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Sustainable Banking Activities by Banks in Bangladesh

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Sustainable Banking Activities by Banks in Bangladesh

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List of Abbreviation

a2i	Aspire to Innovate
ACD	Agricultural Credit Department
ADB	Asian Development Bank
AFI	Alliance on Financial Inclusion
ATM	Automated Teller Machine
BB	Bangladesh Bank
BBADCF	Bangladesh Bank Agricultural Development Common Fund
BDT	Bangladeshi Taka
BFIU	Bangladesh Financial Intelligence Unit
BGD e-GOV CIRT	BGD e-Government Computer Incident Response Team
BKB	Bangladesh Krishi Bank
BMMDP	Bangladesh Microinsurance Market Development Project
CBDC	Central Bank Digital Currency
CFI	Center for Financial Inclusion
CGD	Credit Guarantee Department
CGS	Credit Guarantee Scheme
CMA	Collateral Management Agreement
CMSE	Cottage, Micro and Small Enterprises
CMSME	Cottage, Micro, Small and Medium Enterprises
COP	Conference of the Parties
CSR	Corporate Social Responsibility
CY	Calendar Year
DFS	Digital Financial Services
ESG	Environmental, Social and Governance
ESRM	Environmental and Social Risk Management
e-KYC	Electronic Know Your Customers
FCBs	Foreign Commercial Banks
FID	Financial Inclusion Department
FGD	Focus Group Discussion
FY	Fiscal Year
GB	Green Banking
GoB	Government of Bangladesh
GRI	Global Reporting Initiative
GTF	Green Transformation Fund
IDRA	Insurance Development and Regulatory Authority
IDTP	Interoperable Digital Transaction Platform
IMF	International Monetary Fund
IFC	International Finance Corporation
KPIs	Key Performance Indicators

LFSSP	Line of Finance to Support SMEs Project
MFIs	Micro Finance Institutions
MFS	Mobile Financial Services
MSMEs	Micro, Small and Medium Enterprises
NAU	National Financial Inclusion Strategy Administrative Unit
NBFIs	Non-Bank Financial Institutions
NFA	No-Frill Accounts
NFIS	National Financial Inclusion Strategy
NFIS-B	National Financial Inclusion Strategy of Bangladesh
NGO	Non-Government Organization
NNC	NFIS-B National Council
NPSB	National Payment Switch Bangladesh
NSC	NFIS Steering Committee
PCBs	Private Commercial Banks
PRA	Personal Retail Account
POS	Point of Sales
PSD	Payment Systems Department
QR	Quick Response
RAKUB	Rajshahi Krishi Unnayan Bank
RMG	Ready Made Garments
SBs	Specialized Banks
SBFN	Sustainable Banking and Finance Network
SFD	Sustainable Finance Department
SOCBs	State-Owned Commercial Banks
SDGs	Sustainable Development Goals
SME	Small and Medium Enterprise
SMESPD	SME and Special Programmes Department
SPCSSECP	Small Scale Employment Creation Project
SREUP	Support Safety Retrofits and Environmental Upgrades
UN	United Nations
WFIAF	Women’s Financial Inclusion Advocacy Forum
WFID	Women's Financial Inclusion Data
WLAMA	White Label ATM and/or Merchant Acquisition
UNDP	United Nations Development Programme
USD	US Dollar

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Review of Sustainable Banking Activities by Banks in Bangladesh

1. Introduction

Sustainable banking integrates social, environmental, and relevant governance issues and concerns in banking. Conceptually, sustainable banking is a board concept under which banks are expected to accommodate ESG (Environmental, Social, and Governance) goals alongside their financial targets. It is also about taking care of the interests of all stakeholders by a banking entity, which aligns the concept with that of CSR (Corporate Social Responsibility). In the context of macro policy approaches, sustainable banking is associated with developmental policy and planning documents, and it is aligned with SDGs (Sustainable Development Goals) relevant to both developed and developing nations. However, developing and low-income global economies have a lot to be achieved on this front.

Sustainable development actions and the associated banking activities have been taking place in Bangladesh in response to a set of national and sectoral level policy and strategic documents. Expansion of the sustainable banking activities of the country has mainly been policy and regulatory-driven. Bangladesh Bank (BB) has been active in promoting sustainable banking activities since its formation that were mainly related to promoting the core sector of the country through offering credit facilities- agriculture and farm activities of Bangladesh. Till the first decade of the 21st, sustainable financing activities of the country were associated with social and inclusive aspects. Environmental issues started receiving the attention of the Central Bank mainly in the early second decade of the 21st century. Over the years, newer departments of the Bangladesh Bank became operational to promote a broad spectrum of sustainable banking activities. Currently, the policy and regulatory activities of the Sustainable Finance Department (SFD), Payment Systems Department (PSD), SME and Special Program Department (SMESPD), and Agricultural Credit Department (ACD) are directly linked with the sustainable finance activities of the country. In recent times, the National Financial Inclusion Strategy Administrative Unit (NAU) started operation within the Central Bank's functional scope to implement the Bangladesh National Financial Inclusion Strategy (B-NFIS) where sustainable and inclusion finance is the core component.

Of the broad ranges of financial products (payment, deposit, credit, and insurance) banks and FCs have been responding to and implementing sustainable banking policy initiatives of the central bank by offering targeted and specially designed payment, deposit, and lending/credit services. Over the years, technology became an integral part of financial product expansion, and technology-driven alternative delivery channels using mobile and online platforms became vital services under the umbrella of sustainable finance. Further, financial literacy and philanthropic activities of the banking industry are key supportive elements.

Capturing and reviewing information regarding sustainable banking products and associated policy approaches continuously are useful actions for streamlining regulatory tactics and improving operational efficiencies. In this context, the review study aims to analyze data and information on sustainable banking activities by banks and the associated policy and regulatory initiatives mainly for the period (2022-2023). Specific objectives of the review study are: ***one,*** to highlight policy and regulatory initiatives and changes associated with sustainable banking; and ***two,*** to examine trends and developments in the sustainable banking and finance activities and operations by banks of the country.

The study is based on both primary and secondary information. A primary survey was conducted in Sustainable Banking related units/departments of different banks. A total of 22 banks (Appendix-1) responded to the questionnaire survey of the study. Apart from the questionnaire survey, a focus group discussion (FGD) was arranged with the representatives of the sustainable finance department of 20 commercial banks (Appendix-2) to capture insights into sustainable financing-related issues. Secondary published articles on sustainable banking were sources of relevant literature. Published data by Bangladesh Bank (BB) were extensively used to examine sustainable banking drives and their implications in the context of Bangladesh. The report is finalized after accommodating the valuable comments of the discussants and participants of the workshop.

The review paper is organized into five sections. Following a discussion on the background and methodological issues in section 1, section 2 is about a review of the development of sustainable banking. Section 3 covers policy and regulatory development in the context of the Bangladeshi banking sector. Section 4 reviews the trends of sustainable banking activities and associated challenges. Finally, section 5 provides recommendations for commercial banks and policy makers of the country to ensure better sustainable banking practices.

2. Development in Sustainable Banking- Literature Review

In the global context, the available data indicate an expanding sustainable finance market amid lack of precise data and non-uniformity of sustainable finance taxonomy and definitions. The broad spectrum of sustainable finance includes all types of securities and non-securities instruments undertaken both by the public and private sectors and are mostly associated with environmental risk management. In the sustainable finance market, the trend is the increasing prominence of green bonds and sustainable debt instruments and most of the financial products are specifically earmarked to fund environmentally friendly initiatives, such as renewable energy projects, sustainable infrastructure developments, and conservation efforts. According to Prudence research (2023), the global sustainable finance market size accounted for USD 4,562.85 billion in 2022 and it is expected to hit around USD 29,111.04 billion by 2032, growing at a 20.36% during the forecast period from 2023 to 2032.[1] In another study however, the global sustainable finance market size was estimated at USD 519.88 billion in 2022 and is expected to growth at the rate of over 22% during 2023-2030.[2] These indicate definitional differences and data dissimilarity in global market size. Sustainable banking market constitutes a portion of this financing market and some additional efforts to address environmental and social risks by banks.

Debt instruments are gaining popularity in the sustainable finance market broadly include sustainable bonds and sustainable loans of different types. On the sustainability front, the bond market especially green bonds have been particularly popular. However, sustainability-linked debts (both bonds and loans) and social bonds have gained growing importance in recent years. To meet the rising demand and customized needs, some innovative financing products are gaining popularity in the form of green deposits, green and sustainable trade finance and guarantee, and sustainability-linked loans and bonds. The sustainable finance market of Asia and Pacific countries points to the popularity of bonds and changing financial product portfolios (Table 2.1).

[1] https://www.precedenceresearch.com/sustainable-finance-market

[2] https://www.grandviewresearch.com/industry-analysis/sustainable-finance-market-report/methodology

Table 2.1: Sustainable Debt Financing in the Asia and Pacific (Billion USD)			
Debt Instruments	**2020**	**2021**	**2022**
Green Bond	45	125	115
Social Bond	20	20	55
Sustainable Bond	10	35	30
Sustainability- Linked Bond	-	7	16
Total Bonds	**75**	**187**	**206**
Green Loan	8	17	18
Social Loan	-	1	4
Sustainable Loan	-	2	2
Sustainability- Linked Loan	7	36	70
Total Loans	**15**	**56**	**94**
Source: *UN & ESCAP, 2023*			

The high growth of Sustainability-Linked Loan (SLL) is visible; between 2021 and 2022 it registered 100% growth. SLL incentivizes a borrower to achieve material, ambitious, pre-determined, regularly monitored, and externally verified sustainability objectives through Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs). The SLL is generally based around the generally the following five core components: Selection of KPIs; Calibration of SPTs; Loan Characteristics; Reporting; and Verification (APLMA et.al., 2023).

A recent report by Temenos[3] highlights (January 2024) a significant shift in the banking sector towards ESG propositions. The survey, encompassing 300 banking executives globally, projects that 73% of banks will intensify their focus on sustainable banking options within the next five years. This change is driven by a combination of consumer demand and the growing importance of ethical banking practices. About 31% banks are implementing sustainability strategies that encompass both their supply chains and internal operations. The changing trends are however facilitated by differential models. Sustainable banking and finance models may be categorized into Policy Led, Market Led, and Collaborative. In some global economies[4], Bankers' Associations are particularly active in promoting sustainable finance. In most developing countries, it is the Policy-Led approach that is dominating. However, for the optimum outcome, the policy approach needs to be ultimately taken to a 'Collaborative Approach'. Bank associations are taking part in global forums as well to attain sustainability goals.

[3]https://fintech.global/2024/01/03/sustainable-banking-on-the-rise-73-of-banks-embrace-esg-propositions-by-2028/
[4] Mongolia, Columbia, Sri Lanka etc.

To show collective commitment, established in 2012 by IFC, Sustainable Banking and Finance Network (SBFN) joined by the financial sector regulators and bank associations from emerging economies works to improve sustainable finance activities aligned with global good practices. SBFN publishes country progress reports for members that include Bangladesh (SBFN and IFC, 2024). According to the overall progression index (based on ESG integration, climate risk management, and financing sustainability) of SBFN, most emerging economies are in the process of the 'Implementation Stage' that is at the 'Developing' phase (Table-2.2).

According to IFC and SBFN (2024), 42 countries (64 percent) are in the Implementation stage, having introduced sustainable finance frameworks; 29 countries (44 percent) are in the Developing sub-stage, having issued their first framework(s) and focusing on developing guidance, additional frameworks, and building capacity at both regulator and market levels; 13 countries (20 percent) are in the Advancing sub-stage, having introduced implementation tools and supervisory approaches to support the implementation of national and regional sustainable finance frameworks, covering multiple parts of the financial system; and 6 countries (9 percent) are in the Consolidating sub-stage of the Maturing stage, indicating a comprehensive set of national and regional sustainable finance frameworks that cover all parts of the financial sector, and evidence of implementation through robust data reporting and disclosure. To reach the Mainstreaming Behavioral Change sub-stage, countries are expected to have a fully integrated set of sustainable finance initiatives and frameworks across all subsectors of the financial system, with widespread public disclosure requirements and multi-year data on implementation (SBFN and IFC, 2024).

Table 2.2: SBFN Sustainable Finance Progression Matrix			
Preparation	**Implementation**		**Maturing**
Formulating	Developing	Advancing	Consolidating
Eastern Caribbean States Fiji Jamaica Kosovo Kyrgyz Republic Lao PDR Maldives Moldova Samoa Serbia Tajikistan	Argentina Armenia Azerbaijan Cambodia Central African States Chile Costa Rica Dominican Republic Ecuador Guatemala Honduras India Iraq Jordan Kazakhstan Nepal Pakistan Panama Peru Tanzania Thailand Tunisia Ukraine Zambia	Bangladesh Egypt Ghana Kenya Mongolia Morocco Nigeria Paraguay Philippines South Africa Sri Lanka Turkey Vietnam	Brazil China Colombia Georgia Indonesia Mexico
Note: *In alphabetical order;* ***Source:*** *SBFN and IFC, 2024.*			

The Global Financial Inclusion Index 2023, published by the Economist Intelligence Unit, covers 174 countries and territories, and is based on 71 indicators across three dimensions access; usage, and quality. In 2023, the global average score was 63.4, up from 62.5 in 2022 which represents a modest improvement in financial inclusion over the past year.[5] However, there is still a significant gap in financial inclusion between developed and developing countries. In developed countries, the average score on the Global Financial Inclusion Index was 78.6, while in developing countries the average score was 58.1 (Global Financial Inclusion Index 2023).

Digital financial services, such as mobile banking and mobile money, are playing an increasingly important role in expanding financial inclusion. In 2023, 71% of adults worldwide had a mobile phone account, and 45% of adults had an account

[5] The overall score of the Global Financial Inclusion Index ranges from 0 to 100, with a higher score indicating a greater degree of financial inclusion.

with a mobile money provider. The need to address the specific needs of vulnerable groups: Vulnerable groups, such as women, the poor, and people living in rural areas, are often disproportionately excluded from the financial system. In 2023, the global gender gap in financial inclusion was 5.1 percentage points, and the gap between rural and urban areas was 10.9 percentage points. Financial education is essential for helping people understand and use financial services effectively. In 2023, 58% of adults worldwide had received some form of financial education.[6]

Innovation is crucial for promoting inclusion and sustainable banking using appropriate technology by promoting easy access and reducing costs (United Nations, 2020). Decreasing use of physical cash and digitization efforts on the part of the businesses changed payment structure throughout the globe have notable contributions to the carbon emission process and costs also (JP Morgan, 2022). However, it is innovation and customization of the technology-driven products that are most effective. Innovation must receive due attention to the effective use of FinTech and thus designing customized products. Most developing countries are lagging behind on this front (Table-2.3). Central Bank Digital Currency (CBDC) is probably the big transformation end at this moment. FinTech and technology-driven payment is going to take a new shape under CBDC framework. According to the Atlantic Council CBDC Tracker (as of May 10, 2024), 134 countries and currency unions, representing 98% of global GDP, are exploring a CBDC. In May 2020 that number was only 35, and currently, 68 countries are in the advanced phase of exploration-development, pilot, or launch.[7]

Table 2.3: Global Innovation Index 2021 and 2023

	2021		**2023**	
Country	**Score**	**Rank**	**Score**	**Rank**
India	36.4	46	38.6	40
Sri Lanka	25.1	95	23.3	90
Pakistan	24.4	99	23.3	88
Nepal	22.5	111	18.2	108
Bangladesh	20.2	116	20.2	105

Source: *Globaleconomy.com*

[6] Global Financial Inclusion Index 2023 (https://www.linkedin.com/pulse/global-financial-inclusion-index-2023-key-findings-ram-rastogi--hy9rc/)
[7] https://www.atlanticcouncil.org/cbdctracker

Bringing SMEs within the financing fold is vital for financial inclusion. Despite SMEs remarkable contribution to growth throughout the globe, the financing gap is visible. According to a recent study by SME Finance Forum[8] Micro, Small and Medium Enterprises (MSMEs) are one of the strongest drivers of economic development, innovation and employment, however, access to finance is frequently identified as a critical barrier to growth for MSMEs. Creating opportunities for MSMEs in emerging markets is a key way to advance economic development and reduce poverty. As the study found, 131 million, or 41% of formal MSMEs in developing countries have unmet financing needs. MSME finance gap in developing countries is estimated to be approximately USD5 trillion- 1.3 times the current level of MSME lending. Women-owned businesses comprise 23% of MSMEs and account for 32% of the MSME finance gap. Of the fund requirements of different types, trade finance gap is particularly visible and the minimization of gap is very challenging (Habib et. al., 2023).

Rejection of loan applications is not uncommon for SMEs, and thus a significant of SMEs rely on their own fund. Rejected SMEs commonly have very limited options but to move to their own fund (36%) or the much costlier informal sector. According to the ADB (2022) survey, 18 percent of SMEs did not find an alternative that must have had notable implications on their business and trade operations. Informal financing sources were business partners (32%), family members (23%), money lenders (19%), and informal saving groups (18%), etc. (Table 2.4).

Table 2.4: Responses of SMEs to the Rejection of Loans	
Use of own funds or retained earnings	39%
Unable to find an Alternative	18%
Used Informal Financing	17%
based on ADB surveys (2022)	

Similar to that of SMEs, the agriculture sector especially the farm sector commonly confronts financing gap. There are efforts on the part of central banks and government to create enabling environment for the development of robust and inclusive agriculture that contributes to food security, poverty reduction, and economic development in several developing countries. Microinsurance products are also very useful for supporting agriculture with financing facilities. Some specially designed inclusion products for SME and agriculture sector are summarized as follows (Box 2.1).

[8] https://www.smefinanceforum.org/data-sites/msme-finance-gap

Box-2.1: Specially Designed Products for the Financial Inclusion of SMEs and Smallholders of the Agriculture Sector

SME and Agriculture Cluster Financing: SME clustering promotes interconnectedness, cooperation and completion and is useful for ensuring access to finance for the SMEs. Cluster model has been used in different forms across the world and can bring numerous benefits-by promoting an active dialogue between the public & private sectors and fostering integration in SME and agricultural strategy development; small farmer integration; enabling small enterprises to have better market access, as well as higher productivity and more market-oriented production. Clustering is increasingly recognized as a viable means of improving smallholder economic integration and commercialization in many developing countries.

Financing SMEs/Farmers in Value Chain: Rather than relying on the creditworthiness of individual SMEs/farmers, value chain financing and other approaches that rely upon buyers are based on business relationships in the value chain. Broadly speaking, value chain finance includes financial flows between value chain actors, such as buyers or input suppliers, as well as flows from financial institutions into the chain, or combinations of both. The buyer security models are structured so that the bank relies upon the buyer contracts (verbal or written) to help secure its loans. From the bank's perspective, having a strong buyer in the chain provides comfort, because it helps to reduce or manage the risks of limited market access and price volatility, especially if the farmer has an off-take agreement with a trusted counterparty, and is, therefore, less likely to default.

Warehousing Receipt Financing A type of secured lending known as "warehouse receipt finance" is available to owners of non-perishable goods kept in warehouses and registered with banks using these receipts. Farmers can choose to store in a licensed warehouse and apply for short-term credit, allowing them to sell later when prices are higher, or they can sell immediately after harvest, when prices are typically lowest when a well-functioning warehouse receipt system is in place. This is particularly useful with the presence of agricultural commodity exchange.

Collateral Management Agreement Financing A collateral management agreement (CMA) is a tripartite agreement between a collateral manager/warehouse operator, a named depositor or owner of the commodities, and a bank. The collateral manager acts as the custodian of the commodities held in storage at the warehouse on behalf of the bank. Nonetheless, agricultural SMEs might benefit from CMAs. Banks in developing countries often provide financing to aggregators, processors, and exporters backed by agricultural commodities held in warehouses under collateral management agreements in the absence of a fully developed warehouse receipt system.

Microinsurance for Smallholders: Due to its ability to reduce the risks associated with poor weather-related production quantity and quality, weather insurance frequently supports value propositions for farmers, such as loan packages. The farmer, the bank, and the loan recipient can all be adequately protected when risk insurance is combined with these other products. The microinsurance program generally is an index-based insurance, that links indemnities to a climate index and permits small family businesses to insure their harvests against fatal losses. Like Index-based insurance here are similar products linked to major disasters (e.g. earthquakes in Mexico using the Richter scale as an index), livestock, and, most commonly, drought.

Source: *Based on ADB-ACADS[9]; Aboagye, 2023; Tanvi and Ankit, 2020; Kenneth et al, 2018.*

[9] https://seads.adb.org/solutions/why-philippines-promoting-agriculture-clustering-boost-farmers-income

3. Policy and Regulatory Development in Sustainable Banking in Bangladesh

Bangladesh's national policy and strategic documents identified the necessity of sustainable finance and banking. Sustainable banking is aligned with the country's efforts of sustainable growth and commitment to attaining SDG goals. Bangladesh Delta Plan 2100 identified macroeconomic strategy associated with funding issues of suitability covering public and private sector financing, Green Climate Fund, and other financing scopes to attain the goals related to water, ecology and biodiversity, agriculture, fisheries, and livestock, land management, internal water transport, blue economy, renewable energy, etc. Plan documents and Perspective Plan (2021-41) referred to access to finance for achieving a host of policy targets associated with agriculture, SMEs, and inclusive businesses. The action plan and strategies formulated as part of National SME Policy 2019, 'National Industrial Policy 2022', 'National Agricultural Policy 2018', 'National Livestock Development Policy 2007', and 'National Fisheries Policy 1998' have references to relevant banking and financing services that have notable implications. Aligned with the national policy approach, Bangladesh Bank (BB) has been promoting sustainable banking and finance to attain national sustainability goals.

3.1 Financial Inclusion and Digital Financial Services-Related Policy Initiatives

National Financial Inclusion Strategy of Bangladesh (NFIS-B), approved in August 2021, is a major relevant policy document to undertake financial inclusion measures in an organized and sustainable manner, and National Financial Inclusion Strategy Administrative Unit (NAU), stationed at BB, is currently implementing the strategy. NFIS is working to achieve the core objective of increasing all adults' financial inclusion to 100% by June 2026. Implementation of this strategic document is expected to promote financial inclusion in a big way through supporting and promoting sustainable banking and finance initiatives by the banks and other segments/components of the financial sector of Bangladesh. NFIS-B identified 7 objectives, 12 strategic goals, and 69 targets where Fintech, SME financing, agriculture financing, green, and other sustainable financing are amongst the core elements. NAU is responsible for performing all operational, administrative, technical and secretarial activities. Headed by the Minister, Ministry of Finance, GoB, NFIS-B National Council (NNC) is the highest strategic authority, and chaired by the Governor, BB, NFIS Steering Committee (NSC) is the responsible forum for effective implementation of the NFIS-B guided by the NNC.

NAU already finalized action and resource plans, monitoring and evaluation framework, and Tracker & Dashboard development, and implementing. Financial Institutions Division, Ministry of Finance, Government of the People's Republic of Bangladesh, and all other related stakeholders, including relevant ministries and agencies, regulatory authorities, banks, finance fompanies (FCs) and MFIs, insurance companies, development partners, trade bodies and associations, and MFS providers, contributed a lot and played a crucial role in finalizing the NFIS Action Plan. The major initiatives undertaken may be summarized as follows (Box 3.1).

Box 3.1: Major Initiatives Undertaken by NAU

Management Information System: Bangladesh Bank (BB) is spearheading the implementation of NFIS-B with a comprehensive M&E framework. By employing a systematic approach, the NFIS M&E Framework facilitates ongoing assessment, data collection, result analysis, and effectiveness evaluation of NFIS endeavors. Such continuous monitoring and evaluation empower stakeholders to pinpoint areas ripe for improvement and make well-informed decisions, fostering a dynamic and adaptive financial ecosystem. The M&E framework serves as a barometer, capturing the degree of success or achievement relative to predefined outcomes across various actions. This baseline assessment informs the calibration of future targets, ensuring relevance and alignment with evolving socio-economic landscapes. The structured organization of sixty-nine targets with fewer than twelve strategic goals is supported by 148 identified indicators.

Dedicated Web-Portal for NFIS Data: Preparation of dedicated web-portal for NFIS known as NFIS tracker is in progress with the support of Aspire to Innovate (a2i) Programme. NAU, ICTD and a2i officials are working dedicatedly to develop NFIS Tracker at the earliest. Upon its completion, the NFIS Tracker will serve as a centralized platform, enabling banks and finance companies to input data seamlessly. Currently, NAU has developed data format to collect data from various stakeholders related with NFIS Goals and Targets. Once NFIS website and Tracker are launched, the data will be uploaded to the tracker to get the quantitative progress of NFIS.

Data Gathering Data and Survey: NAU has taken initiative to conduct a comprehensive country-wide survey with the assistance of ADB. NAU has taken initiatives to collect financial inclusion data disaggregated by sex, age, location and other aspects on quarterly basis. Banks, FCs and MFSPs have already provided data as of April-June, 2023, July-September, 2023 and October-December 2023 quarters as per template provided by NAU. NAU has provided templates to the FS regulators for collecting financial inclusion data. The regulators have also been providing data as per the template.

Development of Women financial inclusion data dashboard (WFID Dashboard): WFID Dashboard is a collaborative initiative by BB and Consumer Centrix. The dashboard aims to illuminate the landscape of women's financial inclusion in Bangladesh through comprehensive data representation. By aggregating information from banks, non-bank financial institutions, microfinance entities, and mobile financial services, it presents a nuanced, gender-disaggregated analysis. The WFID Dashboard serves as a strategic tool, providing insights to empower service providers in identifying opportunities to expand women's financial inclusion. Through intuitive graphical presentations, the dashboard will help drive positive change by facilitating a deeper understanding of the financial landscape and fostering informed decision-making.

Coordination: NAU is coordinating with different ministries, government bodies, and departments of Bangladesh Bank to enforce NFIS-B. For example, NAU is coordinating with other financial sector regulators for formulating Financial Literacy Guidelines containing instructions for financial service providers for organizing Financial Literacy programs; NAU is coordinating with Women's Financial Inclusion Advocacy Forum (WFIAF) of Aspire to Innovate (a2i) Programme for developing Women's Financial Inclusion Strategy, etc.

Note: *Based on NAU Source*

FID of BB has actively been engaged in handling policy and regulatory issues of the central bank associated with financial inclusion. Some relevant circulars are also issued from BRDP. Some refinancing schemes were streamlined during CY2022 and CY2023 by the FID. The formulation of Financial Literacy Guidelines is a notable intervention of FID (circulated in March 2022). The objective of the guidelines is to create an empowered nation with right knowledge and skills for making responsible financial decisions. As per BB guidelines Scheduled banks and finance companies operating in Bangladesh have to formulate and implement annual action plan for financial literacy which will be monitored by the Financial Inclusion Department of BB and reviewed on a half-yearly basis.

Payment is the key service of financial inclusive drives, and PSD of BB has been proactive and playing roles in adopting technology and supporting market players in coming up with technology-driven payment services (Table-3.1). In a recent initiative, Bangladesh Bank licensed Digital Bank. Digital Banks are expected to expand service horizon beyond payment and will offer full-fledged banking services. Nagad Digital Bank and Kori Digital PLC have already been permitted to conduct digital banking activities.

In connection with Bangla QR, the maximum limit of daily transactions Tk. 20000 for single person account has been postponed. However, Banks/FIs may determine single transaction limit, daily transaction limit and transaction number for Static/Dynamic ‘Bangla QR’ code-based transactions considering their own risk regarding merchant payments.

Vulnerability and penetration testing for the payment systems e.g., NPSB, BACH, Nikash are conducting on regular basis (bi-annual, annual and on-demand) with the help of BGD e-GOV CIRT and in-house. Bangladesh Bank has already instructed Banks and finance companies to conduct regular vulnerability and penetration testing for the payment system through the ‘Guideline on ICT Security – Version 4.0’ circulated by BRPD.

Bangladesh Mobile Financial Services (MFS) Regulations, 2022 started facilitating positive changes. As per paragraph 5 of Bangladesh Mobile Financial Services (MFS) Regulations, 2022 MFIs can disburse loans and receive instalments from their clients through MFSPs. Some MFIs (Such as Shakti Foundation) have started disbursement of loans through MFSPs on a pilot basis. Some other major interventions are summarized as follows (Table 3.1).

Table 3.1: Major Policy and Regulatory Initiatives on Financial Inclusion and Digital Financial Services [2022-2023]

Circular Reference	Broad Content
FID Circular Letter No. 01, January 05, 2022	Revision of a clause for the consideration of the COVID-19 economic circumstances of refinancing facility for marginalized/landless farmers of Tk. 10/50/100 account holders, low-income people, school banking account holders, and small businessmen.
FID Circular No. 01, March 27, 2022	Initiation of Financial Literacy Guidelines for Banks and Financial Institutions.
PSD Circular No. 06, April 25, 2022	The transaction limit of MFS has been revised. The maximum ceiling of daily and monthly cash-in at the agent point through MFS for an individual account is 0.03 million and 0.2 million and at the bank transfer (bank account and card) level is 0.05 million and 0.3 million respectively.
BRPD Circular No. 11, June 02, 2022	BB introduced a refinance scheme titled Refinance Scheme to Provide a ‘Digital Nano Loan’ of BDT 1 billion. In the first phase, 0.5 billion is to be disbursed and the remaining is in 2^{nd} phase on proper use of the fund of the first phase, with its fund.

FID Circular Letter No. 02, June 20, 2022	To give benefits of 'Digital Nano Loan' under refinancing facility for financial inclusion and the improvement of the living standard of the marginal people.
FID Circular Letter No. 03, 20 July, 2022	Due to the adverse economic impact of the COVID-19 pandemic on low-income earners, farmers, and marginal/small-scale entrepreneurs, BB has introduced a revolving refinancing scheme amounting to BDT 30.0 billion.
PSD Circular No. 16, November 10, 2022	Determination of Platform Fees, Interoperable Fees, and Service Charges for transactions through Interoperable Digital Transaction Platform (IDTP) 'Binimoy'.
PSD Circular Letter No. 01, February 8, 2023	To augment the Bangla QR code-based payments, Banks/FIs have to replace their own proprietary QR (if any) by 'Bangla QR' within 30 June 2023. Banks/Institutions will take necessary steps for QR based especially suspicious and large amount transactions by proper verification/observation.
FID Circular Letter No. 01, July 16, 2023	To facilitate 'Digital Small Loan' for financial inclusion and the living standard of marginalized people, BB has up surged the refinancing facility.
PSD Circular No. 12, October 03, 2023	To bring all people of the country under the digital payment ecosystem, Bangladesh Bank (BB) has decided to launch an MFS personal account for young people aged between 14 and 18 years, considering their demand for digital transactions.
FID Circular No. 01, October 29, 2023	Dissemination of information related to financial inclusion to the BB.
BRPD Circular No.-08 June15, 2023	Feasibility of establishing payment bank/digital bank conducted.
BRPD circular No.-10 June 19, 2023	Framework prepared to conduct regular vulnerability and penetration testing for the payment system.
PSD Circular No. 13, December 06, 2023	BB has raised the maximum limit to Tk 2.5 lac to send to MFS accounts by expatriates. MFS account can hold a balance of a maximum of Tk 3 lac at a time. However, if the balance exceeds Tk 3 lac after the receipts of remittances, further amounts can only be added once the balance comes down to Tk 3 lac.

Initiative has been undertaken for the formulation of National Payment Act. The draft of 'Payment and Settlement Systems Act' has been sent to the Ministry of Finance from Bangladesh Bank in February 2023 for further proceedings.

3.2 Policy Initiatives in Agriculture and CMSME Sectors

Agricultural Credit Department (ACD) of BB is engaged in formulating and overseeing agricultural and rural credit policies and programs. Practically, agricultural credit and associated support services have been amongst the key areas of intervention for the central bank and GoB since its independence. ACD circulars reflect BB’s continuous efforts to support the agriculture sector with financing at a reasonable cost of funds. Financing initiatives were also undertaken for agricultural exports and the cultivation of import substitute products (Table-3.2).

Table-3.2: Major Policy and Regulatory Initiatives on Agricultural and Rural Financing [2022-2023]

Circular Reference	Broad Content
ACD Circular No. 01, January 03, 2022	A policy on the formation and operation of BDT 5 billion refinance scheme titled “Ghore Fera” is announced to create employment and alleviate poverty for the people who returned home due to the COVID-19 pandemic.
BRPD Circular No. 05, April 19, 2022	Short-term agricultural credits, including previously rescheduled agricultural credits, are allowed to be rescheduled for a maximum of 3 years including 6 months grace period.
FEPD Circular No. 05, April 18, 2022	To avail of export incentive/cash subsidy against the export of agro-products (vegetables/fruits) and agro-processed products exporters shall submit the physical verification certification of customs authority before export with the application.
ACD Circular No. 02, May 22, 2022	To give a boost to the production and cultivation of import substitute crops (pulses, oilseeds, spices, and maize) in a bid to combat global price-hike resulting in higher import costs and loss in foreign currency, some crops shall be facilitated with credit at 4% concessional interest rate.
ACD Circular No. 03, June 05, 2022	To save the flood-affected farmers of North-Eastern districts and to keep them engaged in farming, all scheduled banks are instructed to disburse new loans in crops, fisheries, poultry, and livestock.

ACD Circular Letter No. 01, June 27, 2022	‘Refinance Scheme on Milk Production and Artificial Insemination Sector’ was introduced earlier. In this regard, the time limit of the said scheme has been extended till 31 December 2024 for recovery/adjustment of the refinanced credit.
ACD Circular Letter No. 03, June 30, 2022	For proper implementation of ‘Special Incentive-based Refinance Scheme in Agricultural Sector (Phase II)’, the timeline of loan disbursement was increased up to 30 September 2022.
ACD Circular NO. 04, July 28, 2022	Introduction of agricultural credit policy and program for FY 2022-2023. All scheduled banks, Bangladesh cooperative banks, and BRDB have been directed to follow and implement the said policy and program.
ACD Circular No. 05, August 25, 2022	To increase the production of wheat and maize, BB has formed a Refinance of BDT 1000 crore. The tenure of the scheme is up to 30 June 2025. Interest/profit rate will be 4% at simple interest.
ACD Circular No. 06, September 18, 2022	Distribution of a 4% concessional interest rate to the salt cultivating farmers.
ACD Circular No. 07, November 17, 2022	To ensure the food security of the country BB has set up a facility of TK. 5000 crore.
ACD Circular No. 08, December 19, 2022	BB has decided to set up a fund called ‘Bangladesh Bank Agricultural Development Common Fund (BBADCF)’. Under the BBADCF, BB will pay interest at the rate of 2 percent on the deposited amount to the depositing banks.
ACD Circular No. 01, June 22, 2023	Regarding the appointment of contractual employees to distribute, collect, and monitor to ensure proper utilization of agricultural credit.
ACD Circular No. 02, August 06, 2023	Agricultural and Rural Credit Policy and Program for the FY 2023-24 has been initiated.
ACD Circular Letter No. 03, November 21, 2023	BB set a maximum limit of Tk. 20 lac for new loans or investments in favour of a customer in the livestock sector aiming to benefit more genuine or marginal farmers under the refinance scheme.

The role of SMEs is well recognized, and GoB and BB have been proactive in promoting SME business through affordable financing and other support services. Cluster approach started getting acceptability at the policy level. ‘Cluster-based’ and ‘Value Chain’ financing has been incorporated in the National Industrial Policy 2022 & ‘Cluster-based’ financing has also been incorporated in the SME Policy 2019. Bangladesh Bank issued SMESPD Circular no 5, dated August 14, 2022, where precise guidance and instructions were given on cluster finance. According to the policy: Banks/financial institutions will formulate their own cluster financing policy. The policy has to be approved by the board of directors of the respective bank. Approved policy to be circulated through the website of the Bank. A copy of the policy is to be submitted to SMESPD, Bangladesh Bank. In another initiative, BB launched a new credit guarantee scheme titled “Financial inclusion Credit Guarantee Scheme”, following the existing credit guarantee scheme introduced by CGS Unit, to ensure easy access to loan under the refinance scheme of BDT 5 billion for marginal/landless farmers, low income professionals, School Banking account holders and small traders who have accounts of TK.10/50/100. The following circulars indicate BB’s continuous attempts to support CMSMEs with refinancing and low-cost funding (Table 3.3). Considering the higher degree of vulnerability, women CMSMEs/entrepreneurs have received greater attention from the Bangladesh Bank (Box 3.1). NAU is coordinating with Women’s Financial Inclusion Advocacy Forum (WFIAF) of Aspire to Innovate (a2i) Programme to develop Women’s Financial Inclusion Strategy.

Table-3.3: Major Policy and Regulatory Initiatives on CMSME Credit [2022-2023]

Circular Reference	Broad Content
SMESPD Circular No. 01, January 23, 2022	Bangladesh Bank launched a new credit guarantee scheme titled ‘Financial inclusion Credit Guarantee Scheme’.
SMESPD Circular No. 02, March 10, 2022	Refinance Facility under ‘Supporting Post COVID-19 Small Scale Employment Creation Project (SPCSSECP)’ to Support CMSMEs.
SMESPD (LFSSP) Circular No- 03, March 27, 2022	Financing facility under “Line of Finance to Support SMEs Project under the IsDB SPRP for Covid-19, Restore Track (LFSSP), BGD-1074.”
FE Circular No. 10, June 08, 2022	Exporters of light engineering products are now eligible to apply for export incentives within 180 days of the date of shipment instead of the date of receiving export proceeds.

SMESPD Circular Letter No. 02, June 20, 2022	'Refinance Scheme for Small Enterprises', it is instructed that women entrepreneurs of the CMSME sector who have adjusted their loan duly on time will enjoy a 1% incentive from the date. Moreover, relevant banks and financial institutes will also enjoy a 1% incentive.
SMESPD (LFSSP) Circular Letter No. 03, July 21, 2022	Financing facility under "Line of Finance to Support SMEs Project under the IsDB SPRP for Covid-19, Restore Track (LFSSP), BGD-1074."
SMESPD Circular No. 04, July 19, 2022	Introduction of refinancing facility named "Refinancing Facility under Term Loan of CMSME sector" to foster GDP growth through financing at ease way to the CMSME entrepreneurs.
CGD Circular No. 02, August 10, 2022	The Credit Guarantee Department (CGD) of BB announced a circular regarding the Credit Guarantee Facility against Term Loan to CMSME Sector under Tk. 25,000 Crore Refinance Scheme.
SMESPD Circular No. 05, August 14, 2022	To ensure an easy loan/investment facility under cluster arrangement of the CMSME sector, BB has introduced a guideline.
SMESPD Circular Letter No. 06, September 26, 2022	Bangladesh Bank re-fixes Interest Rate on Pre-finance Facility under SREUP. At the customer level, the interest rate for pre-financing under SREUP has been re-fixed to a maximum of 5% per annum instead of 7% per annum.
SMESPD Circular Letter No. 04, March 16, 2023	All banks and financial institutions have been directed to increase the outstanding CMSME loans and advances to no less than 25% of total outstanding loans and advances by 2024, with a hike of at least 1% every year.
SMESPD Circular No. 01, September 03, 2023	To raise awareness to the marginal level BB has directed the banks to establish posters to the relevant branches. The posters will reveal different steps taken by the BB and the benefits of it.
SMESPD Circular Letter No. 10, October 01, 2023	The name of the refinancing facility to establish industries in suburban areas for the processing of agricultural products and the terms and conditions have been changed.
SMESPD Circular Letter No. 01, April 04, 2024	Re-fixation of interest rate (i.e. a maximum of 7% per annum) under SREUP. The interest rate to be paid by the PFI's to BB for the new on-lending loan under the project is 4.5% per annum and the margin for the PFI's is 2.5%.

Box 3.2: BB's Policy Interventions for Financial Inclusion of Women

(i) Setting up Women Entrepreneurs' Dedicated Unit in BB head office and branch offices; (ii) Setting up Women Entrepreneurs' Dedicated Unit at the head offices of all Banks and FCs and Women Entrepreneurs' Dedicated Desk at branches; (iii) Determination of minimum funding limit for women CMSMEs; (iv) Defining Women Entrepreneur; (v) Launching dedicated refinance scheme for women comprising BDT 3000 Crore; (vi) Determination of minimum cap for women entrepreneurs in refinance schemes; (vii) Incentive facility against loans & advances provided to women entrepreneurs; (viii) Instructing Banks and FCs for identifying, imparting training and providing loans to new women entrepreneurs; (ix) Determination of minimum limit for women of Credit Guarantee Fund; (x) Provision of loan facilities up to BDT 25 lakhs without collateral by considering third party personal guarantee as an alternative security; (xi) Inclination of women for cluster based financing; (xii) Preference of women in agricultural credit; (xiii) Prioritizing women in Financial Literacy Guidelines; (xiv) Problem solution center established in SME&SPD of Bangladesh Bank to help women entrepreneurs to face any harassments in getting SME loan. (xv) WFID Dashboard launched on 06 March 2024.

Source: *Based on BB Circulars.*[10]

3.3 Policy Initiatives for Green Banking and CSR Activities

Sustainable Finance Department (SFD) of BB is shouldering the key responsibility of taking care of the environmental and green banking and financing, and CSR activities. Green banking and corporate social responsibilities activities are handled by the Sustainable Finance Department (SFD) of the BB. Introducing 'Sustainable Finance Policy' is a notable intervention of the SFD in December 2020. In line with that, in 2022, Guidelines on Environmental & Social Risk Management (ESRM) have been issued for Banks and Financial Institutions in Bangladesh. Policy on Green Bond Financing for banks and financial institutions has also been issued. In a further initiative (in 2022), the scope of financing products increased, and Green Transformation Fund (GTF) was installed. CSR policy was revised in January 2022 and as objectives, the policy document intended to set subsidized priority sector lending in agriculture, CMSME, and green financing. BB intended to cover

[10] SMESPD Circular No.-2 dated: September 05, 2019; SMESPD Circular Letter No.-6 dated: June 25, 2023; FID Circular No.-1 dated: April 20, 2020; FID Circular Letter-1 dated: June 08, 2021; SMESPD Circular No.-3, dated: July 27, 2020; CGD Circular No.-2 dated August 10, 2022.

vulnerable groups of both urban and rural areas aligned with the policy document. Promotion of environmentally sustainable activities is reflected in the SFD circulars (Table-3.4).

Table-3.4: Major Policy and Regulatory Initiatives on Green Banking and CSR [2022-2023]

Circular Reference	Broad Content
SFD Circular No. 01, January 09, 2022	Policy Guidelines on Corporate Social Responsibility for Banks and Financial Institutions has been discharged under the authority given through section 45 of the Bank Company Act, 1991 and section 18 (Cha) of Financial Institutions Act, 1993.
SFD Circular No. 2, June 19, 2022	Refinancing facility under Pre-Shipment Credit has been announced due to address the crisis initiated by COVID-19 Pandemic.
SFD Circular No. 03, June 26, 2022	Guidelines on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh are issued to facilitate SDG, INDC along with other developmental plans of the Government.
SFD Circular No. 04, July 24, 2022	The Refinance Scheme for Environment-Friendly Products/ Projects/Initiatives has been updated.
SFD Circular No. 05, September 18, 2022	Policy on Green Bond financing for banks and financial institutions has been announced.
SFD Circular Letter No. 02, September 18, 2022	Activities of the dedicated sustainable finance help desk have been revised for the better facilitation of sustainable finance activities of banks and financial institutions.
SFD Circular No. 06, November 29, 2022	The BB has decided that every bank needs to allocate 5% of their CSR fund to increase the prime minister's education assistance fund.
SFD Circular No. 7, December 07, 2022	To promote the green economy and accelerate sustainable growth in export and manufacturing-oriented industries, BB has formed the Green Transformation Fund (GTF) in the local currency of BDT 50.0 billion.

SFD Circular No. 01, March 23, 2023	Bangladesh Bank has allowed banks to show their expenses related to the promotion of Bangla QR in the CSR (corporate social responsibility) accounts, aimed at facilitating cashless transactions in the country.
SFD Circular Letter No. 01, June 08, 2023	The decision to undertake a refinancing facility from Refinance Fund for Technology Development/Upgradation of Export-Oriented Industries has been made easier to accommodate 'Export Policy 2021-2024'.
SFD Circular No. 02, August 30, 2023	To increase eco-friendly initiatives/projects/products, Bangladesh Bank has formed a refinancing scheme amounting to BDT 400 crore. State-owned banks will be able to give loans under the refinancing scheme without any conditions.
SFD Circular No. 03, October 22, 2023	A comprehensive sustainable finance policy has been introduced to comply with the financial sector of Bangladesh as per the international standard initiation organizations.
SFD Circular No. 03, October 22, 2023	Revised indicators for banks and financial institutions have been incorporated under new sustainability rating of banks and financial institutions.
SFD Circular No. 05, November 23, 2023	The formation and management procedure of climate risk fund and reporting of half-yearly CSR Activities as a part of CSR.
SFD Circular Letter No. 02, November 27, 2023	A revised sustainable finance reporting format is introduced for banks and financial institutions.
SFD Circular No. 06, December 26, 2023	A guideline on Sustainability and Climate-related Financial Disclosure for banks and finance companies has been initiated.

Reporting and disclosures are taking shape and are being streamlined. A reporting format is circulated for expenses associated with climate risk and CSR/philanthropic activities. A guideline on Sustainability and Climate-related Financial Disclosure for banks and finance companies was issued in 2023 that intended to encourage banks and financial institutions to incorporate sound governance and risk management frameworks for sustainability reporting and climate-related financial risks and opportunities within their existing risk management frameworks. The guidelines suggested implementation methods, and pathway for reporting and disclosure.

4. Review of the Trends and Developments of Sustainable Banking Activities of Bangladesh

4.1 Financial Inclusion and Digital Financial Services

Promoting ‘account opening’ by the vulnerable or low-income segments has been considered one of the strategies for encouraging financial inclusion. It is about ensuring easy access to finance targeting the disadvantages population of the country that includes No-Frill accounts and targeted banking/insurance services.

In general, the number of No-frill accounts increased (except for No-frill accounts by Hardcore Poor and Small Life Insurance Program) over the years (Table-4.1). Alongside payment and deposits, these accounts are used for drawing workers’ remittance inflows working outside. Abnormal growth in the number of No-frill accounts may be attributed to the special efforts of BB in offering special payment services in the post Covid-19 scenario. Many of the No-frill accounts opened have not been operated later (FGD opinions).

Table-4.1: Expanding No Frill Accounts (NFAs)

Sl.	Description	% Change in CY 2021	% Change in CY 2022	% Change in CY 2023 (up to Dec. 2023)
1.	Farmers	0.016	0.002	0.046
2.	Hardcore poor	0.220	0.015	-0.015
3.	Freedom fighters	-0.135	0.125	0.078
4.	Social Safety net allowance	0.168	0.061	0.011
5.	Food & livelihood security	0.001	1.126	0.058
6.	Poor rehabilitation under the Ministry of Religious Affairs	-0.082	0.074	1.402
7.	City corporation workers	0.001	-0.006	0.484
8.	RMG Workers	0.292	0.376	0.186
9.	Leather Industry Workers	-0.700	0.033	3.178
10.	National Service Program	-0.063	-0.011	0.153
11.	Small Life Insurance Program	0.012	0.097	-0.016
12.	Physically challenged persons	0.415	0.173	0.013
13.	Others	0.079	0.268	0.134

Source: *Quarterly Report on No-Frill Accounts, BB*

Government control banks (SBL, ABL, and BKB) remained dominating the banking market in terms of opening No-frill accounts and small deposits for the low-income disadvantaged people. Technology adoption helped commercial banks dominate the remittance market reigning remittance inflow services. Of the banks, IBBL dominated the remittance market during (January-March 2023) followed by ABL (Table-4.2).

Table-4.2: Top-5 Banks based on No-Frill, Small Deposit and Remittance Flows

October-December 2023 [No frill Account]	October-December 2023 [Deposit]	January-March 2023 [Remittance Flows]
SBL (24.36%)	ABL (44.77%)	IBBL (20.55%)
BKB (16.50%)	SBL (25.03%)	ABL (6.20%)
ABL (15.59%)	Bank Asia (6.96%)	PBL (5.71%)
Bank Asia (12.46%)	IBBL (4.15%)	AAIBL (5.19%)
JBL (10.40%)	GIB (3.81%)	CBL (5.18%)

Source: *Quarterly Report on No-Frill Accounts and Quarterly Report on Remittance Inflows, BB*

Financial inclusion received newer impetus through the expansion of technology-driven services like MFS, ATM, POST, and Agent Banking (Table 4.3 and 4.4). Notable growth in the number of agents, registered clients, and transactions. Bangladesh is registering a consistent growth in transactions through mobile financial services (MFS) and it grew four times in the last five years (December 2018-December 2023). The popularity of MFS increased as it made available a number of activities in the palm of hand such as money transfer, talk time purchases, payment of utility bills and online and offline purchases. People are showing increasing interest in shopping and paying through MFS. Expatriates increasingly sending remittances through MFS channel. The central bank data showed that the government's distribution of money through MFS for social protection schemes increased sharply in December 2023 from a year ago.

Table-4.3: Expanding MFS in Bangladesh					
Description	CY2021	CY2022	% change in 2022	CY2023	% change in 2023
Number of agents	1,123,113	1,560,000	38.90%	1,724,685	10.56%
Number of registered clients (million)	112	191	71.17%	220	15.54%
Number of active accounts (million)	41.1	57	39.66%	84	45.90%
Number of total transactions (million)	3837	4736	23.43%	5509	16.32%
Volume of the total transaction (in crore)	77010	101590	31.91%	124548	22.59%
Note: *Figure approx.; Data compiled from the Financial Stability Report and the Website of BB.*					

Table-4.4: Status of ATM and POST in Banks						
Criteria		CY2021 (December, 2021)	CY 2022 (December, 2022)	% change in 2022	CY 2023 (December, 2023)	% change in 2023
ATM	Urban	8,928	9,201	3.06%	9,466	2.9%
	Rural	3,903	4,233	8.46%	3,970	-6.2%
	Total	**12,831**	**13,434**	**4.70%**	**13,436**	**0.0%**
POST	Urban	84,414	93,971	11.32%	98,210	4.5%
	Rural	7,672	9,080	18.35%	10,259	13.0%
	Total	**92,086**	**1,03,055**	**11.91%**	**1,08,469**	**5.3%**
Source: *Data provided by the BB (Branch Statistics)*						

Online banking has been implemented in all branches of banks except some branches of two government-controlled banks. According to BB, at present, 57 banks are interconnected through interbank ATM, 55 banks through POS and 51 banks through Internet Banking Fund Transfer (IBFT) operations.

Agent banking activities received notable boost during CY2022 and CY2023. Bangladesh Bank introduced agent banking in 2013. As of December 2023, 31 banks are operating agent banking activities in Bangladesh. Number of accounts, loan disbursement, and other agent banking activities expanded remarkably (Table-

4.5). Especially, the increase in the women account holders is encouraging. Inward remittance growth received notable boost. Some commercial banks: Dutch-Bangla Bank PLC, Bank Asia PLC, Islami Bank Bangladesh PLC, Al-Arafah Islami Bank PLC, The City Bank PLC, BRAC Bank PLC, and Agrani Bank PLC are particularly keen on expanding agent banking.

Table-4.5: Expanding Agent Banking Activities

Description	December 2021	December 2022	% Change in CY 2022	December 2023	% Change in CY 2023
Number of Agents	13,952	15,126	8.41%	15,757	4.17%
Number of Outlets	19,247	20,736	7.74%	21,601	4.17%
Number of Accounts	14,047,491	17,475,949	24.41%	21419975	22.57%
Number of Female Accounts	6,680,702	84,34,207	26.25%	10,677,977	26.60%
Number of Rural Accounts	12,118,657	15,067,586	24.33%	18,419,080	22.24%
Amount of Deposit	242,942	301,579	24.14%	363,582	20.56%
Amount of Loan Disbursed	53,470	103,073	92.77%	154,074	49.48%
Amount of Inward Remittance	823,433	1,149,174	39.56%	1,431,133	24.54%

Source*: Quarterly Report on Agent Banking Activities, BB*

Table-4.6: Top Speedsters in Agent Banking in Bangladesh (Oct-Dec, 2023)									
Number of Outlets		**Number of Accounts**		**Deposit Collection**		**Credit Disbursement**		**Inward Remittance Distribution**	
DBBL	28.23%	DBBL	29.90%	IBBL	39.01%	BRAC	62.34%	IBBL	52.56%
Bank Asia	23.38%	Bank Asia	29.81%	DBBL	14.98%	City Bank	13.86%	DBBL	25.92%
IBBL	12.83%	IBBL	20.26%	Bank Asia	12.32%	Bank Asia	8.42%	Bank Asia	9.01%
BRAC	5.06%	AAIBL	4.15%	AAIBL	10.76%	IBBL	5.09%	AAIBL	5.06%
UCB	3.94%	ABL	4.08%	ABL	5.90%	DBBL	4.59%	ABL	3.32%
Total	73.4%	**Total**	88.2%	**Total**	82.9%	**Total**	94.3%	**Total**	95.9%
Source: *Quarterly Report on Agent Banking, BB*									

Table- 4.6 indicates that only a few banks are the forces for expansion and controlling the whole agent banking market. Amid success issues, there are also concerns. Certain cases of fraudulent activities by some agents raise concerns regarding the reputation risks of banks. In response to the development, BB asked banks to monitor the agent banking programme closely by appointing dedicated officials in order to ensure transparency of the operation. Banks are required to submit quarterly reports to the BB providing information on financial irregularities, fraud, forgeries, scams and so on within seven working days after the end of each quarter. No agent is allowed to relocate, transfer, replace, or close its agent banking outlet without the prior written consent of the bank, according to a BB notice.

In response to the policy intervention most banks fully implemented e-KYC (Table 4.7). KYC requirements have already been simplified for all types of accounts. e-KYC Guidelines have been issued by BFIU for all Banks, Finance Companies, Insurance Companies, Stock Dealers and Stock Brokers, Portfolio Managers and Merchant Banks, Asset Managers, Security Custodians and all other organizations conducting businesses with the permission of Bangladesh Bank. Initiatives have also been taken to introduce ‘Personal Retail Accounts’ to digitalize and institutionalize payment of facilitating micro/floating entrepreneurs, service providers engaged in various marginal professions and self-employed product sellers and service providers through social media to open accounts for commercial purposes.

Table 4.7: e-KYC implementation by Banks, FCs and MFSPs (As of June 30, 2023)						
FI type	Fully implemented	Partially Implemented	Under process	Not ready	Not Applicable	Total
Banks	40	8	12	-	1	61
FCs	07	6	18	2	2	35
MFSPs	13	-	-	-	-	13
Note: *BB Source*						

Recently a committee was formed to revise the e-KYC guidelines. The committee has already prepared a draft version of the revised e-KYC guidelines and after reviewing the draft version of the revised guidelines it will be finalized soon.

Regarding the trend of using MFS or DFS by the people, a study by a2i and UNDP (2023) found that 51% have at least one MFS or DFS account, of which 69% have used the platform at least once in the preceding three months. Of the respondents, 15% do not have any bank account. Adult who do not have MFS account, over 60% are not interested, and 35% do not have NID. Of the bank account holders, 35% opened accounts for regular transactions, 33% for saving purposes, and 6% for remittance purposes. Of the respondents, 65% do not have a smartphone handset (A2i et. al., 2023).

Policymakers are pushing the use of Bangla QR to promote cashless transactions. On launching Bangla QR, the BB initiated campaign to popularize the QR code in different parts of Bangladesh. As of August 2023, just over half of banks have yet to start adopting Bangla QR.[11] It was in January 2023 that the central bank launched Bangla QR, a uniform digital payment system aimed to significantly cut cash-based retail transactions. The uniform digital payment method, Bangla QR, enables paying bills for goods and services through mobile banking applications, mobile financial services and payment service providers. The central bank has lifted the limit on transactions done with Bangla QR codes, for which the users are not currently charged any fee, but recently it observed that many people are using the system to withdraw cash from their accounts.[12]

Despite substantial advancements in digital payment methods and financial services over the past decade, cash transactions have continued to increase over the

[11] The Daily Star, August 15, 2023: https://www.thedailystar.net/business/economy/news/half-banks-yet-adopt-bangla-qr-3394381
[12] The Daily Sun, December 11, 2023: https://www.daily-sun.com/post/728317

last five years, indicating their enduring popularity, notes the Bangladesh Financial Intelligence Unit (BFIU) in its annual report for the fiscal year 2022-23.

4.2 Financing Agriculture, Rural Economy, and CMSMEs

Branch and credit allocation to the rural economy are important channels for the inclusion of the rural population in the formal financial sector. Of the total bank branches in the countries, 54% were operating in urban areas as of June 2023. Proportional deposit collection from rural areas declined, and loan disbursement to the rural areas decreased to 8% from 11% between June 2022 and June 2023.

Table-4.8: Rural and Urban Distribution of Bank Branch, Deposit and Advance

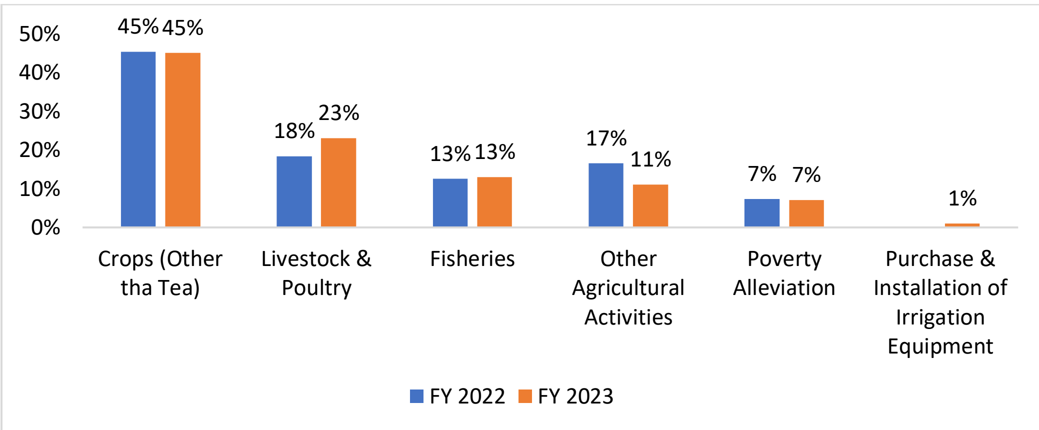
		Branch		Deposit		Advance	
		Number	**%**	**Amount**	**%**	**Amount**	**%**
2021	Rural	5,314	48.6	3,25,365	21.5	1,35,600	11.2
	Urban	5,623	51.4	11,87,108	78.5	10,74,989	88.8
	Total	**10,937**	**100**	**15,12,473**	**100**	**12,10,589**	**100**
2022	Rural	5,413	48.53.	3,37,373	21.25	1,62,758	11.73
	Urban	5,740	51.47	12,50,638	78.75	12,24,946	88.27
	Total	**11,153**	**100**	**15,88,011**	**100**	**13,87,704**	**100**
2023	Rural	5,224	46.30	2,66,415	15.23	1,23,766	8.05
	Urban	6,059	53.70	14,82,717	84.77	14,14,577	91.95
	Total	**11,283**	**100**	**17,49,132**	**100**	**15,38,343**	**100**

Source: *Scheduled Banks Statistics, BB*

Improvement in the agricultural credit performance is reflected in the data for FY2023 when there were improvements in actual disbursement, recovery, and overdue situations, however, the banking sector needs improvement on the recovery front (Table-4.8). Because of the specialized role and involvement of the BKB and RAKUB, agricultural credit market has been dominated by the specialized banks. It is the crop sector that draws most of the agricultural credit (Figure 4.1). Improvements in the agricultural credit by the PCBs and FCBs may be explained by the enforcement of the BB’s requirements of allocating certain portion of the credit total to the agricultural sector. Increasing branch, agent, booth banking in rural area, and MFI linkage are other reasons for the improvement of rural and agricultural credit.

Table-4.9: Agricultural Credit Performance by Banks (billion BDT)							
	FY 2020	FY 2021	% change in 2021	FY 2022	% change in 2022	FY 2023	% change in 2023
Disbursement Target	241.2	262.9	9.00%	283.9	7.99%	308.1	8.52%
Actual Disbursement	227.5	255.1	12.13%	288.3	13.01%	328.3	13.87%
Recovery	212.4	271.2	27.68%	274.6	1.25%	330.1	20.21%
Overdue	60.6	58.7	-3.14%	59.5	1.36%	65.4	9.92%
Outstanding	455.9	459.4	0.77%	498	8.40%	527	5.82%
Overdue as % of Outstanding	13.3	12.8	-3.76%	12	-6.25%	12.4	3.33%
Source: *Annual Report, BB*							

Figure-4.1: Sector-wise Agriculture Credit Disbursement



Source: *Annual Report, BB*

CMSME credit outstanding was in increasing trend during FY2022 and FY2023 (Table-4.10). The achievement of CMSME loan disbursement is also encouraging, however, a lot more needs to be done. Policy impetus and BB's policy initiatives have been notable push factors for such improvement. Despite improvement, women entrepreneurs are receiving significantly less proportion of CMSME credit (5.08%).

Table-4.10: Target & Achievement of CMSME Outstanding						
Period	Net Outstanding (in billion BDT)	Sub-Categories			Achievement	Women Entrepreneur
		Manufacturing	Service	Trading		
FY 2021	2,527.61	830.07 (32.84%)	448.45 (17.74%)	879.34 (34.79%)	85.37%	88.02 (3.48%)
FY 2022	2,855.65	870.83 (30.49%)	485.87 (17.01%)	943.67 (33.05%)	80.56%	88.02 (3.08%)
FY 2023	3,461.97	1,132.09 (32.70%)	606.33 (17.51%)	1,212.22 (35.02%)	85.23%	175.98 (5.08%)
Source: *Annual Report, BB*						

Credit guarantee is a supportive initiative in this connection. Bangladesh Bank launched the Credit Guarantee Scheme (CGS) on 27 July 2017 to address the financing challenges encountered by the CMSMEs). The government allocated BDT 2,000 Crore as Credit Guarantee Fund through the 20th Financial Stimulus Package which is administered by the Credit Guarantee Department (CGD). The CGS is comprised of five distinct credit guarantee facilities: Credit Guarantee for CMSE under BDT 20,000 Crore Stimulus Package (discontinued from 30 June 2023); Credit Guarantee for Landless Farmers, Low-Income Peoples, School Banking Accounts, BDT 10/50/100 Account Holders under BDT 500 Crore Refinance Scheme; Credit Guarantee for CMSMEs under BDT 25,000 Crore Pre-finance Scheme; Credit Guarantee for Agri-product Processing Sector under BDT 1,400 Crore Refinance Scheme; and Credit Guarantee for Women Entrepreneurs under BDT 3,000 Crore Refinance Scheme. As of 28 December 2023, the CGD has provided guarantee facilities to 7339 borrowers, securing a total loan amount of BDT 480.82 Crore.

Introduction ‘Bancassurance’ is a newer feather in the policymaker’s efforts to address financial inclusion challenges. Insurance products for marginal people, small business and agriculture like weather-based crop insurance, livestock insurance, fisheries insurance, health insurance for low-income people, autistic people and pension scheme for old age retired people have been incorporated into National Insurance Policy 2014. IDRA is working on introducing innovative insurance products. ‘Bancassurance’ policy has been introduced.[13] After receiving approval from Bangladesh Bank, prominent banks in Bangladesh have established collaborations with renowned insurance companies. For instance, both BRAC Bank and Eastern Bank have formed partnerships with MetLife and Green Delta

[13] BRPD Circular No.-18 dated: 20/12/2023

Insurance while City Bank has joined forces with Guardian Life Insurance. Experimentation on inclusive microinsurance is expected to bring positive outcomes in the near future (Box 4.1).

Box-4.1: Microinsurance Targetting Smallholders

Recognizing the potential of microinsurance to mitigate these challenges, the GoB and the Swiss Agency for Development and Cooperation (SDC) initiated the Bangladesh Microinsurance Market Development Project (BMMDP) in 2017 and continued till 2023. In Phase-1, BMMDP intended the availability of appropriate products and offering those for index-based crop insurance by primary insurance companies, the identification of a commercially viable livestock insurance model to reduce risk for microfinance beneficiaries, and capacity development in agricultural microinsurance. The project successfully introduced commercially viable weather and area-yield index-based crop insurance and cattle health insurance while bundling insurance with agri-input services. Moreover, the project initiated an area of exploring bancassurance agricultural product innovation to support farmers with outstanding achievements. The success of phase -1 indicated a broader approach to address systemic constraints within the microinsurance sector to achieve project goals. Hence, BMMDP Phase-2 (branded as Surokkha) adopted a more comprehensive approach prioritizing improvements in policy, product, and market development of support service, and generating widespread awareness precisely to target crops, fisheries, and livestock in the agriculture sector. By doing so, it aims to catalyze the growth of the microinsurance sector, thereby enhancing resilience to climatic shocks in the agriculture sector.

***Note:** based on https://www.swisscontact.org/en/projects/bmmdp-surokkha*

Regarding product innovation, there were efforts to introduce ‘Loan Against Warehouse Receipt’ that failed to bring the desirable outcome (Box 4.2). Global evidence indicates that ‘Warehouse Receipt System’ works efficiently when tagged with ‘agricultural commodity exchange’. Chottogram Commodity Exchange has been licensed to launch the first agricultural commodity exchange in the country.

Box-4.2: Unsuccessful Attempts of Warehouse Receipt Financing in Bangladesh

In Bangladesh, some state-controlled commercial banks and specialized banks have used this kind of financing under the policy direction of the Bangladesh Bank. However, the committee formed for this kind of financing did not perform well due to the mismanagement of the people involved in the committee and by the influential persons in the area as well. Besides, the process and the financing mechanisms were not monitored stringently by the financial institutions and the committee as well. For this reason, farmers/producers were affected and it influenced their repayment. Subsequently, some financial institutions get rid of the arrangement and some of them are trying to clear out by interest waiver.

Note: *Habib et.al, 2023.*

Cluster financing approach has proven benefits for SMEs and agro-small enterprises. SMESPD of Bangladesh Bank issued a circular (No-5 dated August 14, 2022) with precise guidance and instructions to prepare cluster financing policy. Some banks have responded this noble policy initiative by identifying clusters, financing targets and other related issues, as required. However, simply identifying clusters based on physical proximity may not work for efficient 'cluster financing'. In most instances, current cluster financing approach by bank does not appear to be aligned with the ideal cluster financing model, and thus may not offer the desired outcomes (Box 4.3).

Box-4.3 : Existing Cluster Financing Approach may not Serve the Desired Benefits

The performance of a cluster heavily depends upon its interconnectedness, cooperation, and competition. Simply geographical concentration may not always perform. Lack of trust, resistance to innovation, and the weakness of collaborative institutions are the common reasons for under-performance. Policy intervention, allocation of funds, and support services are particularly important for creating the right kind of collaboration and competition. Most of the clusters of the country are immature and generally feature a low level of cooperation and sharing; lack of linkages; absence of the usage of modern technology; nonexistence of supply chains; lack of arrangement of the universities and research organizations; and deficiency of expenditures on research and development. However, there is huge potential for developing clusters in the SME sectors of Bangladesh

Note: *Habib et.al, 2023.*

4.3 Sustainable Banking, Green Banking, and CSR Activities by Banks

Green banking expanded with the engagement of all broad groups of banks (Table 4.11). According to SFD source, sustainable banking policies are being monitored on off-site basis through periodical reporting and on-site checking. The initiative helps some banks to surpass and meet the target of green finance (5%) and yearly target (20%) of sustainable finance compared to the total term loan disbursement. Hence, both green and sustainable finance has increased tremendously. Despite improvement, the volume of green finance remained insignificant in proportion to the total volume of lending operations by banks. In terms of volume, the market is dominated by the PCBs. The data on sectoral allocation and individual borrows indicate the role of green financing in promoting financial inclusion (Figure-4.2 and 4.3). According SFD source (2022), sustainable finance has been maintaining better NPL rate (NPL for 2019, 2020 and 2021 were 3%, 2.58% and 5.78% respectively)[14] as compared to the banking sector average.

Table-4.11 Sustainable Finance Disbursement by Broad Bank Groups (in %)

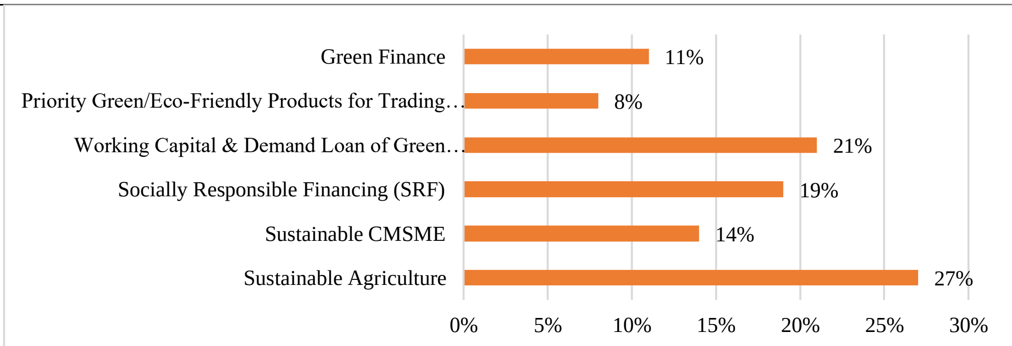
Bank Group	CY 2022			CY 2023		
	Total Disbursement (in million BDT)	Green Finance (in %)	Sustainable Finance (in %)	Total Disbursement	Green Finance (in %)	Sustainable Finance (in %)
SOCBs	9,70,006.26	11.10	6.12	5,79,110.11	0.81	9.39
SDBs/SBs	1,82,658.31	112.66	48.86	1,36,501.41	0.02	76.80
PCBs	86,99,553.82	2.37	11.49	62,00,505.72	2.22	13.37
FCBs	11,97,068.58	9.14	10.33	9,36,158.89	0.35	15.70
ISBs	0	0.00	0.00	9,26,100.43	1.46	18.48
Source: *Sustainable Finance Quarterly, BB*						

[14] First two figures are for green finance and the last one is for sustainable finance.

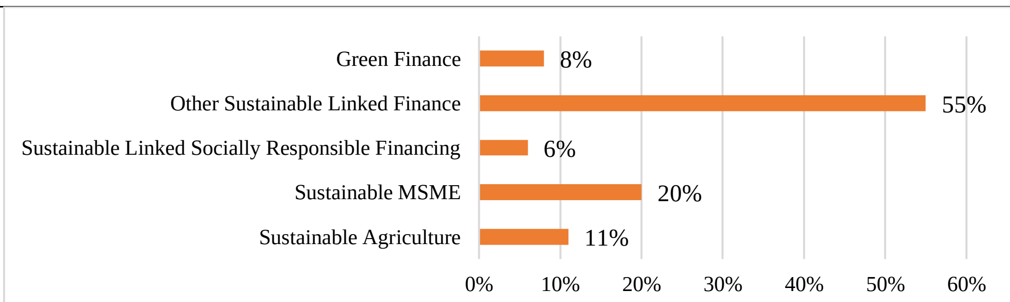
Table: 4.12 Sustainable Finance Outstanding by Broad Bank Groups (in %)				
Bank Group	CY 2022 (Outstanding)		CY 2023 (Outstanding)	
	Green Finance	Sustainable Finance	Green Finance	Sustainable Finance
SOCBs	13.31	14.41	18.33	13.66
SDBs/SBs	0.06	18.14	0.07	16.01
PCBs	85.40	63.53	85.52	66.42
FCBs	1.23	3.92	1.84	6.04
ISBs	0.00	0.00	15.37	15.04
Total	100.00	100.00	100.00	100.00
Source: *Sustainable Finance Quarterly, BB*				

Figure-4.2: Sustainable Finance by Banks and FIs in different sectors (in %)

October-December, 2022



October-December, 2023

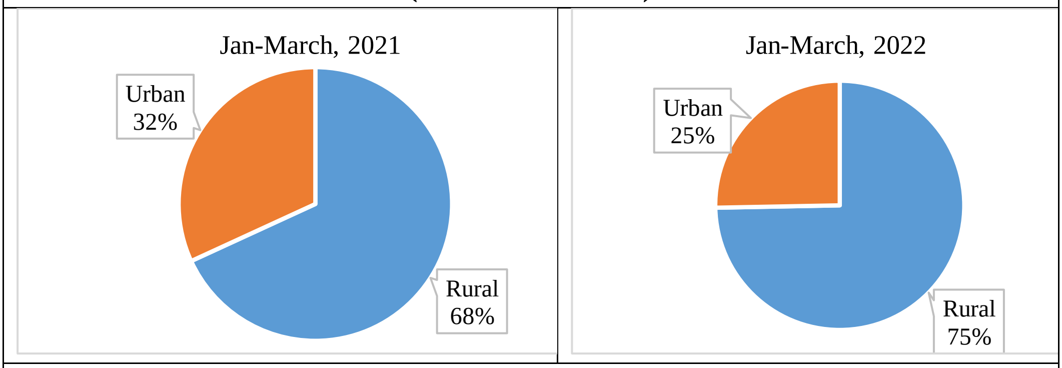


Source: *Quarterly Review Report on Sustainable Finance of Banks & Financial Institutions, BB*

Of the different types of sustainable finance, a significant portion is in the category of Sustainable Linked Loans (or Sustainability Linked Loans). The segment constitutes over 90% of total sustainable finance disbursement in the last quarter of both CY2022 and CY 2023 (Figure 4.2). The product is further categorized under 'Sustainable Agriculture', 'Sustainable CMSME', 'Sustainable Linked Socially

Responsible Financing', and 'Other Sustainable Linked Financing'. In terms of modern taxonomy, the categorization makes sense, however, the way these products are delivered on the ground does not really match the title. Same or similar operational procedures and loan conditionalities are followed in all types of sustainable financing.

Figure-4.3: Number of Individual Borrowers in Sustainable Finance by Banks (Rural-Urban wise)



Source: *Quarterly Review Report on Sustainable Finance of Banks & Financial Institutions, BB*

Some banks are taking the lead in green financing and sustainable financing (Table 4.12 and Table 4.13). It is observed that different sets of banks are the top performers in sustainable finance in the last quarter of 2023 as compared to that of 2022. It indicates that banks' willingness and involvement in sustainable financing have increased over the years.

Table-4.13: Top 5 Performing Banks in Sustainable Financing

Oct-Dec, 2022		Oct-Dec, 2023	
State Bank of India	58.55%	EXIM Bank	94.72%
Bangladesh Krishi Bank	54.83%	BRAC Bank PLC	93.47%
National Bank Ltd	50.44%	Eastern Bank PLC	87.15%
Shahjalal Islami Bank PLC	46.94%	Jamuna Bank PLC	86.71%
Rajshahi Krishi Unnayan Bank	31.26%	City Bank PLC	85.94%

Source: *Quarterly Review Report on Sustainable Finance of Banks & Financial Institutions, BB*

Table-4.14: Top 5 Performing Banks in Green Finance			
Oct - Dec, 2022		Oct - Dec, 2023	
State Bank of India	75.15%	Bank Al-Falah Limited	100.00%
Jamuna Bank PLC	52.01%	State Bank of India	99.80%
United Commercial Bank PLC	42.96%	Jamuna Bank PLC	51.66%
Shahjalal Islami Bank PLC	36.62%	Eastern Bank PLC	35.55%
Janata Bank PLC	26.46%	United Commercial Bank PLC	34.75%
Source: *Quarterly Review Report on Sustainable Finance of Banks & Financial Institutions, BB*			

Banks are rating their projects based on Environmental and Social Risk Management (ESRM) framework in terms of effectiveness, the ongoing practices are simply starting in the right direction. The amount disbursed against the rated project increased in the last quarter of CY 2023 (Table-4.15).

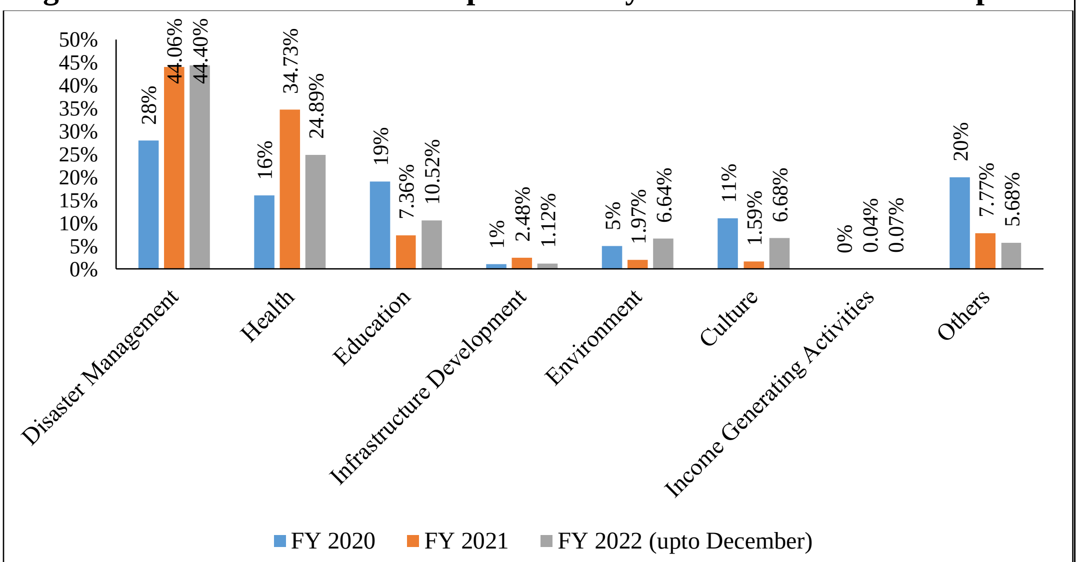
Table-4.15: Environmental & Social Risk Management by Banks		
	Oct- Dec, 2022	Oct - Dec, 2023
Number of environmental risk-rated projects	45,914	1,45,438
Number of environmental risk-rated projects financed	38,202	1,10,409
Amount disbursed against rated projects (in million BDT)	11,37,018.54	12,91,461.85
Source: *Quarterly Review Report on Sustainable Finance of Banks & Financial Institutions, BB*		

In-house environment management, another key component of sustainable banking venture is gaining momentum and showing improvements. Internet banking, app-based banking, and online branches are expanding. Banks are taking steps for environmental conservation in their branches like using solar energy in the branches, ATM booths; a few branches of the PCBs and FCBs are also having rainwater harvesting and solid waste management system (Table-14).

Table-14: In-house Environment Management by Banks		
	Oct - Dec, 2022	Oct- Dec, 2023
Number of Solar Powered Branches	706	608
Number of Branches with Rainwater Harvesting	4	6
Number of Branches with Solid Waste Management System	321	1402
Number of Solar powered ATM Booths	71	717
Number of Solar Powered Agent Outlets	4	31
Online branches (as % of total branches)	98.19%	97.85%
Source: *Quarterly Review Report on Sustainable Finance of Banks & Financial Institutions, BB*		

CSR allocation and expenditure of banks increased with the expansion of the core banking activities covering education, health, environment, disaster management, etc. According to the BB's CSR report of Banks and FIs, disaster management, health and education were the key areas of expenditure (Figure-4.4). According to SFD (2022), for environment and climate change, mitigation and adaptation banks and FIs may spend a minimum of 20% of their total CSR expenditure. This floor level was 10% before 09 January 2022; it has been observed that out of 60 banks, 31 attained the benchmark whereas 3 attained it partially. IBBL and DBBL are leading the banks' performance in terms of CSR expenditure in CY 2023 (Table-15).

Figure-4.4: Allocation of CSR Expenditure by Banks for Different Purposes



Source: *CSR Report of Banks and FIs, BB*

CSR Policy, which is basically a CSR fund policy, requires banks to allocate their CSR funds for given purposes. Despite improvement in the quality of the use of CSR funds, most of the expenses under the head may be tagged as ‘Philanthropic Expenses’. A significant portion of these activities, however, can be linked with bank’ financing operations. Amid qualitative improvement, CSR funds cannot be linked with the core financing functions of banks through subsidies.

Table-15: Top 5 Performing Banks in CSR Expenditure (in Amount)	
CY2022	CY2023
1. Islami Bank Bangladesh Ltd.	1. Islami Bank Bangladesh Ltd.
2. EXIM Bank Ltd.	2. Dutch-Bangla Bank Ltd.
3. Dutch-Bangla Bank Ltd.	3. South East Bank Ltd.
4. First Security Islami Bank Ltd.	4. Union Bank Ltd.
5. Jamuna Bank Ltd.	5. Social Islami Bank Ltd.
Source: *CSR Report of Banks and FIs, BB*	

Introducing ‘Sustainability Rating’ is notable initiative by the Sustainable Finance Department (SFD). Through Sustainability Rating, BB reflects the performance of the banks and financial institutions in terms of 4 criteria: Sustainable Finance Indicator, CSR, Green Refinance, Core Banking Sustainability. Top ten banks for the year 2021 and 2022 (in alphabetical order) are as follows (Table-16).

Table 16: Top Rated Banks for the Years 2021 and 2022	
Top Banks in 2022	**Top 10 Banks in 2021**
BRAC Bank Limited	Bank Asia Limited
Jamuna Ltd.	BRAC Bank Limited
Prime Bank Limited	Dutch Bangla Bank Limited
Shahjalal Islami Bank Limited	Eastern Bank Limited
The City Bank Limited	EXIM Bank Limited
Trust Bank Limited	Islami Bank Bangladesh Limited
United Commercial Bank Limited	NRB Bank Limited
	Pubali Bank Limited
	Southeast Bank Limited
	The City Bank Limited
Top FIs in 2022	**Top 5 FIs in 2021**
Agrani SME Financing Company Ltd.	Agrani SME Financing Company Ltd.
Bangladesh Finance Ltd.	Bangladesh Finance Ltd.
IDLC Finance Ltd.	Bangladesh Infrastructural Finance Fund Ltd.
Lankan Alliance Finance Limited	IDLC Finance Ltd.
	IPDC Finance Ltd.
Source: *Sustainability Rating of Bank & FI, Sustainable Finance Department, BB*	

There is no doubt that the initiative of ‘sustainability rating’ is a good approach and apparently, it is incentivizing banks and FCs. However, the indicators identified for the rating exclusively consider only environmental and selected macro-banking issues. The scope lacks comprehensiveness or completeness when perceived considering the broad spectrum of ‘sustainable banking’ and the country's perspective.

4.4 Challenges and Suggestions: Outcome of Survey and FGD

Sustainable finance is the process of incorporating environmental, social, and governance (ESG) considerations into financial investment decisions, resulting in longer-term investments in sustainable economic activities and projects. The banking sector of Bangladesh, with the guidance of the Central Bank, has achieved a significant improvement in terms of sustainable financing. However, banks are facing a good number of challenges that need to be addressed to achieve further development in the area of sustainable finance. The key challenges and possible suggestions identified by banks as part of the survey are summarized in Tables 17, 18, 19, 20, 21, 22, 23, and 24.

Table 17: Agriculture Financing
Challenges
• A majority of loans have been classified due to recovery issues arising from customers' inability and unwillingness to repay the loan (60%). • Due to a lack of geographic penetration some banks distribute agricultural finance through MFIs making it difficult to monitor the borrower properly (60%). • Lack of collateral, easy access to local lenders and non-profit organizations, gradual decline in agricultural lands, and communication gap between stakeholders are major obstacles to agriculture and rural financing (50%). • One of the main hurdles to reaching the target group is the absence of a branch network and the high cost of administration and monitoring. As a result, some banks have less interest in lending for agriculture especially in rural areas (40%). • Limited branch network, and high administrative, and monitoring costs arouse less interest in agriculture lending especially in rural areas (40%). • Agricultural financing is significantly impacted by several risks, such as market volatility, and natural disasters, not covered by insurance. Therefore, the repayment behavior of agriculture financing is quite unpredictable (20%).
Suggestions
• Banks should go beyond the existing repetitive customers and find out potential unbanked people to expand agriculture financing for expanding banking business (30%). • Tailored products may be developed to provide better support in adopting agricultural technologies so that productivity can be boosted by minimizing risks, and for overall sector sustainability (30%).

• Banks can arrange different training and capacity development initiatives for farmers which may reduce financing risks in the agriculture sector (20%). • Finding the right channel(s) i.e. branch, sub-branch, agent outlet, etc., and designing those to bring unbanked marginal or landless farmers into the banking channel (20%). • Different stakeholders may work together to collect authentic data of true farmers/entrepreneurs so that banks can easily avail the information for better targeting and actual assessment can be done properly (20%). • Bank officials require extensive training to gather adequate knowledge about agriculture and enhance their knowledge of how the sector can contribute to the economy and sector sustainability (10%). • Monitoring and collection have to be stringent (10%).

Table-18: CMSME Financing
Challenges
• CMSMEs often lack tangible assets to offer as collateral, making it difficult to secure loans from traditional financial institutions that typically require collateral as security (60%). • CMSME entrepreneurs sometimes have little knowledge of financial products and are not financially literate, making it difficult to manage their money wisely and find suitable funding sources (60%). • The support ecosystem for CMSMEs, including business development services, mentorship, and capacity-building programs, is often fragmented and lacks coordination, limiting the effectiveness of interventions to boost CMSME finance (30%). • Smaller businesses have restricted access to credit and lack track records since banks and other financial institutions are typically risk-averse when lending to CMSMEs (30%).
Suggestions
• Banks can contribute a lot to enhancing the financial literacy and capacity development of CMSME entrepreneurs. They can arrange seminars and workshops so that CMSMEs can understand sustainable business practices, responsible financial management, and integrate environmental and social factors into operations (30%). • The resources of financial institutions should be allocated rightly for stringent monitoring and to ensure recovery (20%). • Banks may incorporate environmental and social risk assessments while lending to CMSMEs to identify and mitigate risks associated with environmental degradation, social inequality, human rights violations, etc. (20%). • Financial institutions need to promote green finance in CMSMEs through innovative ways i.e. offering preferential interest rates to targeted green sectors, better utilization of resources, and supporting green sectors i.e. organic farming, renewable energy, and eco-friendly manufacturing (20%).

Table-19: Green Finance
Challenges
• Limited access to affordable green financing options, particularly for small and medium-sized enterprises and individuals, restricts the ability to invest in environment-friendly projects (20%). • Limited standardized methodologies and data unavailability limit the assessment of environmental impact and sustainability performance in green finance activities, hindering financial institutions' capacity to conduct due diligence (20%). • Financial institutions are hesitant to provide green financing due to perceived higher risks, technological uncertainties, and reputational risks associated with long-term green projects (30%).
Suggestions
• Banks should invest in capacity-building programs for employees and customers to enhance their understanding of green finance principles and practices so that banks can invest more in green businesses and ensure green growth. Besides, banks can work on innovative solutions i.e. access to financing, incubation support, and market access for green entrepreneurs and start-ups for environmental sustainability (30%). • Strengthen the capacity of financial institutions to conduct robust environmental and social risk assessments for green projects, ensuring compliance with sustainability standards and effective risk mitigation (20%). • Rigorous monitoring and evaluation of the impact of green finance initiatives i.e. the contribution to social, environmental, and financial outcomes need to be assessed to improve policies and practices (20%). • Establishing clear and measurable sustainability goals that align with ESG is a priority and banks need to integrate it into the existing processes (20%). • Establish a comprehensive and transparent framework for green finance, outlining eligibility criteria, environmental and social standards, and reporting requirements (20%). • Foster collaboration among stakeholders, including government bodies, industry associations, and environmental organizations, to promote knowledge sharing and capacity building, to mobilize resources for green infrastructure projects and innovation in green finance (20%). • Develop specialized green financing products with favorable terms and conditions to incentivize investment in renewable energy, energy efficiency, and sustainable infrastructure (10%). • Enhance financial literacy and awareness through educational campaigns, workshops, and training programs to inform borrowers, investors, and the public about the benefits and opportunities of green finance (10%). • Financial institutions should adopt internationally recognized green reporting standards, promoting transparency, comparability, and accountability in disclosing the impact of green finance (10%). • Implement mandatory environmental, social, and governance (ESG) disclosure requirements for companies listed on stock exchanges for environmental performance and sustainability practices. This will enable investors to make informed decisions regarding the companies (10%). • The current refinancing scheme has very stringent due diligence. Sometimes it should be relaxed for small clients to boost their use (10%).

Table-20: Agent Banking
Challenges
• Building trust among potential customers is crucial for the success of agent banking. Moreover, insufficient funding and assistance, absence of ongoing supervision, and monitoring of agents are to be addressed (20%). • Lack of customized products with reasonable rates for underserved populations may prevent them from accessing agent banking (20%). • Substantial risks such as credit risk, liquidity risk, and operational risk could pose substantial threats to the overall operation of banks (20%).
Suggestions
• Customer education and awareness programs should be emphasized, especially those in rural and underserved areas, to promote financial literacy and empower customers to use banking services effectively (30%). • Banks may collaborate to overcome the challenges related to technology, data security, privacy measures to protect customer information, and capacity development of agents so that customer outreach and need facilitation can be easier (20%). • Customized products for underserved populations, including smallholder farmers, micro-entrepreneurs, and women entrepreneurs should be designed while ensuring that products are affordable, easy to understand, and accessible through agent banking outlets (20%). • Regular feedback from the agents and customers to be ensured for further improvement and better strategies. In addition, educate customers and agents about common fraud schemes and provide channels for reporting suspicious activities (20%). • Implement internal controls, conduct regular audits, and provide ongoing compliance training to agents to mitigate compliance risks effectively. Additionally, implement robust security measures, including encryption, multi-factor authentication, and transaction monitoring systems, to protect customer data and prevent unauthorized access (20%). • Different incentive structures can be designed to motivate agents for better performance (20%). • Banks may invest in user-friendly technologies ensuring the accessibility of the agents and customers may increase further business (20%). • Implement robust agent selection criteria, conduct thorough background checks, and provide comprehensive training on operational procedures and fraud prevention (10%). • Stay updated on regulatory guidelines and ensure agent banking operations adhere to all relevant laws and regulations. Besides, regular monitoring and supervision of agents are essential to detect and address irregularities promptly (10%). • Implement a stringent agent monitoring framework to get adequate control over them (10%). • Create awareness among mass people regarding confirmation of each banking transaction through SMS in their registered mobile number. Similarly, mass customer awareness is required to stop hand-written deposit slips at the agent outlets (10%).

Table-21: Mobile Banking
Challenges
• Individuals in remote locations do not usually prefer mobile for financial transactions due to a lack of confidence and complexity in transaction processing (30%). • Transaction costs of MFS are yet to be a major challenge for financial inclusion (30%). • Financial literacy, options for suitable channels, data security, etc. are significant challenges for banks (30%).
Suggestions
• Offering mobile banking solutions that are user-friendly, cost-effective, and compatible with a wide range of financial services (30%). • Implementing digital and financial literacy for mass people to raise awareness and persuasion for banking through the channel (20%). • Employing robust security measures to protect customer information and give them confidence (20%).

Table-22: Inclusive Banking
Challenges
• Lack of financial literacy (i.e. the benefits and usage of banking services such as deposits, loans, and other financial products) among unbanked people in rural areas is a concern for banks which may sometimes hinder the provide financial benefits (20%). • Illegal activities such as hundi, and the absence of an appropriate payment gateway infrastructure are some of the problems for financial inclusion in Bangladesh (10%). • Lack of bank networks, extensive paperwork, and documentation limit many unbanked people from being included in the banking umbrella (10%).
Suggestions
• Easier access to credit for CMSMEs and start-ups, especially those led by women and minorities, may boost entrepreneurship and economic growth (20%). • To ensure the security of customer integration of innovative technologies like biometrics and blockchain may enhance and streamline banking processes (20%). • Designing appropriate policies and practicing those can promote gender equality and empower women to access credit and benefit from banking services (20%). • To overcome traditional barriers to accessing banking services, investing in technologies i.e. mobile banking apps; digital payment solutions; biometric authentication; etc. may bring more results (20%). • Building trust and confidence among underserved populations in the banking system by providing transparent and reliable services, fair and ethical practices, and responsive customer support (10%). • Ensure easy and convenient banking service onboarding with simple documentation (10%).

Table-23: Sustainability Reporting
Challenges
• Access to reliable sustainability data is a major challenge for banks. Besides, it is cumbersome for banks to collect desired data smoothly for internal consumption (30%). • To set measurable goals, stakeholder engagement, and clear communication are to be addressed for reporting sustainability (30%). • Banks are yet to be ready to ensure data transparency regarding sustainability reporting. Moreover, the segregation of product-wise data is inadequate for some banks (20%).
Suggestions
• Banks may design a standardized framework for measuring and reporting key sustainability outcomes i.e. carbon emissions reduction, financial inclusion, community development, etc. Besides, the assessment of the supply chain partners of the clients and reporting it to the sustainability performance may reduce the bank's own risk, promote responsible lending practices, and improve sector performance (20%). • Stakeholder collaboration is encouraged through industry associations and peer networks to share best practices, challenges, and lessons learned in reporting to identify the areas for improvement (20%). • To improve reporting processes, data analytics; AI; and blockchain can be streamlined through digital platforms for real-time data collection, analysis, reporting, and monitoring of ESG performance indicators (20%). • Provide clear explanations of reporting methodologies, assumptions, and limitations to promote transparency and understanding of all stakeholder levels (20%). • Arrangement of different training workshops for detailed data analysis of sustainability criteria to enrich the knowledge level of bank employees (20%). • Make sustainability reports accessible to all channels, including the bank’s website, branches, annual reports, and public databases (10%).

Table-24: CSR Activities
Challenges
• The scope of CSR initiatives is vast, yet funding is constrained. Therefore, CSR's coverage areas need to be reexamined to make it more focused (20%). • Bank receives numerous financial proposals from organizations and individuals but face budget constraints, resulting in a shortening of beneficiaries and challenges in determining how to use designated CSR funds (20%). • It might be difficult to maintain a balance between the financial viability of corporate social responsibility initiatives and the requirement to generate shareholder value, particularly during economic downturns as CSR projects include upfront fees or investments with uncertain returns (10%).

Suggestions
• Need to work in more innovative ways to serve the underprivileged segment of society in line with the comprehensive guidelines of BB (20%). • Focus on areas where the bank can make a meaningful difference and contribute to positive societal and environmental outcomes (10%). • Foster open dialogue, collaboration, and partnership to co-create and implement effective CSR initiatives (10%).

Apart from the above challenges and suggestions, the participants of the Focus Group Discussion (FGD) have made some policy suggestions for ensuring the better implementation of sustainable financing by banks in the context of Bangladesh. These suggestions, if considered for implementation, may help to achieve further improvement.

Table-25: Policy Suggestions - Outcome of FGD

- Formulation of different policies aligned with international targets and best practices are the noteworthy development in the banking sector to foster sustainable banking (70%).
- To reach and provide banking services to underserved/unbanked people banks may utilize ADCs to reduce costs and promote sustainable banking (40%).
- Frequent training programs can be arranged for the bank officials to make them aware about different criteria of sustainability measurement i.e. carbon footprint measurement, reporting, etc. (30%).
- Continuous supervision and monitoring are essential to adhere to regulations and maintain quality operations to boost sustainable practices (30%).
- Banks are promoting sustainable banking and financial literacy campaigns through training and awareness programs themselves, collaborating with national and international organizations. The efforts are making clients more aware and becoming compliant with their operation like inventory management, waste management, etc. (30%).
- Some banks are expanding agent outlets, providing training to local entrepreneurs related to agriculture and CMSMEs, and conducting financial literacy programs for marginalized people especially women for better utilization of the financing to themselves (20%).
- Banking sector is always trying to address sustainability through their own networks and sometimes with MFIs where they do not have geographic penetration (20%).
- Senior management of banks should be aware of promoting green banking practices for sustainability (20%).
- Regulatory bodies can formulate a stringent target-oriented financing and monitoring policy (20%).
- Banks may encourage small clients to implement sustainable projects and the benefits of it in the economy (10%).

5. Key Observations and Way Forward

One, Available published data and primary information indicate expansion of sustainable banking activities during CY 2022 and CY 2023 covering the major heads i.e. financial inclusion, agriculture and SME financing, green banking, CSR activities, and disclosures. Digital financial services are expanding with newer instruments. Considering the visible positive changes, Bangladesh has been placed in the group of 'Advancing' in the 'SBFN Sustainable Finance Progression Matrix 2023'. Amid progress in agent banking activities, certain instances of fraudulent activities became concerning and deserve greater monitoring on the part of banks. Reliable data gathering, compilation, and aggregation in all the areas of sustainability are crucial at this moment. The country lacks data even on some benchmarks to measure progress. NAU is currently engaged in undertaking surveys and drawing data on financial inclusion and sustainable banking activities covering a large number of relevant indicators. Capturing and disclosing disaggregated data on payment, deposit, credit, and insurance would offer a comprehensive picture of the country's status of financial inclusion. Banks have to work on developing internal data collection and aggregation arrangements to effectively respond to the NAU's data/information demand. NAU may work with banks to develop and install an 'internal data collection and gathering model' for banks to ensure the timely submission of reliable data aligned with NAU's requirements.

Two, Cluster approach is useful for both small agriculture enterprises and SMEs. cluster development initiatives can unlock opportunities for improved access to finance, enhanced productivity, and sustainable growth along the value chain. Establishing farmer cooperatives or producer groups within clusters can facilitate collective bargaining, aggregation of produce, and access to finance. SMEs may receive extensive benefits from clusters through developing interconnectedness, cooperation, and competition. A real clustering approach might work as an effective alternative to the collateral-related challenges that are commonly handled by both SMEs and small agriculture enterprises. Banks need pragmatic strategies for effective cluster financing. It is good to see that in recent times some banks formulated cluster policies in response to a policy circular from Bangladesh Bank. However, such policies must include banks' approach and strategy to be engaged in the development of identified clusters. Being engaged in the development process, banks would be able to measure the status and level of clusters that are essential to minimize risks in their financing operations.

Three, Amid robust policy and strategy formulation since independence at the national and central bank level, agriculture marketing, and formal sector financing are yet to get due boost. Bangladesh could not introduce innovative inclusive products like 'Warrant Receipt System' and 'Collateral Management Agreement Financing' to support smallholder farmers. Policymakers need to come up with comprehensive plans to support the development of these products in the agriculture finance market. Microinsurance is particularly useful to protect farmers and also banks from bad weather conditions and other unforeseen circumstances. Farmers, banks, and the smallholder loan recipient can all be adequately protected when insurance is combined with loan products. Such products may be offered by banks under the newly permitted banner 'Bancassurance'.

Four, Bangladesh Bank has been very active in promoting green and sustainable finance, and banks have been responding to the central bank's approaches by raising the volume and proportion of green and sustainable finance over time. Of the different product categories, sustainability-linked loans (or sustainable-linked loans in BB's Sustainable Finance Policy) are the significant portion and are gaining momentum, which is aligned with global development. In terms of modern taxonomy, the categorization of 'Sustainability Linked Loans' with the sub-categories by the BB makes sense, however, the way these products are delivered by the banks does not match with the recognized concepts. Sustainability Linked Loans are expected to be tagged with one or more KPIs (key performance indicators) and interest rate incentives, and there must be an arrangement of verification and reporting. The product design may be streamlined with the policy and operational initiatives of the central bank and the banks.

Five, In the absence of market incentives, creating regulatory incentives is crucial in a country like Bangladesh. In this connection, introducing 'Sustainability Rating' is a laudable initiative by the central bank. Through the Sustainability Rating, BB reflects the performance of the banks and financial institutions in terms of selected indicators associated with sustainable finance, CSR, green refinance, and core banking sustainability. In a country like Bangladesh, such a rating however seems incomplete in the absence of considering indicators related to digital payment and financial inclusion. Central Bank may think of revising the methodology of 'Sustainability Rating' and align it with the broad concept of sustainable banking. Currently, banks are given targets to convert at least 5% of their portfolio into green finance and at least 20% into sustainable finance. Considering the improved performance of some banks and financial institutions, the requirements may be further raised and tagged with low-cost refinancing facilities as an incentive.

Central Bank may think of revising the debt-equity ratio from 70:30 in favor of borrowers.

Six, the Expansion of CSR and streamlining allocations of funds to education, health, environmental and natural disasters are inspiring. CSR Policy, which is basically CSR fund policy, requires banks to allocate their CSR funds for given purposes bringing favourable changes. A significant portion of these CSR funding and expenses can be linked with the bank' financing operation. Despite the qualitative improvement in the use of CSR funds in recent times, most of the expenses under the head may be tagged as 'Philanthropic Expenses'. Use of CSR funds as subsidies for sustainable and green financing may link the fund with core CSR and optimize benefits. Such transformation would also be in line with the objective penned in the CSR Policy for Banks and Financial Institutions 2022.

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Appendix-1

List of Banks Responded to the Questionnaire

Sl. No.	Bank Name
1.	Agrani Bank PLC
2.	Al Arafah Islami Bank PLC
3.	AB Bank PLC
4.	Bangladesh Krishi Bank
5.	BRAC Bank PLC
6.	Commercial Bank of Cylon PLC
7.	Dutch Bangla Bank PLC
8.	Eastern Bank PLC
9.	EXIM Bank Limited
10.	First Security Islami Bank PLC
11.	IFIC Bank PLC
12.	Islami Bank Bangladesh PLC
13.	NRB Bank Limited
14.	One Bank PLC
15.	Pubali Bank PLC
16.	Rajshahi Krishi Unnayan Bank
17.	Shimanto Bank PLC
18.	Social Islami Bank PLC
19.	Southeast Bank PLC
20.	Standard Bank PLC
21.	Trust Bank Limited
22.	United Commercial Bank PLC

Appendix-2

List of Banks who Participated in the Focus Group Discussion (FGD)

Date: May 09, 2024

A total of 25 participants from 20 banks attended the FGD

Sl. No.	Name of the Bank
1.	Agrani Bank PLC
2.	Al Arafah Islami Bank PLC
3.	AB Bank PLC
4.	Bangladesh Krishi Bank
5.	Bangladesh Development Bank Limited
6.	Commercial Bank of Ceylon PLC
7.	Dutch-Bangla Bank PLC
8.	Eastern Bank PLC
9.	First Security Islami Bank PLC
10.	IFIC Bank PLC
11.	Islami Bank Bangladesh PLC
12.	Mercantile Bank PLC
13.	NRB Bank Limited
14.	ONE Bank PLC
15.	Pubali Bank PLC
16.	Rajshahi Krishi Unnayan Bank
17.	Shimanto Bank PLC
18.	Social Islami Bank PLC
19.	Trust Bank Limited
20.	United Commercial Bank PLC

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