market of micro-finance should be clear about their identity by asking themselves these questions. Whether they are business organizations and therefore should they be under the law of business and follow the rules of business. One may also question whether NGOs run business should ask for subsidy to be sustainable or if the NGOs claim to be charity or service oriented voluntary organizations then they may not bother about service charges, compulsory saving mobilization etc. But they must be very careful about the administrative cost, which is generally met from the soft donations/grants/charity given for the poor.

The MF-NGOs of Bangladesh, especially the bigger ones are generally pursuing multiple ventures and their legal identity is often mixed: social organization � bank- business enterprise-all. That is why recently these questions have been raised and they may merit attention.

7.11 Impact of Micro-finance Services on Borrowers and on the Economy

The impact of micro-finance at macro level is not still clear (CPD, Task force Report, 2001), even though it has some impact at micro level on the society both in terms of economy and social value. There are a few studies on this impact assessment of micro-finance, findings of those studies are as follows:

1. The dependency of poor people on the moneylender or richer people has been reduced substantially in the society and people are getting access to institutional sources for credit. Even the formal sectors have been keeping confidence on the poor for lending money, which is a qualitative change in the rural society due to micro-finance intervention.

2. Employment opportunities of the poor have increased to a great extent in terms of both longer working hours and new employment. The targeted households that are eligible for participation in micro-finance programs have a higher probability of being self-employed than their counterparts in non-program villages.

3. The labor force participation rate (LFPR) for more employment opportunity of the participants was found higher than the non-participants. Before nineties the wage rate for women labor force did not get importance because of social backwardness, women labor was sold at a very low non-bargaining rate. This was equally true in case of male labor force before the eighties. But with time passing situations have changed noticeably; it is recognized that there is now a days a serious scarcity of labor in rural areas, especially in the peak season and this shortage even hampers agricultural production. The intervention of micro-finance in the rural market is one of the main reasons for this change. Therefore, the labor force of rural areas now has the ability to influence rural wage rate.

4. As the main target group of micro-finance is women, they have gained a special financial power over men. Though women are dominated by men culturally, their access to get credit and do their own business has increased their confidence on their own ability. This is especially true for the rural poor women of the country. Now more and more rural women move outside their home after joining micro-finance program. They now go to office, banks, market and other places without a male company. This is a positive indicator of women empowerment.

5. There is a controversy about the impact of micro-finance on poverty alleviation. The poverty rate of the country did not decrease significantly in last few years. It did not increase though. The main focus of micro-finance is to alleviate poverty, but it could not reach the poorest of the poor till now. One of the reasons might be the failure to reach the hard-core poor by these programs. Now MF-NGOs are seriously thinking about this issue and have started some programs to solve this problem. But it is a challenging work to do, because this group of the population first needs money for consumption. Without solving these problems they are not able to invest credit for cash flow, which they need to repay the loan in time. Therefore, it has been seen that there are big successes of micro-finance at micro level that do not show any significant impact at macro level. In the recent literature it is often mentioned as the problem of "Macro-Micro Mis-match" .

To know the real extent and to quantify the impacts of micro-finance mentioned above thorough study is needed, which is time consuming and costly. However, government needs to do that to make a correct decision. There is another problem to assess the real net positive impact of micro-finance program, which is again impossible without assessing the real cost involved in operating this financial service. Different MFI-NGOs are charging different interest rates but none is based on rational cost involved. A real positive impact of micro-finance program can be measured if and only if the recipients of this facility pay the full cost of the services they receive.

7.12 Regulatory Framework:

Two big provider of micro-finance are Grameen Bank and MF-NGOs. Grameen Bank follows the Grameen Bank Ordinance, 1983 and MF-NGOs register under any of the following acts of the Government of Bangladesh :

. Societies Registration Act of 1860

. Voluntary Social Welfare Agencies (Registration and Control) Ordinance of 1961

. Companies Act of 1994

. NGOs who are accepting grants/donation are required to take a certificate of permission from the NGO affairs Bureau.

There is nothing in the registration act of any NGO/MFIs that prohibits them to undertake micro-finance activities with the member clients. Therefore, there are two types of MF-NGOs operating in the field of micro-finance. One type of them are those who have started their organization with a single objective of micro financing, and the others are NGOs who have other objectives in addition to micro-financing. A large number of NGOs did not start the organizations with a view to perform micro financing activities, but later on they either shifted to or have added micro financing. However, they need formal and legal permission from the Government in the form of a special licence for carrying out the micro-finance activities with the ultimate objective of poverty alleviation. In spite of that, there is no single authority that provides licence/ permission and keep the information of all organizations involved in micro financing.

In this context, many agencies like GOB, donor agencies and policy makers of the country feel that there is a serious need to monitor the activities of MFIs in Bangladesh. Since, members' savings is most important source of fund (near about 25%) of MFIs, which also is increasing as a percentage, therefore, there is a need to protect the interest of small savers. In addition to that, without a formal legal entity the sustainable growth of the NGO-MFIs would be hampered seriously in a number of ways. Among those, the most important is the lack of access to formal sources of national and international fund for effectively carrying out micro-finance program for poverty alleviation on a sustainable basis. Therefore, there is an obvious need for certain form of compatible and user's friendly prudential norms/indicative guidelines in the shape of a concrete code of norms/conduct for making this sector more institutionally organized and sustainable with a specific legal identity.

The Government of Bangladesh has formed a committee named 'Micro-finance Research and Reference Unit (MRRU)' in 2000, which includes 11 members from different sectors who are involved in this program to formulate a uniform policy for this sector. Ensuring transparency and accountability of MF-NGOs would be the main objectives of this policy. This committee has also given emphasis on observing uniform accounting policy and auditing, governance structure of MFIs, policy on savings and investment, rational interest rate, credit rating etc of the MF-NGOs. The committee is also discussing the issue of licencing to those MF-NGOs who are accepting deposits up to a certain amount from non-members or general public.

7.13 Challenges for MF-NGOs and for the Government

The current challenge of MF-NGOs is whether they could run the program without subsidy, because the flow of donor fund is declining over the years. Since the main objective of micro-finance is to alleviate poverty, the question is whether they would be able to charge real cost of service on the recipients. If it charges full cost, what would happen to the other objective of outreaching the poorest of the poor? On the other hand if full cost is not charged, would they be financially sustainable in the long run? And the challenge for the government is to bring this huge unorganized industry under a uniform umbrella where this industry would get proper direction and support to run the business and at the same time serve the people who are the target group in such a way that they would be benefited in the long run and would be able to overcome their financial backwardness. Ultimately these institutions would become autonomous players in the main-stream economy.

7.14 Suggested Reforms To Face The Future Challenge:

Since NGO-MFIs have to face the realities of declining subsidized fund, they should take effort to reduce administrative and transaction cost which seems very high. Most of them do not practice proper bookkeeping and accounting policies, lack professionalism in financial transaction, therefore, training and capacity building in accounting and financial management plus greater transparency in their operation is essential not only to make them attractive to the donors but also to enable them to tap commercial markets and banks.

Formal commercial banks lack experience and expertise to operate in this market; they can overcome this problem by linking them with NGO-MFIs who already have a ready set up of operation and experience. This linkage program on one side can reduce operational cost of commercial banks and on the other side can reduce the financial problem of NGO-MFIs. Especially, smaller NGO-MFIs could be encouraged strongly to play the role of brokers between the banks and the borrowers. Here the banks bear the credit risk by lending directly to the borrowers and share a part of its spread with the NGO-MFIs. The NGOs will receive a commission for identifying borrowers and ensuring repayments. Large NGO-MFIs can also be integrated into this program of poverty alleviation by encouraging them to establish themselves as banks.

Present legal framework of formal financial institution can be changed in favor of the rural poor. Under this framework moveable property, accounts receivables, credit history or good previous repayment performance etc. are not useable as security to access credit. But most of the rural poor people have only these things to offer as security. These realistic changes in the legal framework can help poor people to enter into the formal financial market easily.

Therefore micro finance sector will have to develop a concrete long run vision of a flexible, self-sustainable, well-regulated and pro-people micro finance industry capable of facing all these challenges. That means the industry will:

- Design its product according to the market need - what kind of loan poor people really need and which terms and conditions are applicable to them. They should not just follow Grameen Bank model, rather they should be innovative in product designing,
    - Diversify its loan portfolio, not just depending only on the agricultural sector for investment,
    - Identify the exact cost involved and find out reasonable service charge for each product offered,
    - Apply internationally accepted accounting policy,
    - Formulate transparent policy for the stakeholders,
    - Acquire a corporate legal identity owned by the clients themselves or focus on a single activity with corresponding single legal identity.

On the other side the government and the donors should try to help the industry to be sustainable by developing infrastructure needed, providing training and technical assistance, providing correct guidelines and regulation, offering proper incentive for positive contribution and punishment for the opposite.

It is expected that with the fulfillment of the above vision this service sector would contribute to our economy by alleviating poverty in real sense. It would help to generate permanent employment, remove over dependency on agriculture and help people by eliminating their dependency on the moneylenders and informal credit suppliers. Poor people would be able to take care of their health and education by getting the benefit from this service and they would also help MFI to be sustainable by paying their due on time. It is also expected that since members' savings is becoming the main capital of this business, therefore the representative of the members should have a say in the decision making process of the MFIs for the long run benefit of the industry.

7.15 Conclusion

Digital Financial Services refers to a citizen-centered approach to building an inclusive digital financial ecosystem by catalyzing low-cost, interoperable digital payment systems that solve last-mile delivery challenges and fostering innovation of pro-poor financial products.

Answer to the following aspects and the lack of concrete answers are a reflection of the status of digital financial inclusion in Bangladesh:

- Availability and usage of digital financial services is still low
- Products/services are inadequate
- Digitization for mostly (OTC) P2P fund transfer
- Lack of skills among service providers to innovate pro-poor digital financial products/services
- Digital financial literacy is low
- Policy reform is top-down, regulation-oriented and supply-centric
- Fragmented and siloed efforts at digital finance ecosystem building.

We need to ensure these has concrete and satisfactory answers. A joint initiative by Bangladesh Bank and a2i – attempts to expand and deepen digital financial inclusion through:

- ✓ Citizen-centred product and service innovation: The trend in most emerging markets is towards simply tweaking financial products and services designed for the non-poor and attempting to push them to the poor who neither understand nor have much use for them.
- ✓ Payments digitization: Digitizing large G2P payments and piloting innovative, digital means of delivery. As the government can dictate how it pays recipients, digitizing such payment streams has high potential to accelerate financial inclusion in the short to medium term by laying the foundation in terms of policies, infrastructure and people’s attitude for enabling further, more comprehensive efforts by the private sector.
- ✓ Assisted rural e-commerce: The ‘rural e-commerce’ is regarded as being key to driving the usage of electronic/online financial products/services (and vice-versa) by people who are currently unbanked and underserved. Especially as it brings in the crucial livelihood/economic element into the innovations in digital financial services conversation.

- ✓ Behavior change communication & financial literacy: Interventions in the area of digital financial inclusion too often involve technologies that are made available to the intended users but are then not adopted. To address this demand-side challenge, we have been working with development partners and behavioral insights experts to identify design features, price incentives, and marketing messages that will encourage poor people to adopt and actively use digital financial services.
- ✓ Policy and regulatory reform: Policy interventions and influences through demonstrating the potential of innovative, citizen-centered solutions to the type of critical problems faced by financially excluded citizens in Bangladesh.

Case Study

CASE 1: XYZ is a Digital Financial Service Provider(DFSP) at Chilmari Upazila in Kurigram District. They need to have a robust and secure technology infrastructure that can support the delivery of financial services to the ABC Group, including the processing of transactions, management of customer accounts, and protection of sensitive information although order has not been confirmed yet. It needs to be mentioned that XYZ is not ready with the sufficient fund to deliver the technologies as required in the order from ABC group. Even the they have not all the documents of the competent concerns/authorities.

What do you think about the access to bank finance for XYZ?

Case 2: Digtech Bank has struggled to keep up with the fast-paced digital transformation and many customers have left with dissatisfaction because of poor customer services in digital transformation agenda. Digtech Bank hired ABC technology, a youth led consultancy firm to address these problems by providing a range of financial services that are quick, easy, and accessible through a single mobile app. Now Digitech bank offers a range of financial services including current and savings accounts, personal loans, investment products. All these services can be accessed and managed through the bank's mobile app, which features a user-friendly interface and advanced security.

How digital transformation has contributed to scaling up financial inclusion? Answer in the context of above scenario.

Case 3: Access to formal financial services at Baghaichari Upazilla in Khagrachari District is limited due to the lack of physical bank branches and ATMs. This leads to the exclusion of a large segment of population from the formal financial system. To address this issue, KLM, a leading Private Commercial Bank partnered with a mobile network operator to launch a mobile banking service aimed at increasing financial inclusion in Baghaichari. However, despite the growth in the number of users, the bank noticed a high rate of account inactivity and low usage of the various financial services offered through the mobile banking platform. Therefore, KLM bank partnered with local organizations to educate customers on the services offered in one way and motivate the local merchants towards digital payments for better and effective utilization of the mobile wallets.

What do you feel about the ultimate impact of XYZ initiatives?

Chapter 8
Module H: Financial Literacy

8.1 Concept of Financial Literacy

8.1.1 Introduction: Financial Literacy represents a set of knowledge, skill and behavior required to make a sustainable financial decision. It may also be defined as the ability to manage financial resources effectively throughout a lifetime. This provides complete guidelines to differentiate between diverse financing sectors to adopt the best decision. Measuring sustainable financial literacy is the key component of sustainable development in terms of climate change adaptation and mitigation. Assessment of sustainable literacy involves asking a variety of questions. Questions are related to Environmental Social Governance (ESG), Sustainable Productsand their impact on sustainability in business.

Becoming financially literate is crucial which consist of learning and practicing a wide range of skills related to budgeting, managing as well as understanding investment opportunities. However, Literature on measuring financial sustainability is quite scarce in Bangladesh. An entrepreneur without the fundamental knowledge of sustainable financial literacy can somehow manage his business activities but such understanding can not only stimulate the performance of the business but also personal finance. People who lack financial literacy struggle to effectively manage and gather investments.

The importance of financial literacy in business is invaluable because it creates pathways of success comparatively more than others. It allows entrepreneurs to understand the variance between good debt and bad debt. One can pay attention to their entire business framework. On average, about one third of the global population has familiarity with the basic concepts that underlie everyday financial decisions (Lusardi and Mitchell, 2011c). The average hides gaping vulnerabilities of certain population subgroups and even lower knowledge of specific financial topics. Furthermore, there is evidence of a lack of confidence, particularly among women, and this has implications for how people approach and make financial decisions.agreement, budgeting, and investing. Financial Literacy Guidelines (FLGs) has been issued by Bangladesh Bank with a view to rolling out a wide range of financial literacy programs for mass people. These guidelines are intended to be implemented within 7 years from its commencement through Banks and FIs those have been here termed as Financial Literacy Providers (FLPs). The guidelines talks about savings, borrowing and financial planning; Financial product and access to financial services; Entrepreneurship; Financial system and participants; Payment system and digital transformation; Grievances redress mechanism and consumer protection. The guidelines talks about the target groups hereby divided into three different tiers while delivering financial literacy. The target groups shall comprise cross-cutting community. Both the financially included and excluded populace of the target groups shall be covered through tier distribution. The excluded people are basically un-served or under-served segment, who are yet to be served with financial services under financial literacy agenda. Those who are already included in the financial system are expected to keep pace with the evolution of financial ecosystem.

8.1.2 Definition: The Organization for Economic Co-operation and Development (OECD) aptly defines financial literacy as not only the knowledge and understanding of financial concepts and risks but also the skills, motivation, and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life. Thus, financial literacy refers to both knowledge and financial behavior. Financial literacy is low even in advanced economies with well-developed financial markets.Financial literacy is the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being. It is the ability to understand and effectively use various financial skills, including personal financial management. An essential indicator of people's ability to make financial decisions is their level of financial literacy. Financial Literacy refers to the awareness and knowledge on financial matters and services that effectively facilitates the skills, behavior and attitude of an individual towards impactful financial decision helpful for personal wellbeing as well for the society as a whole. Alliance for Financial Inclusion (AFI) networks' definition of Digital Financial Literacy (DFL) has been taken into consideration while defining digital financial literacy in the guidelines of financial literacy as acquiring the knowledge, skills, confidence and competencies to safely use digitally delivered financial products and services, to make informed financial decisions.**Financial literacy can prevent devastating mistakes. Financial literacy prepares people for emergencies.Financial literacy can help individual reach their goals.Financial literacy invokes confidence.**

8.1.3 Objectives: With a view to creating an empowered nation with right knowledge and skills for making responsible financial decisions to strengthen financial knowledge base so as to promote responsible financial behavior of the individual; Raise awareness against financial fraud, reduce associated risk and enhance consumer protection; Reduce gender gap in financial services; Ensure delivery of synchronized financial literacy based on the needs of different target groups through effective tools and monitoring mechanism; Establish sustainable financial literacy infrastructure at the community as well as national level through creating enabling environment for the FLPs.

8.1.4 Operational Role of FLPs and FLWs: FLW of respective FLPs shall make a yearly plan for conducting financial literacy programs and shall implement the same by engaging branches/sub-branches/agent banking outlets/unit offices; FLW of respective FLPs shall prepare the literacy contents in convenient language(s) in light of these guidelines and Financial Literacy Booklet provided. The contents should be approved by the competent authority of respective FLPs; FLW shall review and update financial literacy contents and strategies on a regular basis; FLPs would highlight DFS and generic financial products/services while developing financial literacy contents/ materials; FLPs shall take necessary steps to develop trainers/resource persons who shall conduct the financial literacy sessions/programs. FLPs shall develop one or more trainer(s)/resource person(s) at each branch/unit level; FLW of FLPs or its local representative(s) shall be responsible to collaborate with local government and/or private sector agencies in the respective jurisdiction, if or when necessary; FLPs shall develop digital platform for financial literacy in parallel to face-to-face program. A precise tab naming ‘Financial Literacy’ shall be allocated to respective website of FLPs where financial literacy contents shall be stored for citizens to explore. Use of artificial intelligence (AI) such as: live Chatbot can be more user-friendly tool to financial literacy and consumer empowerment.

8.1.5 Bangladesh Bank’s (BB’s) Intervention: BB has advised the FLPs to invite the celebrities/reputed persons such as: representative of the local people, school/college/university teachers or respected professionals in their financial literacy programs. BB shall take necessary steps to include financial literacy contents in the National Curriculum of Primary and Secondary level; BB shall take necessary steps to collaborate with teachers training institutes to incorporate financial literacy contents in their training courses so as to capacitate teachers for disseminating financial literacy among students and peers; BB shall introduce Training of Trainers (ToT) program for the trainers of FLPs on a regular basis or as on when needed; BB in association with BBTA/BIBM may introduce module-based certificate course on financial literacy on different platforms; BB shall take necessary action to broadcast radio and television programs considering open question answer session on financial literacy; BB shall introduce Financial Literacy Week with a view to institutionalizing financial literacy interventions. BB shall visit the Head office/FLW of FLPs and/or financial literacy programs of the FLPs, if it deems necessary, to monitor the implementation progress.

Farmers and low income marginalized/underprivileged people (eligible for 10/- TK account such as: day laborers, disaster affected people, social safety net beneficiaries, low wage earners, physically challenged people, third gender, itinerant community, working teens etc.); Students; Cottage & Micro entrepreneurs/ Micro merchants/Retailers; Women (Individual & Entrepreneur); Migrant workers; Youths; SMEs; Other wage earners community, Salaried people; E-Commerce, F-Commerce, Home based entrepreneurs; Teachers; Co-operative societies; Business associations; Other groups as identified and prioritized from time to time; Scheduled Banks; Non-Bank Financial Institutions. However, authorized Payment Service Providers (PSPs), Payment System Operators (PSOs) and Mobile Financial Services (MFS) providers shall be treated as supporting implementing partners. FLPs are required to establish specific Financial Literacy Wing (FLW) in their respective head offices and allocate sufficient employees to stream the financial literacy programs efficiently.

FLPs shall persistently engage with social media, electronic media, and print media to spread financial literacy targeting different group of people; FLPs shall place a dedicated notice board/corner containing financial literacy materials at every branch/sub-branch/unit office/agent outlet and update the notice board/corner on a regular basis; The PSPs, PSOs and MFS providers authorized by BB are encouraged to distribute financial literacy materials, publicizing information or use digital platforms to carry out financial literacy programs. To ensure maximum attendance of the targeted people, FLPs are encouraged to arrange prior announcement in the intended area.

8.2 Financial Literacy and Financial inclusion: Financial literacy is an essential factor in supporting financial inclusion. It is a prerequisite for sustainable financial inclusion. Financial Literacy is one of the

most important tool of Financial Inclusion. Financial Inclusion is a method of offering banking and financial services to individuals. It aims to include everybody in society by giving them basic financial services regardless of their income or savings. It focuses on providing financial solutions to the economically underprivileged. The key focus areas are hereby considered as savings, borrowing and financial planning; Financial product and access to financial services; Entrepreneurship financial system and participants; Payment system and digital transformation; Grievances redress mechanism and consumer protection. The target groups hereby divided into three different tiers while delivering financial literacy. The target groups shall comprise cross-cutting community. Both the financially included and excluded populace of the target groups shall be covered through tier distribution. The excluded people are basically un-served or under-served segment, who are hereby expected to reap the uncovered potential of the available financial services after financial literacy. Those who are already included in the financial system are expected to keep pace with the evolution of financial ecosystem.Financial Literacy can be easily achieved at expected level through improved Financial Inclusion. There is a strong link between financial inclusion and bank stability. The higher the degree of financial inclusion, the better the bank performance in terms of reducing risks. It is imperative that all the people shall have proper knowledge on financial management to make rational financial planning for future or unexpected happening. This behavioral change can be influenced through general literacy on key financial issues. The Financial Inclusion may be improved by (i) Fostering a diversity of banks and FIs (ii) Facilitating the use of innovative technologies and entry of technology-driven, non-traditional institutions (iii) Expanding agent-based banking and other cost-effective delivery channels (iv) Investing more effectively in supervision and leverage technology to optimize limited resources. (v) Implementing risk-based, tiered AML/CFT requirements (vi) Encouraging the development of low-cost, innovative financial products (vii) Strengthening financial infrastructure (viii) Protecting consumers by establishing rules for disclosure, fair treatment, and recourse.

8.3 Financial Literacy using Technology

Financial inclusion promotes innovation for cost-effective delivery of financial products through the use of technology. It helps the poor stabilize their income and build productive assets. the customer could use to access financial services during lean periods as well.

Digital Transformation in finance is now a realistic goal due to the widespread availability of business data; teams' ability to process large sets of data using now-accessible algorithms and analytic methods; and improvements in connectivity tools and platforms, such as sensors and cloud computing. So it can be an important role-player in Financial Literacy improvement.

FinTech simplifies financial transactions for consumers or businesses, making them more accessible and generally more affordable. It can also apply to companies and services utilizing AI, big data, and encrypted blockchain technology to facilitate highly secure transactions amongst an internal network. Additionally, a 2020 Insider Intelligence survey of banking executives found that 66% believe new technologies like blockchain, artificial intelligence (AI), and the Internet of Things (IoT) will have the greatest impact on banking by 2025.

8.3.1 Communication Strategy: Financial literacy initiatives require innovative tools and appropriate media (digital and/or material) to reach the target people efficiently. Both communication channels and tools are critical in reaching target groups considering their age, gender, level of education, geographical locations etc. Communication channels and tools those are suggested for FLPs to communicate financial literacy amongst people are (i) Training, Workshop, Seminar, Conference, Symposium (ii) Website/web portal, Mobile Apps (iii) Electronic and print media (iv) Booth, Bill Board, Dashboard (v) Financial Literacy Corner (vi) Social Media such as: Facebook, Instagram, LinkedIn, YouTube, Twitter etc.(vii) Road show, fair, social gathering (viii) Other Communication Tools→i. Fly-leafs, Pamphlets, Leaflet, Brochure, Banner, Poster; ii. Booklet, Presentation, Info-graphics; iii. Advertisements (virtual/printed), Audio-visuals; iv. Simulation game of Financial Services; v. Quiz/essay competition; vi. Live chatbot; vii. Financial literacy game; viii. Financial diary, comics/stories; ix. Financial podcast, Newsletter; x. Street play, folk song; xi. Others

8.3.2 Communication Approaches:

- **Financial literacy contents:** FLPs are strongly advised to focus on generic issues of financial services and matters including DFS as well as consumer protection measures while developing financial literacy contents and disseminating financial literacy programs

- **Target group-based Module:** FLPs should develop target specific module incorporating real life examples for effective dissemination of financial literacy. For example: presenting a successful women entrepreneur can be encouraging for others

- **Language of communication tools:** The language of financial literacy contents should be easy, clear and understandable to the target groups. Info graphics or pictorial can be used to attract audiences' interest

- **Preference in communication channel:** FLPs shall consider well-suited channel/multi-media to reach the target people. For example, social media, digital display, booth, chatbot etc. can be effective channels for youths, students, tech-savvy generations and/or entrepreneurs; newspaper/other print media/radio or TV advertisements can be viable channels to reach the elderly people; banner, festoon, local announcement, television advertisement, radio jingles, audio-visuals etc. can be effective channels for marginalized people, senior citizen as well as other category of population.

- **Digital Learning:** FLPs will emphasize on disseminating digital financial literacy since it is incredibly crucial in this changing financial services landscape. The effort should be focused on less cash/cashless banking, cashless payment and settlement, e-banking, e-wallet management, mobile financial services, FinTech, customer protection etc.

- **Learning through Simulation:** FLPs are advised to use simulation system to familiarize participants with various banking services (such as: money transfer, e-banking, account opening/maintaining, digital payments, ATM operation, grievance redress etc.).

- **Grievance Redress:** The FLPs shall take necessary measures to make the target audience aware of the grievance redress system. FLPs are encouraged to inform the audiences about their respective Customers Protection hotline as well as BB CIPC (customer interest protection centre) hotline (16236) and the email (bb.cipc@bb.org.bd) & mobile app options of BB for any complaints regarding financial services. FLPs are advised to make audiences aware and capacitate them on tackling fraudulent and forgery in relation to financial transactions.

8.4 Monitoring and Supervision: FLW/Head office of respective FLPs shall monitor the progress and prominence of the literacy programs regularly. FLW shall be responsible for onsite visit of the programs and evaluate the performance. FLW will develop their own performance evaluation mechanism in light of the monitoring framework to monitor the progress; FLW of respective FLPs are required to collect and preserve the data and information of the conducted financial literacy programs; Reporting FLW of FLP shall send Financial Literacy Initiatives Progress Report (both hard and soft copy) on bi-annual basis to the Financial Inclusion Department (FID), Bangladesh Bank, Head office within the required timing. FLW of FLP shall submit the yearly plan for the next year to FID within the month of December; FLPs shall publish the up-to-date information of financial literacy initiatives in its annual report and website as well.

FLPs shall take necessary measures to mitigate various risks that may originate due to limited resources, coordination gap among stakeholders, incompatible institutional framework, insufficient technical skill, and other factors.

Case Study

Case 1: Sarah a 22 year aged girl has just started her first job and is earning a good salary. However, she has never been taught about personal finance and has never managed her money. Sarah spends money recklessly and never saves. One day, she loses her job and faces difficulty with finding a new one. She quickly realizes that she has no emergency fund to fall back on and has to rely on her credit cards to cover her expenses. This leads to her getting into debt and incurring high-interest charges.

What do you feel about Sarah, she could do to avoid such endings?

Case 2: Mr. Hasan Abdullah, a farmer who reported a monthly income of BDT 10k with expenses related to farming operations accounting for BDT 7k per month. Personal expenses, including housing, food, transportation, and healthcare costs BDT 3k more. In this case, He is now not in a position to save a single amount for incidental expenses in the days to come. Mr. Jalil, former CRM head of XYZ bank limited, who made Mr. Hasan understood the importance of personal finance management and suggested him (Mr. hasan) to open a bank account for savings.

What measures can Mr. Hasan think of going ahead as suggested by Mr. Jalil?

Answer: Mr. Hasan can prioritize expenses and focus on cutting costs where possible, such as reducing energy usage in their home. He can concentrate on implementing a cost-saving strategy for farming operations, such as using drought-resistant seeds or reducing fertilizer usage. He can prepare a long-term financial plan to equip himself to contribute more to potential savings as well as BB savings certificates to meet personal and farming expenses in the future.

Case 3: XYZ is a leading pharmaceutical company employing 7,000 people country wide, offered financial education courses for many years, but didn`t refresh their curriculum and program design since 2015. XYZ previously provided seminar courses for all employees, but was concerned that employees were hesitant to attend courses because the said courses were long time consuming and not inconformity with the updated information.

What would be the possible solution for XYZ to overcome such crises?

Mr. AB and CA who are the Specialist, worked closely with GMC Group, a financial education company that provides corporations with help in developing engaging, scalable, and cost-effective financial education programs. GMC finally developed a comprehensive program that included a series of seminars administered by financial professionals, free one-on-one 30-minute consultation sessions, and an intensive intranet site – all designed to educate employees on and encourage participation in the benefits plans offered to them. Then they observed that the percentage of attendance has significantly increased.

Case 4: A group of students from finance department of XYZ university recently visited RahimganjUpazila of Lalmonirhat District as part of their academic program. They have found that most people are quite ignorant about the financial literacy in that particular area since access to financial education and resources can be limited, which ultimately lead to a lack of financial literacy. They understood that such lacking results in poor financial decision-making, high levels of debt, and financial insecurity. But they can access high speed internet even a considerable number of the family has at least one smartphone.

How to improve the financial literacy of Rahimganj community?

Answer: Advance Solution Technology (AST)has created a website that provides accessible, accurate financial information and guidance to the general Bangladeshi public through this site, the Supervisory Authority reinforces financial knowledge taught in schools, the workplace, and the community, and fills any finance-related knowledge gaps. One benefit of its format is that the information is detailed and targeted, such that users with specific questions can easily find useful answers.

Broad Questions

1. Write down introduction and definition while discussing the Concept of Financial Literacy.

2. What are the operational roles of Financial Literacy Wings (FLWs) and Financial Literacy Providers (FLPs)?

3. 'Financial Literacy is a prerequisite for Sustainable Financial Inclusion' – Discuss in detail.

4. How Financial inclusion can promote innovation for cost-effective delivery of financial products through the use of technology?

5. Financial Literacy and Financial Inclusion are blessed with communication strategy?

Short Questions

1. What is Financial Inclusion and Financial Literacy?
2. What are the objectives of Financial Literacy?
3. How Financial Literacy and Financial inclusion are linked to each other?
4. How FinTech simplifies financial transactions for consumers or businesses?
5. Pin Point Bangladesh Bank's Intervention involving FLPs' effective operation?
6. What are the Communication Approaches of FLPs?
7. How BB's Monitoring and Supervision on FLPs and FLWs can play an effective role in the arena of Financial Literacy?

About the Author

A career central banker; a banking sector policy expert; a professional expert in sustainable banking (green banking, green and sustainable finance, environmental and social risk management, corporate social responsibility and financial inclusion) and a highly experienced international level trainer on diverse topics of banking. Mr. Millat was the SDG focal point from BB, Deputy Project Director(DPD) of DFID funded Business Finance for the Poor in Bangladesh Project and PD of ADB funded Brick Kiln Efficiency Improvement Project. Mr. Millat is theAuthor of the book titled "Green Banking in Bangladesh", a BB publication; Author of the writing titled "Green Economy", published by Department of Environment, "Green Country, Green Economy"; Green Banking for Sustainability, a BB publication; Promoting Green Economy through Green banking, a Bangladesh Institute of Bank Management(BIBM) publication and so many.

The Author has formulated Policieson following Work Areas:

- Policy on Green Bond Financing for banks and FIs (September 2022)
- BB BDT 4 billion Low Cost Funding Arrangement for Green Products/Projects/Initiatives (July 2022)
- Environmental and Social Risk Management Guidelines (along with 10 sector specific guidelines) (June 2022)
- Sustainability Rating Methodology for the banks and FIs (December 2020)
- Sustainable Finance Policy for the banks and FIs (December 2020)
- Guidance Note for on-lending/refinancing under Green Transformation Fund (GTF) (July 2020)
- BB BDT 4 billion Low Cost Funding Arrangement for Green Products/Projects/Initiatives (April 2020)
- Environmental and Social Risk Management Guidelines (2017)
- BB Refinance Scheme for Green Products/Projects/Initiatives (2013-2014)
- ADB Funded Brick Kiln Efficiency Improvement Project (Financing Part) (2014 - 2019)
- School Banking (2013)
- Loan Classification and Provisioning (2012 & 2006)
- Loan Rescheduling and Restructuring (2012)
- Green Banking and Environmental Risk Management Guidelines(2011)
- Interest rate fixation on different banking services (2007-2012)
- No Frill Accounts (2010-2013)
- Import LC Numbering System (2000)
- Offshore Banking Unit (OBU) Coding System
- Large Loan Review Guidelines (1993)

Mr. Millat served for the last 29 years 8 months in the Central Bank of Bangladesh(BB). He is the gold medal winner from BB for his outstanding policy activities for green banking and sustainable finance in 2009. He has also been awarded by BB in 2022 for preparing Policy Guidelines on Corporate Social Responsibility (CSR) for Banks and Financial Institutions (FIs). The author is blessed with the 4 letters of appreciations by the passed 3 consecutive honorable governors including the present honorable governor Mr. Abdur Rouf Talukder.