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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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Forewords

As part of the ongoing dissemination of the output of the BIBM review, the present paper contains the findings of the review workshop: “*Sustainable Banking Activities by Banks in Bangladesh*”.

Alike policymaking bodies of the developed and developing economies, Government of Bangladesh (GoB) and Bangladesh Bank have been promoting sustainable finance activities through different segments of the financial sector. Bangladesh Bank has been particularly active in promoting sustainable finance activities in the country since 2009. Practically, it is the BB’s regulatory approach that became prominent in the sustainable financing activities facilitated by the banks and NBFIs of the country. Reviewing and analyzing information and data on the progress and development of sustainable banking activities, and the associated regulatory and policy environment is expected to contribute to streamlining the future course of actions on this front by the key stakeholders. The exercise might help to identify accompanying challenges at policy and operational levels that requires due attention for ensuing continuous development of sustainable banking in the country.

It gives me immense pleasure, on behalf of BIBM, to offer this important resource to the practitioners of the banks as well as to the academics and common readers. I hope this review workshop paper will be a useful reference material for banks as well as regulators involved in implementing sustainable banking policies in the banking sector of Bangladesh.

We do encourage feedback from our esteemed readers on this issue which certainly would help us to improve upon our research activities in the years to come.

Md. Akhtaruzzaman, Ph.D.

Director General, BIBM

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Executive Summary

Sustainable banking is expected to ensure a balance between financial, social, and environmental returns. Thus, a commercial banks' approach toward sustainable banking must go beyond profitability. Sustainable banking and financing are associated with the concept of sustainable development and the ongoing efforts associated with the implementation of the 'Sustainable Development Goals (SDGs)'. Considering the increasing instances of environmental and the social disasters (along with the most recent devastation related to the Covid-19 challenges), the financing should be tagged with sustainable development and economic activities of an economy and the businesses. Sustainability in the context of banks is associated with environmentally and socially desirable ventures for improving financial inclusion by ensuring transparency. Sustainable financing activities have direct association with that of corporate social responsibility (CSR) activities by banks.

Alike policymaking bodies of the developed and developing economies, Government of Bangladesh (GoB) and the central bank of the country (Bangladesh Bank) have been promoting sustainable finance activities through different segments of the financial sector. Bangladesh Bank (BB) has been particularly active in promoting sustainable finance activities in the country since 2009. Practically, it is the BB's regulatory approach that became prominent in the sustainable financing activities facilitated by the banks and non-bank financial institutions (NBFIs) of the country. Policy and regulatory activities of some departments of the Bangladesh Bank like 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. Very recently, National Financial Inclusion Strategy Administrative Unit (NAU) started operation within the central bank's functional scope to implement Bangladesh National Financial Inclusion Strategy (B-NFIS) where sustainable and inclusive finance is a core component. In addition, the central bank's reporting and disclosure requirements for the banks and NBFIs are associated with the key area of 'Transparency' under the umbrella of sustainable banking. Moreover, some sustainable banking initiatives cannot be effectively enforced without coordination amongst relevant government agencies/authorities/directorates and private stakeholders.

Under sustainable banking umbrella, banks and NBFIs have been responding and implementing sustainable banking policy initiatives of the central bank by offering targeted and specially designed payment, deposit, and lending services. These services are delivered or channeled through branches/sub-branches, installing separate unit/desk, even through agents and local level NGOs. Technology-driven alternative delivery channels using mobile and online platforms are getting increasingly impactful in the space of sustainable banking and finance.

Reviewing and analyzing information and data on the progress and development of sustainable banking activities, and the associated regulatory and policy environment is expected to contribute to streamlining the future course of actions on this front by the key stakeholders. The exercise might help to identify accompanying challenges at policy and operational levels that requires due attention for ensuing continuous development of sustainable banking in the country.

In this context, the review study targets to analyze data and information on sustainable banking activities by banks and the associated policy and regulatory initiatives for the period (2020-2021). Specific objectives of the review study are: *one*, to highlight policy and regulatory initiatives 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 31 banks responded to the questionnaire survey of the study. Apart from the questionnaire survey, a focus group discussion (FGD) was arranged with the representatives of various departments to capture the insights of the sustainable financing related issues and to come up with possible policy suggestions. 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. This report has been finalized after accommodating the valuable comments of the discussants and participants of the workshop. The major observations and recommendations are summarized below:

As a whole the sustainable finance and banking activities expanded over CY2020 and CY2021 covering the major heads i.e. financial inclusion, agriculture and SME financing, green banking, and CSR activities. Technology adoption came up as a driving force to boost digital payment services and transforming service delivery process in the financial sector. Practically, technology became the key factor to make financial services differentiated where policy supports and capacity are crucial factors to address. Technology is also associated with the key concerns of sustainable banking-availability, accessibility, and affordability.

PCBs were at the forefronts in terms of performances in most of the areas of sustainable banking during 2020 and 2021. Though SOCBs and SBs have remarkably been engaged in promoting NFAs and agricultural financing, a lot is to be achieved on the innovation fronts to promote technology driven financial inclusion, inward remittance flows and green banking. PCBs are leading the pack in sustainable financing, CSR expenditure and adoption of technology for efficient payment and financial service delivery.

MFS/digital financial services have proven worth for effective financial inclusion. The decision to allow White Level ATM/Merchant Acquiring services appears as a good option for expanding MFS/digital financial services in the rural areas and may offer cost benefits to the banks, MFS, PSPs, and the rural population. It is expected to promote the habit among the customers of using POS, ATMs, and QR-based services over a longer period, and shall contribute to saving in transaction costs and manpower costs. Especially, QR-code services might be a very affordable option for the rural population at this moment. Transactions through micro-merchant accounts are expected to explode remarkably when the 'Bangla QR' code is used widely. Creating sound incentive structures for the service providers and awareness are the areas to address.

Ensuring availability and accessibility through expansion of MFS/digital financial services would help to be digital and thus contribute to promoting affordability of the MFS/digital financial services. Interoperability is associated with the accessibility, availability, and affordability of the MFS/digital financial services. Despite improvement, MFS/digital financial services attained limited interoperable transactions. Effective implementation of interoperability by addressing cost concerns of the MFS might bring remarkable development in terms of availability and accessibility.

Innovation platform is the key. It is essential to gain an early understanding of the general applicability of creative solutions for banking and payment services, and enable policy or regulatory sandbox to test new ideas in the area of digital financial services and inclusion. Policymakers are already contributing and should enhance the efforts. And there is no alternative to the undertaking and facilitation of greater coordination amongst the key stakeholders like financial services providers, government ministries and departments, and regulators (Bangladesh Bank, Bangladesh Telecommunication Regulatory Commission, Micro-credit Regulatory Authority, Ministry of Finance), and local committees who are engaged in financial inclusion activities.

Expansion move of agent banking is inspiring, and sustaining the model might prove to be a remarkable force for reaching the rural vulnerable at reasonable cost. Banks have designed different models employing differential agents (post offices, private entities) to take their services to their targeted segments. However, shadow banking elements associated with the agent banking and other technology driven banking and innovations should be handled appropriately. Alongside policy support, this comprehensive financial model must be under delicate care and monitoring for its sustained journey.

From the policy and regulatory perspective, agricultural financing has been a part of priority interventions in the country, however, several agriculture and rural economy are yet to be adequately attended to by banks. Marketing and supply chain are critical challenges in the agriculture sector that are associated with efficient agricultural financing. In line with global development, it is important to work on developing price discovery mechanism for fair pricing, and introducing products like warrant receipt systems and

micro insurance tagged agricultural product targeting small farmers. CMSME sectors have traditional challenges associated with collateral, documentation and financial literacy. A real clustering approach might work as an effective alternative to the collateral related challenges and for that, identification of the clusters and their levels of development is the need of the time. CMSME women enterprises need support to be bankable. Small, micro and cottage enterprises should also be under regular training and awareness programs.

Green banking improved in CY 2020 and CY2021 both in terms of green financing and in-house efforts of environmental risk management, and despite challenges, there are policy and regulatory interventions supportive to the banks and financial institutions. Sustainable Finance Policy is a forward-looking effort to integrate green financing with the social and other sustainability linked products. Bankers and their clients need to be aware of the contents and implications of the new policy. It is really inspiring that Bangladesh has been placed ahead of all South Asian countries in the ‘Advancing’ category in terms of the progress in sustainable finance by IFC. The report however also indicates relative weaknesses in the ‘Climate Risk Management’ component.

Expansion of CSR and streamlining allocations of funds to education, health, environmental and natural disasters are inspiring. Support is needed in the capacity development and awareness fronts across individuals, financial institutions, and even government and non-government entities to ensure the application of sustainable and digital financial services. Financial literacy is a key area to address. Literacy and awareness gap appear to be particularly acute in rural Bangladesh that needs to be addressed. Adoption of standard sustainability reporting framework by banks would bring notable change in the transparency and disclosure framework of the sustainable banking movement. Bank management needs awareness and motivational programs on the issue.

List of Abbreviation

ACD	Agricultural Credit Department
ADB	Asian Development Bank
AFI	Alliance on Financial Inclusion
ATM	Automated Teller Machine
BB	Bangladesh Bank
BDT	Bangladeshi Taka
BFIU	Bangladesh Financial Intelligence Unit
BKB	Bangladesh Krishi Bank
CFI	Center for Financial Inclusion
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
DFI	Digital Financial Services
ESG	Environmental, Social and Governance
ESRM	Environmental and Social Risk Management
e-KYC	Electronic Know Your Customers
FCBs	Foreign Commercial Banks
FGD	Focus Group Discussion
FY	Fiscal Year
GB	Green Banking
GoB	Government of Bangladesh
GRI	Global Reporting Initiative
GTF	Green Transformation Fund
IMF	International Monetary Fund
IFC	International Finance Corporation
MFI	Micro Finance Institutions
MFS	Mobile Financial Services
MSME	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
NGO	Non-Government Organization
NPSB	National Payment Switch Bangladesh
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
SDG	Sustainable Development Goals
SME	Small and Medium Enterprise
SMESPD	SME and Special Programmes Department
UN	United Nations
WLAMA	White Label ATM and/or Merchant Acquisition
UNEP-FI	United Nations Environment Programme Finance Initiative
USD	US Dollar

Table of Contents

1. Introduction	01
2. Sustainable Banking and Finance: Review of the Global Development	03
3. Sustainable Banking in Bangladesh: Policy and Regulatory Development	10
3.1 Macroeconomic Policy Initiative for Sustainable Finance	10
3.2 Financial Inclusion and Digital Financial Services Related Policy Initiatives	11
3.3 Policy Initiatives in Agriculture and CMSME Sectors	14
3.4 Policy Initiatives for Green Banking and CSR Activities	17
4. Review of the Trends of Sustainable Banking Activities and Operations in Bangladesh	18
4.1 Trends and Developments in Financial Inclusion and Digital Financial Services	18
4.2 Financing Agriculture and Rural Economy, and SMEs	24
4.3 Sustainable and Green Banking and CSR Activities by Banks	
5. Key Observations and Recommendations	37
References	40
Appendix	43

List of Tables

Table-2.1: Sustainable Finance Instruments of the Globe	03
Table-2.2: Innovations in Sustainable Finance	04
Table-2.3: SBFN Sustainable Finance Progression Matrix	07
Table-2.4: Account Ownership in the South Asian Countries	08
Table-2.5: Global Innovation Index – 2021	09
Table-3.1: Major Policy and Regulatory Initiatives on Financial Inclusion and Digital Financial Services	13
Table-3.2: Major Policy and Regulatory Initiatives on Agricultural and Rural Financing	15
Table-3.3: Major Policy and Regulatory Initiatives on CMSME Credit	16
Table-3.4: Major Policy and Regulatory Initiatives on Green Banking and CSR	17
Table-4.1: Expanding No Frill Accounts (NFAs)	19
Table-4.2: Top-5 Banks based on No Frill, Small Deposit and Remittance Flows	19
Table-4.3: Expanding MFS in Bangladesh	20
Table-4.4: Status of ATM and POST in Banks	20
Table-4.5: Expanding Agent Banking Activities	22
Table-4.6: Top Speedsters in Agent Banking in Bangladesh	23
Table-4.7: Status of Agriculture and Rural Banking	25
Table-4.8: Agricultural Credit Performance by Banks	25
Table-4.9: Disbursement of CMSME Credit by Banks	27
Table-4.10: Green Banking Fund Utilization by Bank Group	28
Table-4.11: Top 5 Performing Banks in Sustainable Financing	30
Table-4.12: Top 5 Performing Banks in Green Finance	30
Table-4.13: Environmental & Social Risk Management by Banks	30
Table-4.14: In-house Environment Management by Banks	30
Table-4.15: Top 5 Performing Banks in CSR Expenditure	32
Table-4.16: Top Rated Banks for the year 2020 and 2021	34

List of Figures, Boxes and Appendices

Box-4.1: Challenges Confronted by the Banks in MFS, Agent Banking, and Inclusive Finance Services	24
Box-4.2: Challenges Confronted by the Banks in Agricultural and Rural Credit, and SME Financing	27
Box-4.3: Challenges Confronted by the Banks in Sustainable and Green Banking and CSR Activities	32
Box-4.4: Suggestions put forward by Banks	35
Figure-4.1: Market Share of the Broad Bank Groups based on Credit Disbursement	26
Figure-4.2: Sector-wise Agriculture Credit Disbursement	26
Figure-4.3: Green Finance by Banks in Different Sectors (in %)	29
Figure-4.4: Number of Individual Borrowers in Sustainable Finance by Banks	29
Figure-4.5: Allocation of CSR Expenditure by Banks for Different Purpose	32

Sustainable Banking Activities by Banks in Bangladesh

1. Introduction

Sustainable banking is expected to ensure a balance between financial, social, and environmental returns. Thus, a commercial banks' approach toward sustainable banking must go beyond profitability. Sustainable banking and financing are associated with the concept of sustainable development and the ongoing efforts associated with the implementation of the 'Sustainable Development Goals (SDGs)'. Considering the increasing instances of environmental and the social disasters (along with the most recent devastation related to the Covid-19 challenges), the financing should be tagged with sustainable development and economic activities of an economy and the businesses. Sustainability in the context of banks is associated with environmentally and socially desirable ventures for improving financial inclusion by ensuring transparency. Sustainable financing activities have direct association with that of corporate social responsibility (CSR) activities by banks.

Alike policymaking bodies of the developed and developing economies, Government of Bangladesh (GoB) and the central bank of the country (Bangladesh Bank) have been promoting sustainable finance activities through different segments of the financial sector. Bangladesh Bank (BB) has been particularly active in promoting sustainable finance activities in the country since 2009. Practically, it is the BB's regulatory approach that became prominent in the sustainable financing activities facilitated by the banks and non-bank financial institutions (NBFIs) of the country. Policy and regulatory activities of some departments of the Bangladesh Bank like 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. Very recently, National Financial Inclusion Strategy Administrative Unit (NAU) started operation within the central bank's functional scope to implement Bangladesh National Financial Inclusion Strategy (B-NFIS) where sustainable and inclusive finance is a core component. In addition, the central bank's reporting and disclosure requirements for the banks and NBFIs are associated with the key area of 'Transparency' under the umbrella of sustainable banking. Moreover, some sustainable banking initiatives cannot be effectively enforced without coordination amongst relevant government agencies/authorities/directorates and private stakeholders.

Under sustainable banking umbrella, banks and NBFIs have been responding and implementing sustainable banking policy initiatives of the central bank by offering targeted and specially designed payment, deposit, and lending services. These services are delivered or channeled through branches/sub-branches, installing separate unit/desk, even though agents and local level NGOs. Technology-driven alternative delivery channels using mobile and online platforms are getting increasingly impactful in the space of sustainable banking and finance.

Reviewing and analyzing information and data on the progress and development of sustainable banking activities, and the associated regulatory and policy environment is expected to contribute to streaming the future course of actions on this front by the key stakeholders. The exercise might help to identify accompanying challenges at policy and operational levels that requires due attention for ensuing continuous development of sustainable banking in the country.

In this context, the review study targets to analyze data and information on sustainable banking activities by banks and the associated policy and regulatory initiatives for the period (2020-2021). Specific objectives of the review study are: **one**, to highlight policy and regulatory initiatives 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 31 banks (Appendix-1) responded to the questionnaire survey (Appendix-2) of the study. Apart from the questionnaire survey, a focus group discussion (FGD) was arranged with the representatives of various departments (SME finance, Agriculture/Rural credit, Financial inclusion, Mobile/ Digital financial services, Agent Banking, Green & CSR) to capture the insights of the sustainable financing related issues. List of the participants of the FGD is given in appendix-3 and the questions in appendix-4. Three departments of Bangladesh Bank: Sustainable Finance Department, Payment Systems Department, and NFIS Administrative Unit were consulted to come up with possible policy suggestions (Appendix-5). 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. This report has been 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 global development of sustainable banking and finance. 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. Sustainable Banking and Finance: Review of the Global Development

Broadly sustainable banking includes environmental, social, and governance (ESG) risk management in both in-house operations and financing. Efforts of integrating social and governance issues with environmental concerns are relatively recent. Resource savings by adopting modern technology and efficient in-house management received much attention from the banks and financial institutions. The approach of sustainable finance is taking wider shape by incorporating social and governance issues. Thus, the scope of sustainable financing also broadened over time. On the sustainability front, the bond market especially green bonds have been particularly popular. However, sustainability link debts (both bonds and loans) and social bonds are getting growing importance in recent years (Table-2.1). To meet the rising demand and customized need, there are also some innovative financing products (Table-2.2) in the form of green deposits, and sustainability-linked loans and bonds (Bullard, 2021).

Table-2.1: Sustainable Finance Instruments of the Globe	
Green Bond	Since their introduction in 2007, green bonds have continued to be a popular financial instrument, with global cumulative issuance surpassing the USD 1 trillion mark in 2020 (Climate Bonds, 2020), and issuance is expected to reach Euro 2 trillion in the next three years (The Asset, 2021).
Sustainability Bonds and Social Bonds	Issuance of social bonds, sustainability bonds, blue bonds, gender bonds, and most recently Covid-19 bonds gained momentum (Bullard, 2021).
Sustainability Linked Bond	Sustainability-linked bonds (SLBs) provide opportunities for companies across all industries or those with insufficient assets to

	qualify as green to access the sustainable finance market and a more diverse pool of investors.
Green Loans	Green loans have been maintaining consistent growth over the last five years (2016-2020)
Sustainability Linked Loans	2020 marked a new high for sustainable debt issuance (KPMG, 2020), and Sustainability-linked loans (SLLs) continue to grow in popularity and constitute the largest proportion of sustainability-linked debt.
<i>Source: Bullard, 2021</i>	

Table-2.2: Innovations in Sustainable Finance

Green deposits offer opportunities to invest short-term liquidity into environmentally sustainable projects, with companies required to meet certain eligibility criteria to qualify for green deposits. Banks like the MUFG Union Bank, the SMBC or the Citizens Financial Group have included this new sustainable finance instrument into their portfolios.

Sustainable deposits are used to fund small and medium-sized enterprises in developing countries, take on microfinancing and provide resources for sustainable projects. The world's first sustainable deposit was launched by Standard Chartered to finance SDGs in Africa, Asia and the Middle East using their Green and Sustainable Product Framework.

Green trade loans finance the purchases of goods and materials to support sustainable initiatives, including the transition toward renewable energy or sustainable food production. As part of its Sustainable Finance Framework, Barclays is offering its British clients access to green trade loans.

Green guarantees and letters of credit finance projects or products with a clear positive impact on the environment and the transition to a low-carbon economy. Siemens Gamesa Renewable Energy, a leading provider of wind power solutions (Bloomberg Intelligence, 2021)

Sustainable supply chain financing is a partnership between a corporation and its suppliers, with suppliers able to access financing options based on their ESG profile. ING Bank recently developed a sustainable supply chain financing solution to respond to its corporate clients.

Source: Sustainalytics, 2021

Demand side responses are also getting prominence. In most developed countries and several developing nations, businesses are showing greater interest in green investments. Consumers are also reflecting responsible behavior with their improved awareness. This is particularly reflected in the rapidly expanding global green bond market. In 2022, the green bond market experienced close to 50 percent year-to-year increase and it is expected to reach USD 1 trillion globally in 2023 (JP Morgan, 2022).

International agreements and global platforms have been great forces to create pressure on banks and financial institutions to allocate resources to the sustainable banking and financing activities. International agreements such as Paris Climate Agreement, European Union Green Deal, and UN SDGs have been promoting policymakers and banks and financial institutions to support and finance projects for addressing environmental and social issues throughout the globe. The Principles of Responsible Banking, established by United Nations in 2019, is an effort to align banking strategies with that of the Paris Agreement and SDGs (UNEP-FI, 2021).

‘The Principles for Responsible Banking’¹ is a UNEP-FI platform joined by 270 banks/ financial institutions around the globe (representing close to 45 percent of the total banking assets of the globe) to work for sustainability through benefiting people, planet, and the society (unepfi.org). Several other such principles were formulated over time by the market participants as well like, Green Bond Principles, Green Loan Principles, Social Bond Principles, Sustainability Bond Guidelines, Sustainability- Linked Loan Principles, etc. formulated and established by Loan Market Association (LMA), International Capital market Association (ICMA), and other global and regional organizations.

Alongside developed countries, policymakers and central banks in many developing and emerging economies are responding to the international and domestic calls for sustainable finance and banking. There are growing instances of formulating and adopting newer taxonomy and catalogue of sustainable banking and financing activities. The South Asia and Asia-Pacific regions, Japan, Hong Kong, China, Indonesia, Singapore, India, Bangladesh, etc. have initiated supportive and regulatory frameworks for promoting green and sustainable financing and getting market responses (Sustainalytics, 2021).

¹ IDLC, Bangladesh signed the Principles in September 2019.

Regarding ongoing trends of sustainability and sustainable finance during 2021 and 2022, Nordea's Sustainable Finance Advisory Team (2022) observed a growing recognition of 'NetZero' targets; expansion of sustainability concerns integrating social and environmental issues; and improvement and harmonization of disclosure and reporting by the policymakers, business entities, and financial firms. According to a recent survey (Peers, 2022), fiscal policy authority and central banks are incentivizing firms and banks/financial institutions to help transform the economy by managing climate risks in several instances. And, responding to that thirty-eight central banks of the countries comprising close to 70 percent of the total emissions have committed to climate-related stress test to review the resilience of the large global financial firms in the growing climate-related risks. In response to the policy initiatives, 450 firms from 45 countries committed to spend USD100 trillion of finance needed for accomplishing 'net zero' goals over three decades (Peers, 2022).

Sustainable banking and finance models may be categorized into Policy Led, Market Led, and Collaborative. In some global economies², Bankers' Associations are particularly active in promoting sustainable finance. In most developing countries, it is the Policy-Led approach that are 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. 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 the emerging economies work for improving sustainable finance activities aligned with global good practices. SBFN publishes country progress report for members that includes Bangladesh (SBFN and IFC, 2022). 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 are at the 'Developing' phase (Table-2.3).

² Mongolia, Columbia, Sri Lanka etc.

Table-2.3: SBFN Sustainable Finance Progression Matrix							
Preparation		Implementation			Maturing		
Commitment	Formulating	Developing		Advancing	Consolidating	Mainstreaming Behavioral Changes	
Kazakhstan	Chile	Argentina	Iraq	Bangladesh	China		
Lao PDR	Fiji	Cambodia	Nepal	Brazil	Colombia		
Maldives	Jordan	Costa Rica	Pakistan	Georgia	Indonesia		
Samoa	Kyrgyz Republic	Dominican Republic	Panama	Kenya			
Serbia			Paraguay	Mexico			
Tunisia			Ecuador	Peru	Mongolia		
			Egypt	Philippines	Morocco		
			Ghana	Sri Lanka	Nigeria		
			Honduras	Thailand	South Africa		
			India	Ukraine	Turkey		
					Vietnam		

Note: In alphabetical order; Source: IFC and SBFN, 2022.

Green and socially responsible banking and financing are inclusive as well. For over 75 years, the United Nations has provided an inclusive forum for addressing global challenges associated with economic and financial inclusion. Within the United Nations, the General Assembly and the Economic and Social Council are the main forums for building global consensus on key economic and social norms and goals, including the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda (UN, 2021). ‘Financial Inclusion’ is particularly targeted in certain collaborative efforts of adopting and setting principles in several common global sustainability platforms and targets. Inclusive aspects are at the core of SDG goals. There are platforms like Alliance for Financial Inclusion (AFI), a member-based network that works for sustainable and inclusive policies to empower playmakers for formulation and implementation of financial services to increase financial access by the underserved. As of August 2022, AFI has 101-member institutions (including Bangladesh Bank) and 89-member countries including Bangladesh

(afi-global.org). Country responses to inclusive finance brought major changes and today a significant portion of South Asian population is financially included (Table-2.4).

Table-2.4: Account Ownership in the South Asian Countries			
Countries	Adult with an Account [%]	Women with an Account [%]	Poor Adults with an Account [%]
Sri Lanka	89	89	87
India	78	78	78
Nepal	54	50	45
Bangladesh	53	43	49
Pakistan	21	13	18
Afghanistan	10	05	06
<i>Source: Global Findex Database, July 2022</i>			

Innovation is crucial for promoting inclusion and sustainable banking using appropriate technology by promoting easy access and reducing costs (United Nations, 2020). Technology driven payment services received newer impetus in the context of the Covid-19 disruption. Decreasing use of physical cash and digitization efforts on the part of the businesses changed payment structure throughout the globe have notable contribution 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 of effective use of FinTech and thus designing customized products. Most developing countries are lagging behind in this front (Table-2.5). 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 Ree (2021), as of February 2022, 68 central banks are engaged in different stages of retail CBDC experimentation.

Table-2.5: Global Innovation Index – 2021

Country	Score	Rank
India	36.4	46
Kenya	27.5	85
Sri Lanka	25.1	95
Pakistan	24.4	99
Nepal	22.5	111
Bangladesh	20.2	116

Source: *Globaleconomy.com*

SMEs and agricultural financing are crucial areas of financial inclusion in the context of developing countries. As the economy enters the next credit cycle, banks are finding both opportunities and challenges in the market for lending to small enterprises (SEs). Although volumes are growing slowly, most banks are not reaching their full potential. According to a report, the world's micro, small, and medium-size enterprises have unmet finance needs of approximately USD5.2 trillion a year, roughly 1.5 times the current lending market for such businesses (noted in Mackinsey & Co, 2022). Similarly, banks and financial institutions in developing countries lend a disproportionately lower share of their loan portfolios to agriculture compared to the agriculture sector's contribution. Agriculture finance and agricultural insurance are strategically important for eradicating extreme poverty and boosting shared prosperity. Globally, there are an estimated 500 million smallholder farming households – representing 2.5 billion people – relying, to varying degrees, on agricultural production for their livelihoods (World Bank, 2020). Today digital investment is mandatory and technology is a differentiator for successfully financing these sectors (Mckinsey & Co, 2022).

Above published information indicate that global economies have a lot to achieve on sustainable banking and financing fronts. It is also true that banks and financial institutions have a great role to play to attain net zero targets as they possess the ability to influence business firms by restricting project financing that leads to environmental pollution. ADB (2020) survey observed, central banks and monetary authorities across Asia and the Pacific generally have identified the necessity of addressing environmental and climate risks in the financing activities. However, in most instances, the countries are at early stage or are yet to start addressing

environmental risks at operational level (ADB, 2020). Alike, recently published UN Financing Sustainability Report (2022) notes that banks and financial institutions throughout the globe started recognizing the climate and other non-financial risks. However, additional efforts are needed to incorporate these as part of risk management frameworks where central banks and monetary policy authorities have further roles to play. There is no doubt that FinTech is creating new opportunities for efficiency gains and financial inclusion. The large-scale adoption of these technologies also creates new risks, including for financial instability and lack of integrity that should be handled effectively (United Nations, 2020). There is no doubt that disclosure & reporting gained momentum, and reporting format like GRI are getting growing acceptability. Not only in developed economies, a number of developing economies like China, South Africa, and India introduced mandatory ESG reporting for listed companies (Siddiqui, 2022).

3. Sustainable Banking in Bangladesh: Policy and Regulatory Development

3.1 Macroeconomic Policy Initiative for Sustainable Finance

Policy and planning documents of Bangladesh recognized the necessity and implications of green and sustainable growth where sustainable banking and finance activities are directed related. The country is committed to attaining SDG goals and sustainable growth policies are aligned with Paris Agreement (adopted in COP21) that are reflected Nationally Determined Contribution (NDCs) roadmap and associated action plan of Bangladesh (GoB, 2021). 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. (GoB, 2018). Eight Five Year Plan (July 2020-June 2021) and Perspective Plan (2021-41) are instrumental in attaining all the above-mentioned policy documents and referred 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, and National Agricultural Policy 2018 have references to relevant banking and financing services that have notable implications. Aligned with the GoB policy approach, Bangladesh Bank (BB) has been proactive in promoting sustainable banking and finance for attaining national sustainability goals.

National Financial Inclusive Strategy of Bangladesh (NFIS-B), approved in August 2021, is a major policy document of recent time adopted by the GoB to undertake financial inclusion measures in an organized and sustainable manner. 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. National Financial Inclusion Strategy Administrative Unit (NAU), stationed at Bangladesh Bank premises and headed by an Executive Director of BB, already started implementation process of the NFIS-B. NAU is responsible to perform 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 responsible forum for effective implementation of the NFIS-B guided by the NNC. Currently, NAU is engaged in finalizing action and resource plans, monitoring and evaluation framework, and Tracker & Dashboard development (NAU, 2022).

3.2 Financial Inclusion and Digital Financial Services Related Policy Initiatives

FID of BB has actively been engaged in handling policy and regulatory issues of the central bank associated with financial inclusion. Several refinancing schemes were introduced during CY2020 and CY2021 by the FID. Formulation of Financial Literacy Guideline 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. Policy efforts for No Frill Accounts (NFAs) and refinancing activities targeting vulnerable sections of the society facilitated by the FID are getting growing responses from the market. Electronic Know Your Customer (e-KYC) guideline issued by BFIU in January 2020 is another policy document that is expected to have notable implications for sustainable banking and finance in Bangladesh (Table-3.1).

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). On the G2P front, government ministries also issued complementary guidelines to facilitate payment and fund transfer. A circular issued by the Finance Division of the Ministry of Finance of the GoB reflects a notable initiative to promote the

availability, accessibility, and affordability of mobile financial services. For supporting the Social Safe Net beneficiaries through mobile financial services, Finance Division of the Ministry of Finance of the GoB issued the circular³ on November 12, 2020, to uniform charges on chasing out the digital money from MFS accounts, and made the charges free for social protection beneficiaries.

For bringing unbanked micro-traders, PSD issued a circular in November 2020 allowing banks and mobile financial service operators to open personal retail accounts. Until this, there was no scope for opening personal retail accounts that would allow small traders to open and receive micro payments. The MFS retail accounts enabled MFS users or bank customers to pay for purchases of kitchen market commodities like fish, vegetables, and other grocery items by scanning QR codes. Traders of tea stalls and even rickshaw pullers can open such accounts to receive payments. Clients can open accounts by filling up a simplified electronic know your customer (e-KYC) form, using national identification cards. Such accounts can be opened in a few minutes.

BB issued a revised regulation titled ‘Bangladesh Mobile Financial Services (MFS) Regulations, 2022’ to widen the scope of industry inclusion in MFS sector. The updated regulations provide that alongside the Bank-led model, now ‘with subject to the provision of their concerned law/Act, FI/Government Entity-led MFS Company can be formed’. Presently, many banks are operating MFS as a product through opening a new division or a wing, but it will not be the case for new entrants. Subsidiary company must be formed to get a license for a new MFS to enter in the industry (PSD Sources). PSD also re-fixed transaction limit: one, cash-in from a bank account to an MFS account with daily limit BDT 50,000; and cash-out from MFS account to a bank account daily BDT 50,000 and eliminates the number of daily transaction time's limit.⁴

To create infrastructure for digital financial services in the rural areas, PSD issued a circular on White Label ATM and/or Merchant Acquisition service providers (WLAMA) to expand and introduce the services of ATMs and Point of Sales (POS)/Quick Response (QR) code readers to the customers in the rural areas of Bangladesh. Through this circular BB allows certified non-bank entities to set up

³ Finance Division (Budget-1 Directorate, Wing-9), Ministry of Finance, and Government of the People's Republic of Bangladesh.

⁴ PSD Circular No. 06, and 11; dated 25/04/2022, and 05/07/2022, respectively.

the necessary infrastructure, such as POS machines and QR code readers, throughout the country for providing those digital services, such as QR code payments, to the customers of banks, MFS providers, payment service providers (PSP), and any other institution. BB's initiative seems to be a notable move to complement the present government's Digital Bangladesh agenda. For affordable digital services, PSD issued a circular⁵ on October 18, 2021, regarding the determination of fees/charges for transactions through NPSB and card schemes within the country. As per the new circular, banks can impose a maximum charge of BDT10 on clients when they transfer funds between lenders under the internet banking fund transfer system. The BB fixed a uniform rate for the settlement of transactions through POS devices. The central bank has also fixed the cost to settle transactions through Bangla QR code, which is operated under personal retail accounts owned by micro-enterprises and underprivileged businesses.

Interoperability is another critical issue associated with the accessibility, availability, and affordability of the MFS/digital financial services that are yet to take the desired nod. To promote preparatory measures and the benefits of interoperability, PSD issued a circular on the interoperable services amongst MFS providers and between banks and MFS providers through NPSB in October 2020. The policymakers have been working to ensure interoperability through two platforms: the Interoperable Digital Transaction Platform (IDTP) and the National Payment Switch Bangladesh (NPSB); and GoB has a plan to launch interoperable services amongst MFS providers and between banks and MFS. This might bring remarkable development in terms of availability and accessibility.

Table-3.1: Major Policy and Regulatory Initiatives on Financial Inclusion and Digital Financial Services	
Circular Reference	Broad Content
BFIU Circular No. 25, January 8, 2020	Issuance of Guidelines on Electronic Know Your Customer (e-KYC)
PSD Circular No. 03, April 6, 2020	Opening MFS Account in the name of workers of export-oriented industries for providing salaries.
FID Circular No. 01, dated April 20, 2020	Refinance scheme worth BDT 30 billion is introduced by the BB for Covid-19 affected low-income professionals, farmers, and micro businessmen. Bangladesh Bank shall charge 1 percent interest against the refinance to the financing banks, whereas financing banks shall realize 3.5
FID Circular Letter No. 02, dated November 09, 2020	

⁵ BB PSD Circular No-10/2021, dated October 18, 2021.

	percent interest against their finance to the microcredit institutions. Under this scheme, a microcredit institution is allowed to avail of financing facilities from a maximum of 3 different banks.
PSD Circular No. 04, dated May 13, 2020	50 lac distressed families receive cash assistance through Mobile Financial Service (MFS).
PSD Circular No. 07, dated October 22, 2020	Interoperable transactions among banks and MFS providers are launched through National Payment Switch Bangladesh (NPSB).
PSD Circular No. 19, dated November 16, 2020	Banks and mobile financial service operators to open personal retail accounts to build a digital payment ecosystem along with bringing micro and small traders, marginal traders, and service providers under the formal economy.
PSD Circular No-10/2021, dated October 18, 2021.	Determination of fees/charges for transactions through NPSB and card schemes within the country
FID Circular Letter No. 01, dated June 09, 2021	BDT 3,000 crore is formed to allocate fund under refinance scheme
FID Circular No. 01, dated September 05, 2021	Introduction of refinancing scheme for the marginal/landless farmers, low-earning professionals, school-banking account holders and small businessmen of 10/50/100-Tk-account holder.
FID Circular No. 01, dated March 27, 2022	Financial Literacy Guidelines for banks and financial institutions.

3.3 Policy Initiatives in Agriculture and CMSME Sectors

Agricultural Credit Department (ACD) of BB is engaged 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. Aligned with that and considering the Covid-19 implications, CAD issued several circulars associated with refinancing and support services to the low-income segments /farmers associated with the agriculture sector of the country (Table-3.2).

Table-3.2: Major Policy and Regulatory Initiatives on Agricultural and Rural Financing	
Circular Reference	Broad Content
ACD Circular Letter No. 1, July 29, 2020	Account opening for farmers and zoom cultivators of Chattogram in providing agricultural credit, lentils and species credit under incentive facility
ACD Circular No. 01, dated April 13, 2020	Refinance scheme of BDT 5000 crore taka is introduced for providing working capital facility in agriculture sector to the support Covid-19 affected people.
ACD Circular No. 02, dated April 27, 2020	To mitigate the Covid-19 crisis 4% concessional interest rate is provided for agricultural loan in the crop sector.
ACD Circular Letter No. 03, dated on December 29, 2020	BDT 5000 crore is provided as working capital in agriculture sector due to break-out of Novel Corona virus.
ACD Circular No. 2, dated on September 14, 2021	A policy is announced regarding formation and operation of refinance scheme of BDT 3000 crore to combat financial crisis emerged from Covid-19 pandemic in agriculture sector.
ACD Circular No. 1, dated on July 29, 2021	Initiation of Agricultural & Rural Credit Policy and Program for the FY 2021-2022.
ACD Circular No. 01, dated January 03, 2022	A policy on formation and operation of BDT 5 billion refinance scheme titled “Ghore Fera” is announced to create employment and alleviate poverty for the people returned home due to COVID-19 pandemic and other reasons.

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. Several circulars were issued by SMESPD of BB targeting economic recovery of the SME sector in the context of the Covid-19 situation. To ensure easy access to finance by the SMEs, SMESPD circular issued in August 2021, on Credit Guarantee Scheme targeting SMEs is a remarkable one. The objective of this initiative is to support entrepreneurs of these sectors as significant portion of them are marginalized and cannot afford to provide the necessary collateral and other forms of security. As per the circular, all the scheduled banks and financial institutions are required to preserve minimum 10% of their Portfolio Guarantee Limit for women entrepreneurs to promote collateral free loans in CMSE sector and to attain the objective of disbursing minimum 15% of the net loan/invest

outstanding of CMSME sector to the women entrepreneurs by 2024. Creating Start-up Fund for refinancing and promoting start-ups with in banking format is another notable ambitious circular of SMESPD in March 2021.

Table-3.3: Major Policy and Regulatory Initiatives on CMSME Credit	
Circular Reference	Broad Content
SMESPD Circular No. 03, dated February 01, 2020	Introduction of Credit Guarantee Scheme for Cottage, Micro and Small Enterprises.
SMESPD Circular No. 01, dated April 13, 2020	Financial Incentive Package of Tk. 20,000 crore is introduced for CMSME sector as special Working Capital facility.
SMESPD Circular No. 02, dated April 26, 2020	Refinance scheme of BDT 10,000 Crore is provided as Working capital facility for the CMSME entrepreneurs.
SMESPD-2 Circular Letter No. 01, dated November 23, 2020	Interest rate is reduced for second Small and Medium Sized Enterprise Development Project (SMEDP2).
SMESPD Circular Letter No. 16, dated November 26, 2020	BDT 20,000 crore special loan/investment facility is provided to Covid-19 affected CMSME sector.
SMESPD Circular No. 04, dated March 29, 2021	‘Start-up Fund’ amounting BDT 500 Crore is established under refinance fund by Bangladesh Bank & formation of ‘Start-up Fund’ by Scheduled Banks from their own fund.
SMESPD Circular No. 06, dated June 23, 2021	Asian Infrastructure Investment Bank (AIIB) has provided additional Refinance fund titled “COVID-19 Emergency and Crisis Response Facility Project (CECRFP, L0415-A)” for Covid-19 affected CMSME sector.
SMESPD Circular No. 05, dated May 09, 2021	Women-owned CMSME will get priority to obtain Credit Guarantee Scheme facility to ensure collateral free loan/investment for Women-owned CMSME, henceforth the PFIs have to earmark at least 5% of their Portfolio Guarantee Limit
SMESPD Circular Letter No. 05, dated April 26, 2021	Scheduled banks have established own “Start-up Fund” with BDT 500 crore.
SMESPD Circular No. 08, dated August 17, 2021	Incentive facility against loans & advances for CMSME women entrepreneurs.
SMESPD Circular No. 07, dated August 05, 2021	Cottage, Micro and Small Enterprises (CMSE) Credit Guarantee Scheme policy.
SMESPD Circular No. 01, dated January 23, 2022	Credit Guarantee Facility for account holders (Marginal/ Landless Farmers, Low-Income Professionals, School Banking Account Holders and Small Traders) of TK.10/50/100.

3.4 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’ appeared to be most remarkable intervention of the SFD during this period. Introduction of the ‘Sustainable Finance Policy’ on December 30, 2020 followed an integrated approach to sustainable and green financing under the broader and newer taxonomy that offered grater impetus to both quantitative and qualitative development of the sustainable financing ventures by the banks and financial institutions. It is expected that all the concerned stakes including banks and FIs will be passionate, proactive and they will concentrate on Sustainable Finance Policy with due consideration in a collaborative and collective manner for making any challenge (if any) into opportunities. In 2020, SFD asked banks to promote green financing through dedicated desks in their potential branches. BB’s refinancing funds for green financing have been extended to BDT 400 crore that covers 55 products under 9 broad categories (SDF, February 2020). In a further initiative (in 2022), the scope of financing products increased to 68 where ‘affordable green housing’ is a notable inclusion. Installing Green Transformation Fund (GTF), and relatively recent launching of Technology Development/Upgradation Fund are notable SFD initiatives during CY 2022 and CY2022. Very recently, ESRM guidelines were upgraded by SFD (Table-3.4).

Table-3.4: Major Policy and Regulatory Initiatives on Green Banking and CSR	
Circular Reference	Broad Content
SFD Circular Letter No. 01, dated on February 03, 2020	Introduction of Refinance Scheme for Green Products/ Initiatives/Projects.
SFD Circular No. 02, dated on April 30, 2020	Refinance Scheme for Environment Friendly Products/ Initiatives/Projects is initiated.
SFD Circular No. 03, dated July 08, 2020	Refinancing/on lending scheme of USD 200 million and Euro 200 million under Green Transformation Fund (GTF)
SFD Circular No. 05, dated December 30, 2020	Sustainable Finance Policy is for sustainability considerations in order to mobilize finance towards sustainable growth.

SFD Circular No. 06, dated December 31, 2020	Sustainability Rating of Banks and Financial Institutions. The rating is based on 4 criteria: Sustainable Finance Indicator, CSR, Green Refinance, Core Banking Sustainability
SFD Circular No. 02, dated January 17, 2021	Technology Development/Upgradation refinancing fund for export-oriented industries worth BDT 1000 crore
SFD Circular No. 01, dated January 09, 2022	Policy guidelines on Corporate Social Responsibility for Banks and Financial Institutions
SFD Circular No. 02, dated June 19, 2022	Refinancing scheme for pre-shipment credit to mitigate the crisis due to COVID-19
SFD Circular No. 03, dated June 26, 2022	Guidelines on Environmental and Social Risk Management (ESRM) for Banks and Financial Institutions. The guideline has been revisited with a view to fortifying the risk management structure to address sustainability agenda of the financial sector.
SFD Circular No. 04, dated July 24, 2022	Refinance Scheme for Environment Friendly Products/ Projects/Initiatives

4. Review of the Trends of Sustainable Banking Activities and Operations in Bangladesh

4.1: Trends and Developments in Financial Inclusion and Digital Financial Services

Financial inclusion through offering account-opening services and targeted deposit products has been a major strategy for financial inclusion in the country. It is about ensuring easy access to finance targeting the disadvantaged population of the country that includes No-Frill accounts and targeted banking/insurance services. In general, the number of No-frill accounts increased over the years (Table-4.1). Abnormal increase of some accounts during 2021 and 2022 may be attributed to the special efforts of Bangladesh Bank in offering special payment services in the context of the Covid-19 pandemic.

Table-4.1: Expanding No Frill Accounts (NFAs)				
Sl #		% Change in CY2020	% Change in CY 2021	% Change in CY 2022 (upto March 2022)
1.	Farmers	2.3	-4.0	0.4
2.	Hardcore poor	3.1	25.5	1.3
3.	Freedom fighters	8.2	5.4	8.0
4.	Social Safety net allowance	38.3	19.5	6.6
5.	Food & livelihood security	1.5	20.4	-7.4
6.	Poor rehabilitation under Ministry of Religious Affairs	3.9	6.3	4.3
7.	City corporation workers	1.5	-1.0	0.1
8.	RMG Workers	52.2	13.2	25.7
9.	Leather Industry Workers	5.7	-90.1	17.3
10.	National Service Program	5.6	2.4	-3.5
11.	Small Life Insurance Program	1.7	0.5	7.1
12.	Physically challenged persons	22.3	103.1	11.1
13.	Others	-0.5	20.7	10.2
Source: Quarterly Report on No-Frill Accounts, BB				
Note: Full data is given in Appendix-6				

Government control banks (SBL and ABL) are dominating banking market in terms of opening no-frill accounts and small deposits for the low-income disadvantaged people. Technology adoption helped private commercial banks dominating remittance market reigning remittance inflow services (Table-4.2).

Table-4.2: Top-5 Banks based on No Frill, Small Deposit and Remittance Flows		
January-March 2022 [No frill Account]	January-March 2022 [Deposit]	January-March 2022 [Remittance Flows]
SBL (25.79%)	SBL (37.77%)	IBBL (22.33%)
BKB (17.68%)	ABL (24.27%)	DBBL (12.10%)
ABL (15.15%)	Bank Asia (9.13%)	ABL (7.12%)
Bank Asia (11.79%)	IBBL (8.52%)	SBL (5.99%)
JBL (11.11%)	BKB (3.86%)	Bank Asia (4.71%)
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). Nine banks, three subsidiary companies are currently providing bank-led MFS services. In addition, 'Nagad,' offers mobile financial services, and piloting program for digital payment in the cattle market has successfully been implemented (PSD Source). Notable growth in the number of agents, registered clients, and transactions. Reduction of active accounts is unexpected (excludes the accounts having no transaction for at least three months), however, the situation recovered strongly during CY2021 with the increasing popularity of the MFS. Use of MFS in cross-border inward remittances increased remarkably during CY2020 and CY2021. The growth rate using MFS in cross-border remittance services between CY2019 and CY2020 was about 300%; and between CY2020 and CY2021 was 108% (PSD Source).

Table-4.3: Expanding MFS in Bangladesh

Description	CY2019	CY2020	% change in 2020	CY2021	% change in 2021
Number of agents	971620	1058897	9.0	1,123,113	6.1
Number of registered clients (in millions)	78.6	99.3	26.3	111.47	12.3
Number of active accounts (in millions)	35.1	32.3	-8.0	41.10	27.2
Number of total transactions (in millions)	2589.5	3172	22.5	3,837.05	21.0
Volume of total transaction (in billion)	4344.9	5616	29.3	7,701.45	37.1
Source: Financial Stability Report and Data provided by the BB					

Table-4.4: Status of ATM and POST in Banks

Criteria		CY2019	CY 2020	% change in 2020	CY 2021	% change in 2021
ATM	Urban	7665	8407	9.7	8928	6.2
	Rural	3259	3516	7.9	3903	11.0
	Total	10924	11923	9.1	12831	7.6
POST	Urban	56043	67045	19.6	84414	25.9
	Rural	2484	6184	149.0	7672	24.1
	Total	58527	73229	25.1	92086	25.8
Source: Data provided by the BB						

MFS has taken the availability of such funds to the next level with accuracy to the target beneficiaries. Nagad, the digital financial service of Bangladesh Post Office disbursed about 75% of the total fund to 76.13 lakh beneficiaries in 40 districts, while leading MFS operator bKash disbursed funds among around 20 lakh beneficiaries in 24 districts, as of early 2021.⁶ As of January 2022, 25 million people are getting financial assistance under various social safety net programmes.⁷ Through the digital way of social safety net benefits distribution, the MFS services are becoming accessible to remote and poverty-stricken areas.⁸ The new ways of social protection benefits distribution improved accessibility and affordability of MFS and eases life of the beneficiaries of the social safety net funds.

Agent banking activities received notable boost during CY2020 and CY2021. As of June 2021, 28 banks were licensed for agent banking and 27 banks were already in operation. Other than loan disbursement, agent banking activities expanded remarkably (Table-4.5). Especially, increase in the women account holder is encouraging. Inward remittance growth received notable boost. Some commercial banks- Bank Asia Limited, Dutch-Bangla Bank Limited, Islami Bank Bangladesh Limited, Al-Arafah Islami Bank Limited, The City Bank Limited, Agrani Bank Limited, and BRAC Bank Limited are particularly keen on expanding agent banking (Table-4.6). Though 27 banks are in operation, only a few banks are the forces for expansion and controlling the whole market.

⁶Business Insider: <https://www.businessinsiderbd.com/economy/news/1783/social-safety-net-allowances-to-be-disbursed-through-mfs>

⁷ <https://www.newagebd.net/article/160649/govt-widesns-social-safety-coverage-to-protect-poor>

⁸ The government has proposed to allocate Tk 1,07,614 crore for the social safety net programmes for the 2021-22 fiscal year. The the coverage of the deserving poor elderly people in 150 most poverty-stricken upazilas and 8 lakh new beneficiaries in the current fiscal (<https://www.thedailystar.net/budget-2021-22/news/capita-income-now-2227-2104181>).

Table-4.5: Expanding Agent Banking Activities						
	June 2019	June 2020	% Change in CY 2020	June 2021	% Change in CY 2021	March 2022
Number of Agents	6,013	8,764	45.8	12,912	47.3	14,166
Number of Outlets	8,671	12,449	43.6	17,145	37.7	19,530
Number of Accounts	3,416,672	7358190	115.4	1,22,05,358	65.9	15,193,146
Number of Female Accounts	1,232,675	3410270	176.7	56,75,329	66.4	7,445,291
Number of Rural Accounts	2, 845, 938	6, 377, 457	124.1	1,05,39,163	65.3	13,036,428
Amount of Deposit	528,446	1022021	9.34	20,37,928.34	99.4	251,649.63
Amount of Loan Disbursed	23,735	7,20,542	2935.8	3,18,628.60	-55.8	64,214.57
Amount of Inward Remittance	934,905	2665059	185.1	67,95,404.46	155.0	847,150.68
Source: Quarterly Report on Agent Banking Activities, BB						

Table-4.6: Top Speedsters in Agent Banking in Bangladesh (Jan-March, 2022)									
Number of Outlets		Number of Accounts		Deposit Collection		Credit Disbursement		Inward Remittance Distribution	
DBBL	29.97%	Bank Asia	33.92%	IBBL	38.63%	BRAC	63.24%	IBBL	52.13%
Bank Asia	26.26%	DBBL	30.97%	DBBL	14.71%	Bank Asia	13.76%	DBBL	25.11%
IBBL	13.74%	IBBL	18.18%	AAIBL	13.32%	City Bank	12.50%	Bank Asia	11.82%
City Bank	5.17%	AAIBL	3.78%	Bank Asia	13.05%	DBBL	5.58%	AAIBL	5.65%
BRAC	3.74%	ABL	3.35%	ABL	6.39%	AAIBL	3.40%	ABL	2.72%
Total	78.88%	Total	90.2%	Total	86.1%	Total	98.48%	Total	97.43%
<i>Source: Quarterly Report on Agent Banking, BB</i>									

The MFS/digital financial service providers are becoming active to respond to the circular and greater number of micro-traders have opened MFS retail accounts. Growing number of grocers are accepting payments through quick response (QR) code linked to a micro merchant, and customers are increasingly paying using the QR code, a type of barcode that stores information and can easily be read by smartphones. Many street vendors and the owners of small grocery shops started preferring digital transactions, which were only available at shopping malls in big cities until recently both in urban and rural markets. According to a recent report (The Daily Star, January 14, 2022), Bkash linked a quick response (QR) code with the micro-merchant, or personal retail account (PRA), and is working to onboard thousands of merchants and incentivizing customers to adopt the new service, and it has 26,217 micro-merchants as of November. Mutual Trust Bank (MTB) has opened 5,000 micro-merchant accounts to serve marginalized businesses, and account-holders of any bank with visa debit card can now make payments through the QR code employed by MTB. Bank Asia, one of the pioneers in the field, has achieved tremendous success by opening more than 51,000 PRAs. Bank Asia targeted to open 2.5 lakh micro-merchant accounts in the rural areas within five years. Trust Axiata Pay, an MFS provider jointly set up by Trust Bank and Malaysia's Axiata Digital Services, has started to open PRAs and initiated a pilot programme by enlisting 300 rickshaw-pullers in January 2022.⁹ According to PSD

⁹ The Daily Star (2022) Digital payment takes a giant leap, January 14, 2022: <https://www.thedailystar.net/business/economy/news/digital-payment-takes-giant-leap-2938976#.YeEQqVJIqmY.whatsapp>

sources, in May 2022, the PRA account reached 51,910 and volume and value of the transactions were 328 thousand and TK639.4 million respectively.

Despite all efforts using cash is almost a norm. According to a Business Insider report, 90% of the banked adults in Bangladesh pay merchants only in cash. Several other challenges are identified in the FGD (Box -4.1).

Box-4.1: Challenges Confronted by the Banks in MFS, Agent Banking, and Inclusive Finance Services
<ul style="list-style-type: none"> • Due to lack of awareness and financial literacy there is a fear among the unbanked people in the society about the use biometric machine while opening account. This situation sometimes restricts banks to offer basic banking services for the vulnerable group (65%). • Sometimes it is really troublesome for underserved people in society to get onboard (45%). • Due to the commercial viability and operating hassle of inclusive efforts, financial institutions sometimes are reluctant to offer inclusive products (15%). • Lack of awareness regarding the benefits, acceptance of the technology based operating model for MFS (55%). • Banks have confronted challenges to ensure safety at agent points especially for the high-volume agents regarding fraudulent activities, robbery and other criminal happenings (65%). • Some banks have encountered agent drop-out due to decreasing financial capacity during pandemic (35%). • Banks have faced hurdle to train agents. Besides, it was not possible to arrange awareness programs for both the agents and customers (35%). • The deposit growth through agent points slowed down in pandemic due to fear of contamination in opening accounts using biometric machine (25%). <p><i>Source: Survey and FGD</i></p>

4.2 Financing Agriculture and Rural Economy, and SMEs

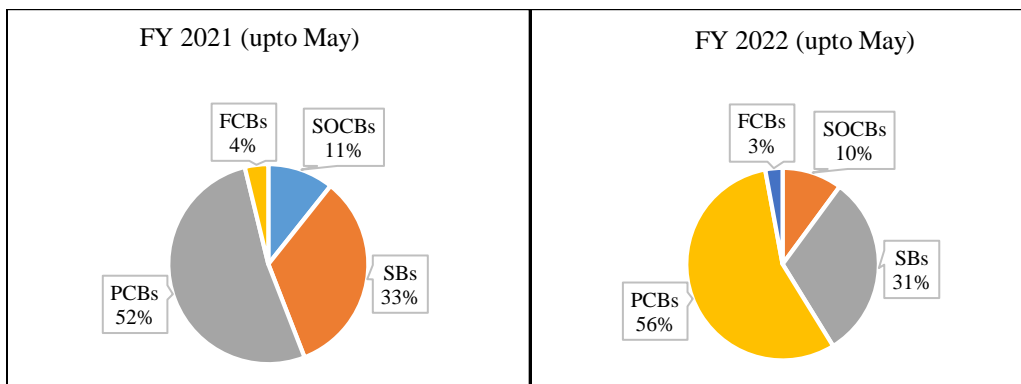
Branch and credit allocation to the rural economy are important channels for the inclusion of the rural population in the formal financial sector. Of the total bank branches in the countries, 51% were operating in the urban areas as of June 2020 and June 2021. Not very different from June 2019, only around 11% credit was disbursed to the rural areas, whereas over 20% of deposits are collected from rural areas (BB, 2022).

Table-4.7: Status of Agriculture and Rural Banking							
		Branch		Deposit		Advance	
		Number	%	Amount	%	Amount	%
2019	Rural	5131	48.5	254321	20.9	103498	10.3
	Urban	5447	51.5	960135	79.1	900051	89.7
	Total	10578	100	1214456	100	1003549	100
2020	Rural	5221	48.6	294283	21.3	118528	10.8
	Urban	5531	51.4	1084868	78.7	977781	89.2
	Total	10752	100	1379151	100	1096309	100
2021	Rural	5314	48.6	325365	21.5	135600	11.2
	Urban	5623	51.4	1187108	78.5	1074989	88.8
	Total	10937	100	1512473	100	1210589	100
Source: Scheduled Banks Statistics, BB							

Improvement in the agricultural credit performance is reflected in the data for FY2021 when there were improvements in actual disbursement, recovery, and overdue situations, however, banking sector needs improvement on 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. SBs are having over one-third market share of the agricultural credit market (Figure-4.1). 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 enforcements of the BB's requirements of allocating certain portion of the credit total to the agricultural sector. Increasing branch, agent, booth banking in the rural area, and MFI linkage are other reasons for the improvement of rural and agricultural credit.

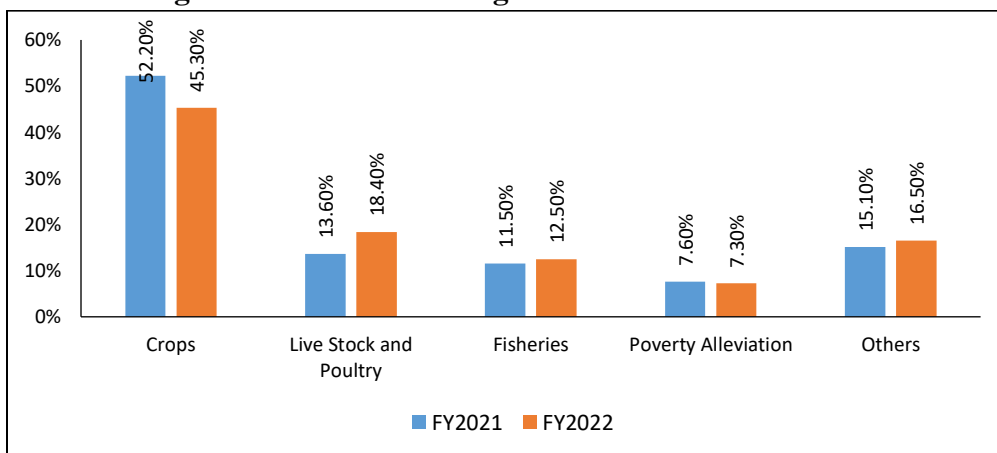
Table-4.8: Agricultural Credit Performance by Banks (in billion BDT)							
	FY 2019	FY 2020	% change in 2020	FY 2021	% change in 2021	FY2022 (upto May)	% change in 2022
Disbursement Target	218.00	241.24	10.66	262.92	8.99	283.91	7.98
Actual Disbursement	236.16	227.49	-3.67	255.11	12.14	259.66	1.78
Recovery	237.34	212.45	-10.49	271.24	27.67	240.61	-11.29
Overdue	66.92	60.60	-9.44	61.43	1.37	60.52	-1.48
Outstanding	429.74	455.92	6.09	459.39	0.76	495.51	7.86
Overdue as % of Outstanding	15.57	13.29	-	22.65	-	25.15	-
Source: Annual Report, BB and Data Supplied by BB							

Figure-4.1: Market Share of the Broad Bank Groups based on Credit Disbursement



Source: Annual Report, BB and Data Supplied by BB

Figure-4.2: Sector-wise Agriculture Credit Disbursement



Source: Annual Report, BB and Data Supplied by BB

CMSME credit disbursement was in decreasing trend during FY2020 and FY2021, however, data on FY 2022 is reflecting recovery trends (Table-4.9). Policy impetus and BB's policy initiatives have been notable push factors for improvement. Deceleration of the credit disbursement to the women entrepreneurship activities may be attributed to the limitations with the demand side to formulate bankable projects.

Table-4.9: Disbursement of CMSME Credit by Banks (in billion BDT)					
Period	Sub-Categories			Total	Women Entrepreneurship
	Manufacturing	Service	Trading		
FY 2019	578.07	342.48	703.72	1,624.27	60.01
FY 2020	559.57	341.49	636.59	1,537.65	51.29
FY 2021	480.80	301.04	570.32	1352.16	183.78
FY 2022 (upto Mar-22)	546.55	323.56	638.98	1509.09	61.51
<i>Source: SMESPD, BB, 2022.</i>					

World Bank (2021) data indicate financing gap in the SME sector where 60% of women SME's financing needs are unmet. Several challenges of agricultural and rural financing, and SMEs were identified in the survey and FGD (Box 4.2).

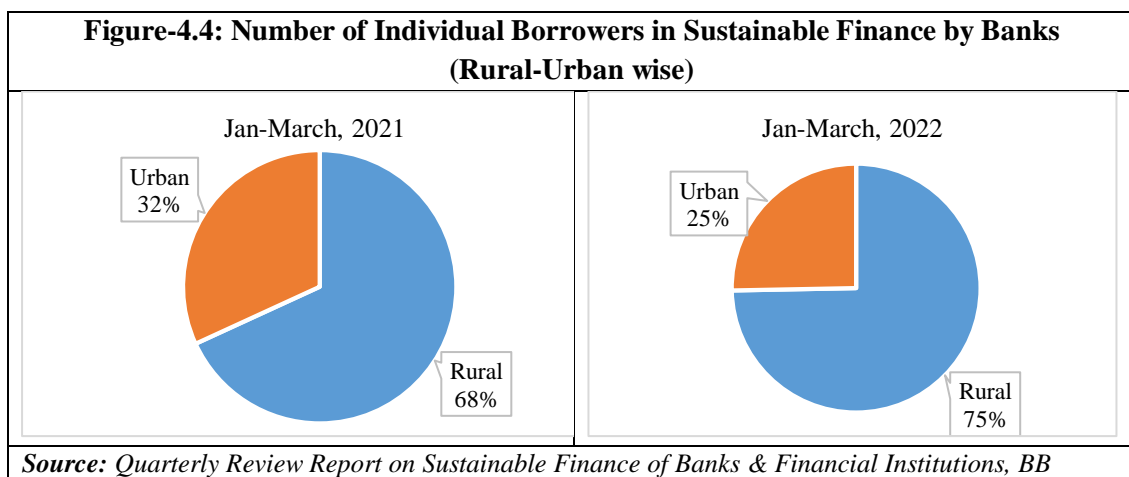
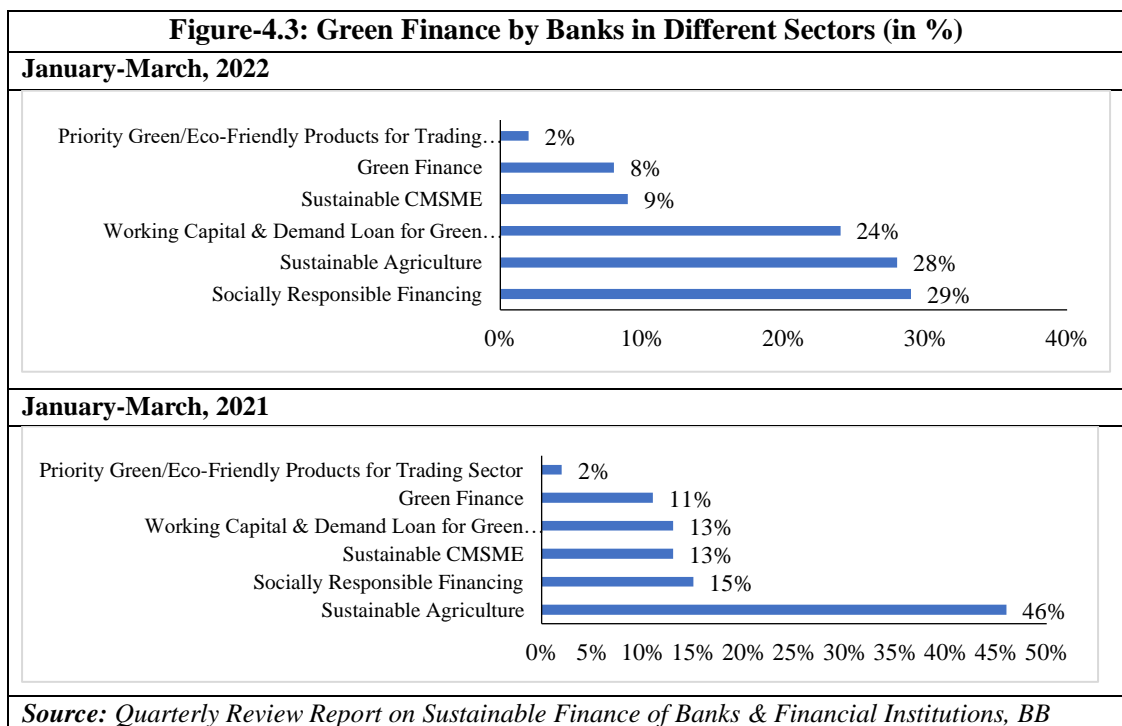
Box-4.2: Challenges Confronted by the Banks in Agricultural and Rural Credit, and SME Financing	
Agriculture and Rural Financing	
<ul style="list-style-type: none"> • Due to recovery problem, backed by customers inability and unwillingness to repay, a significant amount of loan has been classified. Further, repayment from classified and written off loans was mostly stopped (85%). • Lack of branch network, high monitoring and administrative cost is a key challenge to reach the target group. Hence, some of the banks are less interested in agricultural and rural financing (55%). • Banks have faced hurdle to identify true farmers who were affected by COVID. Further, sometime fund diversion was observed due to this challenge (45%). • Bank's operation has not been extended adequately in the rural areas. So, disbursement through own network as well as using MFI linkages became difficult due to COVID-19 (45%). • Lack of collateral coverage, absence of training on usage of technology, dearth of proper supply chain is critical challenge for rural financing. As a result, banks are not much interested to finance in agricultural sector (55%). 	
SME Financing	
<ul style="list-style-type: none"> • Most of the time banks have encountered difficulty to judge the real requirement of CMSME's. They have also faced difficulty in identifying whether the borrower availed credit facilities from multiple bank in Covid-19 situation (45%). • Due to restrictions on physical movement it was really tough for bank employees to visit & scrutinize the documents properly. This limitation arises the risk of fund diversion (55%). • Loan approval, disbursement process, monitoring and recovery were severely affected due to countrywide lockdown. Moreover, the volume of overdue, classification and rescheduling loan has increased (65%). • Supply chain of raw materials has disrupted & delivery of finished goods faces difficulty. The situation compelled banks to take conservative approach to finance new or existing SME entrepreneur (55%). • Lack of mortgage property and unavailability of acceptable guarantor for the entrepreneurs is challenging for banks to ensure access to finance (45%). 	
<i>Source: Survey and FGD</i>	

4.3 Sustainable and Green Banking and CSR Activities by Banks

Green banking expanded with the engagement of all broad groups of banks (Table 4.10). 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 up the target of green finance (5%) and yearly target (20%) of sustainable finance compared to the total term loan disbursement. Hence, both the 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. SBs shown notable growth between CY2020 and CY2021. This might be an indication of getting back to the normal situation following Covid-19 blow. Sustainable agriculture and socially responsible financing are major categories of green financing (Figure-4.3). It is to be noted that green establishments require reasonably good volume of credit, and some big investors are showing interest in BB's green transformation fund. The data on sectoral allocation and individual borrows indicate the role of green financing in promoting financial inclusion (Figure-4.3 and 4.4). According SFD Source (2022), sustainable finance has been maintaining better NPL rate as compared to the banking sector average (NPL for 2019, 2020 and 2021 were 3%, 2.58% and 5.78% respectively)¹⁰.

Table-4.10: Green Banking Fund Utilization by Bank Group (in million BDT)					
Bank Group	CY 2019	CY2020	% change in CY 2020	CY2021	% change in CY 2021
SOCBs	1283.16	8381.67	553.2	36607.52	336.8
SBs	8.38	6.33	-24.5	71449.16	1128638.71
PCBs	66574.72	77133.65	15.9	583912.48	657.0
FCBs	37091.27	29909.52	-19.4	117284.44	292.1
Total	104957.53	115431.17	10.0	809253.60	601.1
Source: Quarterly Green Banking Activities Report and Sustainable Finance Report of 2019, 2020 and 2021.					

¹⁰ First two figures are for green finance and the last one is for sustainable finance.



Some banks are taking lead in green financing and sustainable financing (Table-4.11 and Table-4.12). Banks are rating their projects based on Environmental and Social Risk Management (ESRM) framework though terms of effectiveness, the ongoing practices are simply the starting in the right direction. The amount disbursed against rated project has a decreasing trend in last three quarters of FY 2020 (Table-4.13).

Table-4.11: Top 5 Performing Banks in Sustainable Financing			
Jan-March, 2021		Jan-March, 2022	
BKB	67.29%	BKB	56.64%
NBL	59.28%	RAKUB	40.68%
Bank Alfalah	28.66%	NBL	33.53%
BRAC Bank	27.45%	MTBL	26.95%
		State Bank of India	23.36%
Source: Quarterly Review Report on Sustainable Finance of Banks & Financial Institutions, BB			

Table-4.12: Top 5 Performing Banks in Green Finance			
Jan-March, 2021		Jan-March, 2022	
NBL	26.13%	IBBL	18.26%
NRB Bank	24.50%	PBL	10.74%
Premier Bank	21.88%	SJIBL	10.69
Basic Bank	18.73%	OBL	8.24%
IBBL	15.62%	UCBL	7.05%
Source: Quarterly Review Report on Sustainable Finance of Banks & Financial Institutions, BB			

Table-4.13: Environmental & Social Risk Management by Banks		
	Jan-March, 2021	Jan-March, 2022
Number of environmental risk-rated projects	24,293	33,513
Number of environmental risk-rated projects financed	18,242	26,191
Amount disbursed against rated projects (in million BDT)	575,125.83	924,361.70
Source: Quarterly Review Report on Sustainable Finance of Banks & Financial Institutions, BB		

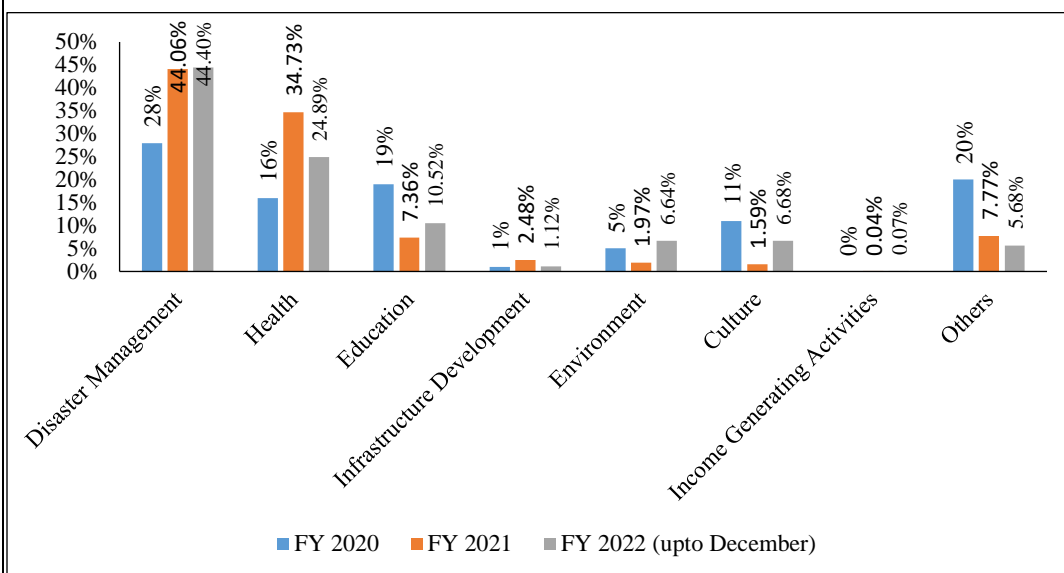
Table-4.14: In-house Environment Management by Banks								
	SOCBs		SDBs		PCBs		FCBs	
	Jan-Mar, 2021	Jan-Mar, 2022	Jan-Mar, 2021	Jan-Mar, 2022	Jan-Mar, 2021	Jan-Mar, 2022	Jan-Mar, 2021	Jan-Mar, 2022
Branches powered by Solar Energy	0	83	0	0	148	612	0	7
Branches with Rainwater Harvesting	0	0	0	0	1	3	0	1
Branches with Solid Waste Management System	81	0	0	0	556	16	5	7
ATM Booths powered by Solar Energy	2	4	0	0	263	206	1	4
Solar powered Agent Outlets	0	0	0	0	20	27	0	0
Accounts Using Internet Banking		0		4058005		3133814		277651

Accounts Using Smart-Phone App-based Banking		182335		0		13751748		150104
Online Branches		3813		1421		5575		71
Source: Quarterly Review Report on Sustainable Finance of Banks & Financial Institutions, BB								

In-house environment management, another key component of sustainable banking venture is taking 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-4.14).

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 SFD's CSR report PCBs have notable volume of CSR expenditure (96% in CY2020 and 98% in CY2021) which is driven by their high proportion of profit shares in the commercial banking market. Disaster management and health were the key areas of expenditure (Figure-4.5). 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 Exim Bank are leading the banks' performance in terms of CSR expenditure during CY2020 and CY 2021 (Table-4.15). The challenges confronted by the banks in green and sustainable financing are summarized in Box-4.3.

Figure-4.5: Allocation of CSR Expenditure by Banks for Different Purpose



Source: CSR Report of Banks and FIs, BB

Table-4.15: Top 5 Performing Banks in CSR Expenditure

CY2020	CY2021
1. Islami Bank Bangladesh Ltd.	1. Islami Bank Bangladesh Ltd.
2. EXIM Bank Ltd.	2. EXIM Bank Ltd.
3. Dutch-Bangla Bank Ltd.	3. National Bank Ltd.
4. First Security Islami Bank Ltd.	4. Dutch-Bangla Bank Ltd.
5. National Bank Ltd.	5. Jamuna Bank Ltd.
Source: CSR Report of Banks and FIs, BB	

Box-4.3: Challenges Confronted by the Banks in Sustainable and Green Banking and CSR Activities

- Most of the clients does not have the proper documents i.e. environment clearance certificate, site clearance certificate, etc. Moreover, conducting market feasibility during the pandemic was critical for banks (85%).
- Initial investment required in Green Finance is still higher than traditional industrial investment. Hence, entrepreneurs were reluctant to expand existing capacities or go for new investment which limits the investment scope of financial institutions in the Covid-19 crisis (55%).
- Non-recovery of loan has adversely influenced on Bank's Portfolio, profitability and reputation.

- Lack of demand is observed in case of green products. To augment the demand for green products, banks were unable to launch promotional programs to build the awareness of the clients (35%).
- Disbursing green finance on small scale incur high cost. Besides, risks & returns of green projects are not handsome and the refinancing rate for green products is not lucrative for some banks as well (35%).
- Lack of employee knowledge to promote sustainable products to customers, high monitoring cost and lack of capacity to monitor post implementation is critical operational challenge for banks (65%).
- Usually banks are not willing for long term investment though the demand for long term funding is high (25%).
- Banks allocate limited budget for CSR activities which is not sufficient to execute true CSR operation for the society (45%).
- Due to restrictions of movement and other health hazards in the pandemic, it was challenging to identify the actual victims to whom banks should provide support under CSR activities and as such the related activities were almost closed (55%).

Source: Survey and FGD

Sustainability reporting is an integral component of sustainable banking and financing. SFD issued a new Reporting Format in recent time in line with the new taxonomy and new requirements of compliances. Sustainability reporting is getting popular amongst commercial banks and business firms. GRI is a globally recognized sustainability reporting format. As of July 2022, 13 new firms reported using GRI format of which five are banks. Thus, alongside Bank Asia Ltd, Prime bank Ltd and IDLC, Standard Bank Limited, Brac Bank Limited, Shahjalal Islami Bank Limited, Jamuna Bank Limited, and LongkaBangla Finance Limited adopted standard GRI format. According to a report, despite all these regulatory interventions by the regulatory bodies, the level of ESG reporting in Bangladesh has remained disappointing. Research evidence suggests that CSR reporting in Bangladesh is not always reliable. Several challenges are identified in the survey and FGD (Box 4.4). Lack of employees, absence of adequate knowledge, lengthy reporting format, automated report generation, etc. is amongst challenges for banks in the process of reporting as identified in the survey of FGD.

Sustainability Rating of SFD, BB reflects 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 2020 and 2021 (in alphabetical order) are as follows (Table-4.16).

Table-4.16: Top Rated Banks for the year 2020 and 2021	
Top 10 Banks in 2021	Top 10 Banks in 2020
Bank Asia Limited	Al-Arafah Islami Bank Limited
BRAC Bank Limited	Bank Asia Limited
Dutch Bangla Bank Limited	BRAC Bank Limited
Eastern Bank Limited	Dutch-Bangla Bank Limited
EXIM Bank Limited	EXIM Bank Limited
Islami Bank Bangladesh Limited	Islami Bank Bangladesh Limited
NRB Bank Limited	Mutual Trust Bank Limited
Pubali Bank Limited	Prime Bank Limited
Southeast Bank Limited	The City Bank Limited
The City Bank Limited	United Commercial Bank Limited
Top 5 FIs in 2021	Top 5 FIs in 2020
Agrani SME Financing Company Ltd.	Hajj Finance Company Limited
Bangladesh Finance Ltd.	IDLC Finance Limited
Bangladesh Infrastructural Finance Fund Ltd.	IPDC Finance Limited
IDLC Finance Ltd.	SABINCO
IPDC Finance Ltd.	United Finance Limited
Source: Sustainable Finance Department, BB	

Field level suggestions are sometimes very realistic to be considered by the policymakers for effective implementation of the policy circulars. Area specific suggestions in survey are captured in the following box-4.4

Box-4.4: Suggestions put forward by Banks	
Broad Areas	Suggestions
Agriculture Finance	<ul style="list-style-type: none"> • Bank may finance Agro-marketing sector for ensuring sustainable business. • Stakeholders should work on developing sustainable supply chain for the expansion of the sector. • Banks may create awareness program and popularize apps-based operations. • Banks need to introduce easy loan processing system and simple loan documentation process for farmers.
SME Finance	<ul style="list-style-type: none"> • Banks may allocate more manpower for monitoring and frequently arrange awareness program for the customers to boost up recovery. • Banks need to work for capacity development of SMEs. • Banks can simplify the documentation procedure.
Green Finance	<ul style="list-style-type: none"> • Stakeholders may take different initiatives i.e. arranging awareness program for all level of bank officials and targeted customers, training the bank officials for enhancing knowledge so that they can popularize the green and sustainable products. • Stakeholders need to create mass awareness through the electronic and print media about the refinance schemes for green finance. • Regulatory body may reduce the interest rate of green finance compared to others. Besides, they can formulate a stringent target-oriented financing and monitoring policy.
Agent Banking	<ul style="list-style-type: none"> • Banks may offer diverse products at an attractive rate through agent outlets. Virtual marketing channels can also be used to disseminate information about agent banking among customers. • Banks may consider designing short-term promotional campaign for agents which may incentivize them shortly to gain confidence in the crisis. • Banks may consider about the opportunity of exploring new business avenues for agents to manage their income with the changing business environment through their outlets like providing doorstep delivery of cash out services to trusted customers, providing e-commerce service through digital platform.

Mobile Banking	<ul style="list-style-type: none"> • Security measures for mobile financial services should be strong enough to tackle fraudulent activities. • Banks may implement country-wide Unified QR Code for MFS and DFS to create ultimate ease for end-users and merchants. • Banks may create a sustainable ecosystem for the end-users by implementing interoperability among banks and MFS providers.
Inclusive Banking	<ul style="list-style-type: none"> • Banks may create awareness through electronic media and SMS using mobile network for opening account with e-KYC. • Banks can consider offering diverse products to suit different sections of unbanked people and ensuring the directives for financial inclusion by taking support from local bodies. • To reach and provide banking service to underserved/unbanked people in the society banks may utilize ADC's and different digital banking mode to reduce cost and promote sustainable banking.
Sustainability Reporting	<ul style="list-style-type: none"> • Some reporting formats are overlapping. Regulatory authorities should provide one format by incorporating all the required information. • Banks need to get proper guideline for sustainable reporting from the BB. They should also arrange training for the relevant officials to enhance capacity.
CSR Activities	<ul style="list-style-type: none"> • Banks need to identify sector-wise real beneficiaries with proper justification • Increasing CSR budget and allocating it for the overall socio-economic development of the country. • Banks may team up with nationally and internationally reputed corporations to smoothly operate the CSR activities and reach out to the disadvantaged people. • Banks may introduce a comprehensive CSR policy and work on it.

Source: Questionnaire Survey

5. Key Observations and Recommendations

One, As a whole the sustainable finance and banking activities expanded over CY2020 and CY2021 covering the major heads i.e. financial inclusion, agriculture and SME financing, green banking, and CSR activities. Technology adoption came up as a driving force to boost digital payment services and transforming service delivery process in the financial sector. Practically, technology became the key factor to make financial services differentiated where policy supports and capacity are crucial factors to address. Technology is also associated with the key concerns of sustainable banking-availability, accessibility, and affordability.

Two, PCBs were at the forefronts in terms of performances in most of the areas of sustainable banking during 2020 and 2021. Though SOCBs and SBs have remarkably been engaged in promoting NFAs and agricultural financing, a lot is to be achieved on the innovation fronts to promote technology driven financial inclusion, inward remittance flows and green banking. PCBs are leading the pack in sustainable financing, CSR expenditure and adoption of technology for efficient payment and financial service delivery.

Three, MFS/digital financial services have proven worth for effective financial inclusion. The decision to allow White Level ATM/Merchant Acquiring services appears as a good option for expanding MFS/digital financial services in the rural areas and may offer cost benefits to the banks, MFS, PSPs, and the rural population. It is expected to promote the habit among the customers of using POS, ATMs, and QR-based services over a longer period, and shall contribute to saving in transaction costs and manpower costs. Especially, QR-code services might be a very affordable option for the rural population at this moment. Transactions through micro-merchant accounts are expected to explode remarkably when the 'Bangla QR' code is used widely. Creating sound incentive structures for the service providers and awareness are the areas to address.

Four, Ensuring availability and accessibility through expansion of MFS/digital financial services would help to be digital and thus contribute to promoting affordability of the MFS/digital financial services. Interoperability is associated with the accessibility, availability, and affordability of the MFS/digital financial services. Despite improvement, MFS/digital financial services attained limited interoperable transactions. Effective implementation of interoperability by addressing cost concerns of the MFS might bring remarkable development in terms of availability and accessibility.

Five, Innovation platform is the key. It is essential to gain an early understanding of the general applicability of creative solutions for banking and payment services, and enable policy or regulatory sandbox to test new ideas in the area of digital financial services and inclusion. Policymakers are already contributing and should enhance the efforts. And there is no alternative to the undertaking and facilitation of greater coordination amongst the key stakeholders like financial services providers, government ministries and departments, and regulators (Bangladesh Bank, Bangladesh Telecommunication Regulatory Commission, Micro-credit Regulatory Authority, Ministry of Finance), and local committees who are engaged in financial inclusion activities.

Six, Expansion move of agent banking is inspiring, and sustaining the model might prove to be a remarkable force for reaching the rural vulnerable at reasonable cost. Banks have designed different models employing differential agents (post offices, private entities) to take their services to their targeted segments. However, shadow banking elements associated with the agent banking and other technology driven banking and innovations should be handled appropriately. Alongside policy support, this comprehensive financial model must be under delicate care and monitoring for its sustained journey.

Seven, From the policy and regulatory perspective, agricultural financing has been a part of priority interventions in the country, however, several agriculture and rural economy are yet to be adequately attended to by banks. Marketing and supply chain are critical challenges in the agriculture sector that are associated with efficient agricultural financing. In line with global development, it is important to work on developing price discovery mechanism for fair pricing, and introducing products like warrant receipt systems and micro insurance tagged agricultural product targeting small farmers. CMSME sectors have traditional challenges associated with collateral, documentation and financial literacy. A real clustering approach might work as an effective alternative to the collateral related challenges and for that, identification of the clusters and their levels of development is the need of the time. CMSME women enterprises need support to be bankable. Small, micro and cottage enterprises should also be under regular training and awareness programs.

Eight, Green banking improved in CY 2020 and CY2021 both in terms of green financing and in-house efforts of environmental risk management, and despite challenges, there are policy and regulatory interventions supportive to the banks and financial institutions. Sustainable Finance Policy is a forward-looking effort to integrate green financing with the social and other sustainability linked products.

Bankers and their clients need to be aware of the contents and implications of the new policy. It is really inspiring that Bangladesh has been placed ahead of all South Asian countries in the ‘Advancing’ category in terms of the progress in sustainable finance by IFC. The report however also indicates relative weaknesses in the ‘Climate Risk Management’ component.

Nine, Expansion of CSR and streamlining allocations of funds to education, health, environmental and natural disasters are inspiring. Support is needed in the capacity development and awareness fronts across individuals, financial institutions, and even government and non-government entities to ensure the application of sustainable and digital financial services. Financial literacy is a key area to address. Literacy and awareness gap appear to be particularly acute in rural Bangladesh that needs to be addressed. Adoption of standard sustainability reporting framework by banks would bring notable change in the transparency and disclosure framework of the sustainable banking movement. Bank management needs awareness and motivational programs on the issue.

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Appendix – 1

List of Banks Responded to the Questionnaire

Sl. No.	Bank Name
1.	Agrani Bank Limited
2.	Al Arafah Islami Bank Limited
3.	Bangladesh Krishi Bank
4.	Bangladesh Development Bank Limited
5.	Bank Alfalah Limited
6.	Bank Asia Limited
7.	Basic Bank Limited
8.	BRAC Bank Limited
9.	Dutch-Bangla Bank Limited
10.	Eastern Bank Limited
11.	First Security Islami Bank Limited
12.	Habib Bank Limited
13.	Hongkong and Shanghai Banking Corporation
14.	IFIC Bank Limited
15.	Islami Bank Bangladesh Limited
16.	Meghna Bank Limited
17.	Mercantile Bank Limited
18.	Mutual Trust Bank Limited
19.	National Bank Limited
20.	NRB Commercial Bank Limited
21.	One Bank Limited
22.	Prime Bank Limited
23.	Pubali Bank Limited
24.	Rajshahi Krishi Unnayan Bank
25.	Shimanto Bank Limited
26.	Social Islami Bank Limited
27.	Sonali Bank Limited
28.	Southeast Bank Limited
29.	The City Bank Limited
30.	Trust Bank Limited
31.	United Commercial Bank Limited

Appendix – 2

Bangladesh Institute of Bank Management [BIBM]

Mirpur-2, Dhaka

Questionnaire for the Review Workshop on ‘Sustainable Banking Activities by Banks’

Name:
Designation:
Bank:
Department / Division / Unit:
Cell : Landline : Email :

1. Please give the following information regarding your deposit and credit portfolio (BDT in million).

Year	Credit					
	Total Credit	Total Agriculture Finance	Total SME Finance	SME Finance to Women	Total Green Finance	Total Credit under Agent Banking
2021						
2020						
2019						
2018						

Year	Deposit		Payment under MFS	Payment under Agent Banking	CSR Allocation
	Deposit under Agent Banking	Deposit under Inclusive Banking			
2021					
2020					
2019					
2018					

2. Do you follow special type of KYC while offering sustainable banking services? What are the documentary requirements?

Broad Areas	Special KYC Yes or No	Documents Required in Loan Processing [Name the Documents]	Number of Days (on an average) Required to Process the Loan
Agriculture Credit			
SME Credit			
Green Credit			
Agent Banking/ Credit			
Mobile Payment			
Inclusive Savings			
If yes, please, attach KYC formats with the questionnaire.			

3. Do you have separate division/unit/desk to conduct these activities? Do you have own policy/strategy for sustainable banking?

Broad Areas	Separate division/unit/desk Yes or No	Own policy/strategy Yes or No
Agriculture Finance		
SME Finance		
Women Entrepreneurship		
Green Finance		
Agent Banking		
Mobile Banking		
Inclusive Banking		
CSR Activities		

4. What are the operational challenges you are facing after introducing new Sustainable Finance policy?

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5. Only a few refinancing products are popular in the banks in spite of having a number of products. Please explain the reason.

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6. State the mode and volume of finance under sustainable banking (BDT in million).

Sustainable Banking Areas	2021				2020			
	Own Branches	Through Agents	Through MFS	MFI's /Others	Own Branches	Through Agents	Through MFS	MFI's/ Others
Agriculture Finance								
SME Finance								
Green Finance								

Sustainable Banking Areas	2019				2018			
	Own Branches	Through Agents	Through MFS	MFI's /Others	Own Branches	Through Agents	Through MFS	MFI's/ Others
Agriculture Finance								
SME Finance								
Green Finance								

7. Please mention the NPL scenario of your bank (in percentage).

Year	Total NPL	NPL of Agriculture Finance	NPL of SME Finance	NPL of Green Finance	NPL of Credit under Agent Banking
2021					
2020					
2019					
2018					

8. Please mention the **challenges with special reference to Covid-19 situation** that need to be addressed to boost sustainable banking.

Broad Areas	Major Challenges
Agriculture Finance	
SME Finance	
Green Finance	
Agent Banking	
Mobile Banking	
Inclusive Banking	
Sustainability Reporting	
CSR Activities	

9. Please provide your **suggestions** for ensuring better sustainable banking in the context of **Covid-19 situation**.

Broad Areas	Suggestions
Agriculture Finance	
SME Finance	
Green Finance	
Agent Banking	
Mobile Banking	
Inclusive Banking	
Sustainability Reporting	
CSR Activities	

10. If possible, state/attach at least one successful case in this area that you may feel proud of.

11. State a case of failure in regard to sustainable finance (if any).

Appendix – 3

List of participants in FGD

Date: March 28, 2022

A total of 65 participants attended the FGD

SL. No.	Bank Name
1.	Habib Bank Limited
2.	Prime Bank Limited
3.	Dutch Bangla Bank Limited
4.	Trust Bank Limited
5.	Rajshahi Krishi Unnayan Bank
6.	Social Islami Bank Limited
7.	Southeast Bank Limited
8.	First Security Islami Bank Limited
9.	Hongkong Shanghai Banking Corporation
10.	Bank Al Falah Limited
11.	Basic Bank Limited
12.	BRAC Bank Limited
13.	Islami Bank Bangladesh Limited
14.	Meghna Bank Limited
15.	National Bank Limited
16.	Prime Bank Limited
17.	United Commercial Bank Limited

Appendix – 4

Questions asked in the Focus Group Discussion (FGD)

1. What are the current status of your bank regarding the following areas?

- CMSME
- Agriculture/Rural
- Financial Inclusion / Mobile / Digital Financial Service / Agent banking
- Agent Banking
- Green Banking & CSR
- Sustainable Finance

2. What are the operational challenges you face in providing finance in the following areas?

- CMSME
- Agriculture/Rural
- Financial Inclusion / Mobile / Digital Financial Service / Agent banking
- Agent Banking
- Green Banking & CSR
- Sustainable Finance

3. What are the demand side challenges from banks perspective in the following areas?

- CMSME
- Agriculture/Rural
- Financial Inclusion / Mobile / Digital Financial Service / Agent banking
- Agent Banking
- Green Banking & CSR
- Sustainable Finance

4. What are the supply side challenges you are facing in the following areas?

- CMSME
- Agriculture/Rural
- Financial Inclusion / Mobile / Digital Financial Service / Agent banking
- Agent Banking
- Green Banking & CSR
- Sustainable Finance

5. What are your suggestions for ensuring sustainable financing activities in the following areas?

- CMSME
- Agriculture/Rural
- Financial Inclusion / Mobile / Digital Financial Service / Agent banking
- Agent Banking
- Green Banking & CSR
- Sustainable Finance

Appendix – 5

Questionnaire for Different Departments of Bangladesh Bank

National Financial Inclusion Strategy (NFIS) Administrative Unit

1. What is the implementation status of National Financial Inclusion Strategy and planning at the moment?
2. What is NFIS's coordination mechanism with other stakeholders of (BB, Ministry, etc.)?
3. What are the challenges of financial inclusion in Bangladesh?
4. What are the suggestions to overcome these challenges?

Sustainable Finance Department

1. What are the major sustainable banking policy initiatives in last two years?
2. What is the implementation status of these policies?
3. What are the challenges of implementing 'Sustainable Finance Policy'?
4. What is your suggestion to overcome these challenges?
5. Please make a comment on the use of Refinancing Scheme of Sustainable Finance Department.
6. What are the challenges connected with Refinancing Scheme?
7. What is your recommendation (policy and operational level) to overcome these challenges?
8. Please make a comment on the use of CSR Fund.
9. What are the challenges associated with CSR Fund?
10. What is your suggestion to overcome these challenges?
11. Please make a comment on the use of Climate Risk Fund.
12. What are the challenges associated with Climate Risk Fund?
13. What is your suggestion to overcome these challenges?
14. What are the challenges of sustainable finance in Bangladesh?
15. What are the suggestions to overcome these challenges?
16. Please provide data on NPL (2019, 2020 and 2021).

Payment Systems Department

Related to MFS

1. What are the major MFS policy initiatives in last two years?
2. What is the implementation status of these policies?
3. What are the operational challenges of implementing these policies?
4. What is your future planning for the next two years?
5. What are the probable areas in MFS where fraudulent activities can occur? Please provide 2 to 3 case studies.

Related to Agent Banking

1. What are the major Agent banking policy initiatives in last two years?
2. What is the implementation status of these policies?
3. What are the operational challenges of implementing these policies?
4. What is your future planning for the next two years?
5. Please provide 2 to 3 case studies.
6. Please provide NPL data (2019, 2020 and 2021) data related to credit distribution through Agent.

Appendix – 6

Appendix Table: Expanding No Frill Accounts (NFAs)								
		June-19	June-2020	Change (in %) CY2020	June-2021	Change (in %) CY 2021	March-22	Change (in %) up to March 2022
1	Farmers	1,00,36,907	10270143	2.3	9,859,198	-4.0	9,903,233	0.4
2	Hardcore poor	26,41,206	2723995	3.1	3,419,115	25.5	3,464,579	1.3
3	Freedom fighters	2,34,908	254197	8.2	267,912	5.4	289,469	8.0
4	Social Safety net allowance	53,19,619	7358243	38.3	8,793,136	19.5	9,377,837	6.6
5	Food & livelihood security	64,233	65208	1.5	78,541	20.4	72,690	-7.4
6	Poor rehabilitation under Ministry of Religious Affairs	1,448	1505	3.9	1,600	6.3	1669	4.3
7	City corporation workers	10108	10261	1.5	10,159	-1.0	10,172	0.1
8	RMG Workers	2,86,423	435956	52.2	493,360	13.2	620,342	25.7
9	Leather Industry Workers	4073	4307	5.7	428	-90.1	502	17.3
10	National Service Program	57,541	60781	5.6	62,251	2.4	60056	-3.5

11	Small Life Insurance Program	1,23,818	125924	1.7	126,590	0.5	135,528	7.1
12	Physically challenged persons	2,02,061	247120	22.3	501,935	103.1	557,858	11.1
13	Others	5,15,700	513090	-0.5	619,440	20.7	682,705	10.2
	Total	1,94,98,045	2,20,70,630	13.2	24,233,665	9.8	25,176,640	3.9
<i>Source: Quarterly Report on No-Frill Accounts, BB</i>								

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