

SUSTAINABLE BANKING NETWORK (SBN)

COUNTRY PROGRESS REPORT

ADDENDUM TO SBN GLOBAL
PROGRESS REPORT

BANGLADESH



Sustainable
Banking
Network

IFC | International
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WORLD BANK GROUP

Creating Markets, Creating Opportunities

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Canada

Table of Contents

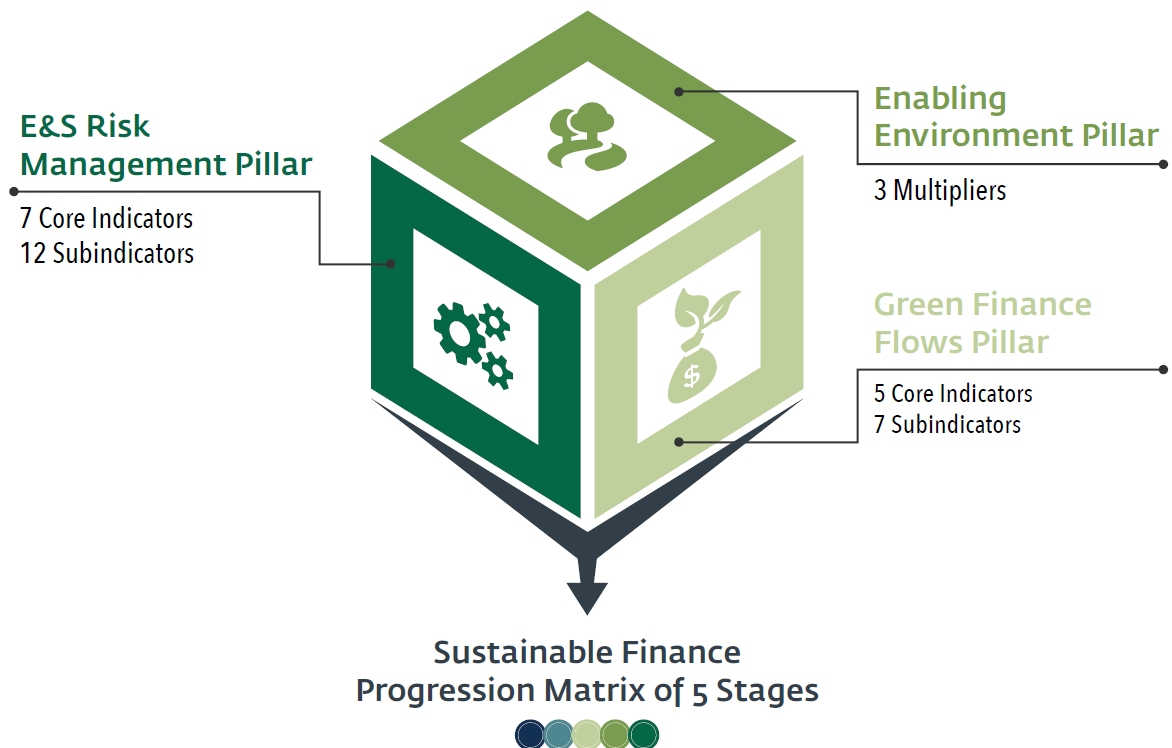
1. Introduction	1
2. Executive Summary	3
3. Enabling Environment	5
4. Environmental and Social Risk Management	7
5. Green Finance Flows	9



1. Introduction

Market-based sustainable finance initiatives led by members of the Sustainable Banking Network (SBN) have made significant progress in directing the financial sector toward sustainability. Established with International Finance Corporation's (IFC) support in 2012, SBN represents a community of financial sector regulators and banking associations from 34 emerging markets. SBN members now represent over US\$42.6 trillion in banking assets, accounting for more than 85 percent of the total banking assets in emerging markets.

The SBN Global Progress Report is based on a unique measurement framework, the first of its kind to assess sustainable finance initiatives across emerging markets. The SBN Global Progress Report for the first time presents a systematic view of progress on sustainable finance among emerging economies that are represented by SBN. A rigorous measurement framework was developed and agreed on by members. The SBN Measurement Framework draws on international best practice as well as SBN members' experiences and innovations. This framework will be continuously applied to measure progress annually.

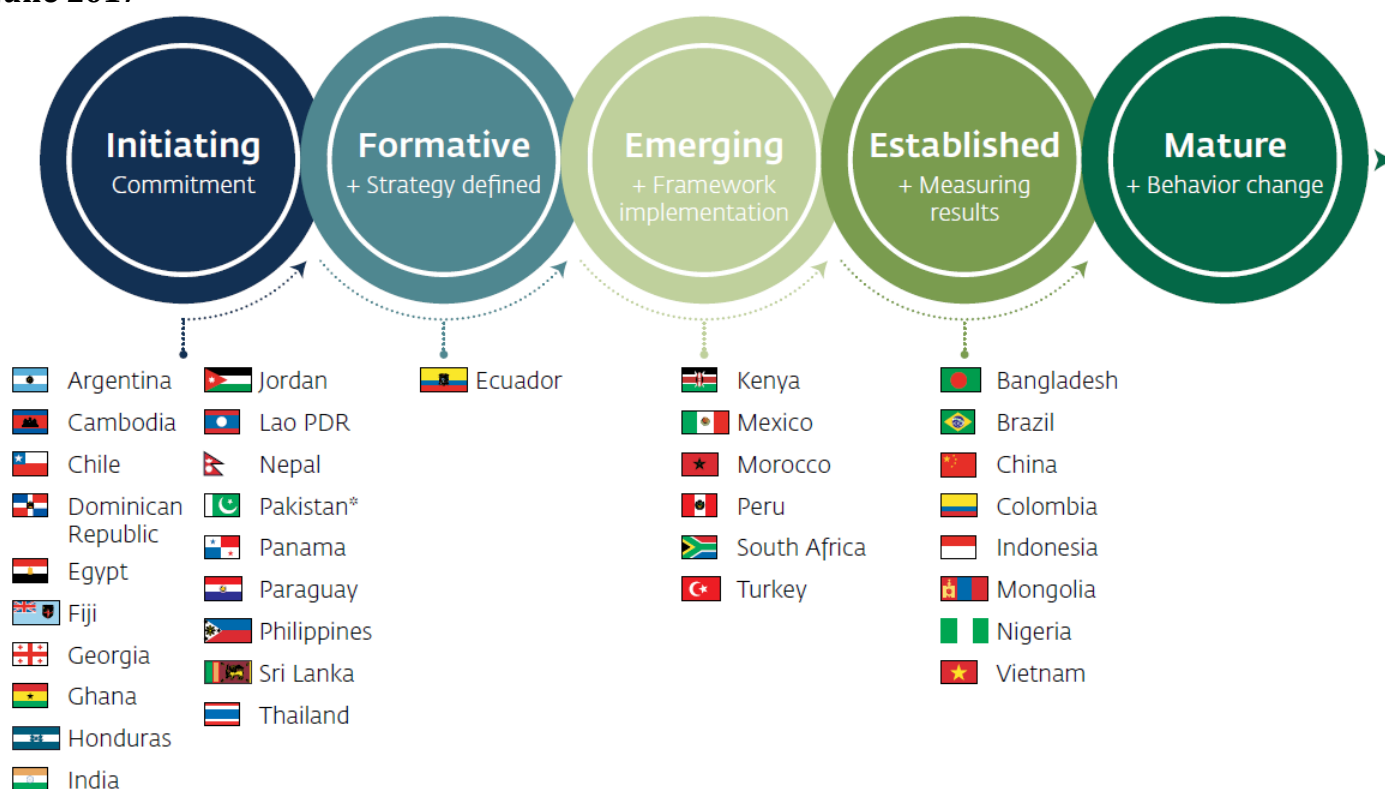


The Global Progress Report draws on the findings of **15 individual country progress reports prepared for members, including this report**. These 15 countries, with US\$38.3 trillion in banking assets, account for more than 76 percent of emerging market banking assets.

Country-specific progress reports were prepared for 15 SBN members with sustainable finance initiatives. These reports contain a thorough analysis of the country's policy or principles in relation to the environmental and social (E&S) risk management and to the green finance flows, as well as a contextual analysis of the local policy landscape and the enabling environment. Country reports detail each country's good practice and highlight areas of focus in order to support and encourage members to further accelerate sustainable finance.

All SBN member countries are advancing sustainable finance at differing stages of development. Countries are mapped to five different stages of their development, from initiating to mature.

SBN Progression Matrix with Assessment Results, based on progress up to and as of June 2017



* Pakistan launched its policy in October 2017, after the cut off date of June 2017 for the report

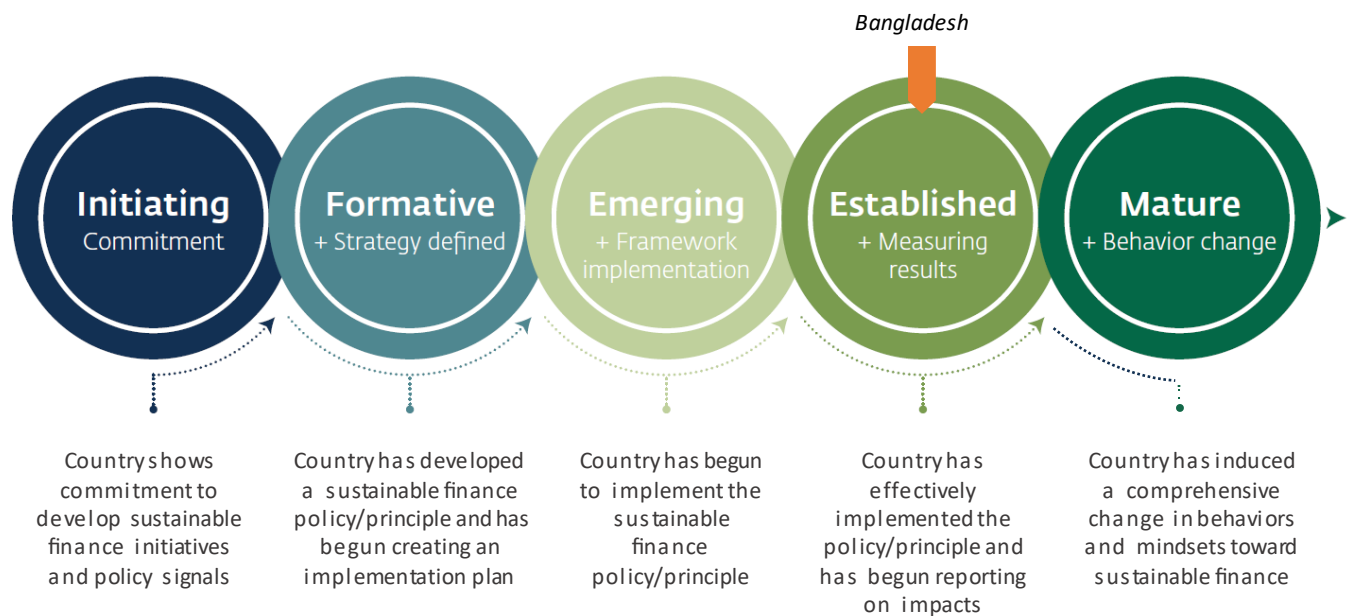
2. Executive Summary

Bangladesh started its journey toward a sustainable banking system as early as 2011, when the central bank of Bangladesh, Bangladesh Bank (BB), issued the **Policy Guidelines on Green Banking**. These guidelines encourage banks and financial institutions (FIs) to incorporate environmental and social risk management into their credit activities, and to publish green banking and sustainability reports.

BB has shown itself to be very active in developing a sustainable finance policy package with numerous circulars, guidelines, and tools. Bangladesh's banking industry has been highly responsive. Today, the **Guidelines on Environmental and Social Risk Management** (adopted in 2017) exemplify a comprehensive framework to encourage and assist FIs in implementing environmental and social (E&S) risk management systems. It is one of the best of its kind among Sustainable Banking Network (SBN) members and can be put forward as an example for others.

On the opportunity side, the policy package is composed of various initiatives. BB has set both financial and nonfinancial incentives to promote green finance, and it requires FIs to report on their sustainability practices, including their green finance flows. Going forward, BB could assist FIs with reporting on environmental and social impacts, and require them to verify and publicly disclose their data. Developing green finance in capital markets represents another opportunity for improvement.

Overall Results



Good Practice

- Environmental and Social Risk Management (ESRM) Guidelines published in 2017 provide a very comprehensive framework regarding the management of E&S risks.
- Bangladesh Bank and private-sector banks cooperate closely. All banks have a Sustainable Finance Unit whose head is in contact with BB.
- Bangladesh Bank has provided many implementation tools for financial institutions, including a quantitative E&S risk assessment tool that includes climate risk.
- Banks report their data on sustainability to BB on a quarterly basis, and this data is taken into account for their CAMELS rating (a supervisory rating system to classify a bank's overall condition).

Areas for Improvement

- The consistency and quality of implementation varies from bank to bank. BB could ensure consistent quality across the financial sector.
- Although there is existing reporting of green finance flows and green practices, FIs could also be required to report on impacts, disclose all of this information publicly, and have external auditors verify this information.
- Capital markets could receive more guidance in order to develop green financial assets and products (such as green bonds and green assets.)

CONTEXT:

3. Enabling Environment

Country Profile

Bangladesh has the highest per capita consumption of fish-based animal protein on the planet and this situation in turn means the health of Bangladesh's aquaculture is critical. The World Bank highlights strong environmental and natural resource management policies and regulations, but it stresses the need to deepen efforts, especially those related to water and forest conservation.

Bangladesh has been under the world spotlight since the Rana Plaza accident in 2013 that killed more than 1,000 textile industry employees. Despite the urgent need to improve general working conditions, Bangladesh has only encouraged banks to address social risks since 2017, when Bangladesh Bank issued the Guidelines on Environmental and Social Risk Management (the ESRM Guidelines), which replaced the 2012 Guidelines on Environmental Risk Management (the ERM Guidelines).

Bangladesh is highly exposed to climate change and ratified the Paris Agreement on Climate Change in September 2016. The country has committed in its Intended Nationally Determined Contributions (INDC) to achieving an unconditional five percent reduction in greenhouse gas emissions by 2030, compared to business-as-usual levels, in the power, transport and industry sectors, which are set to account for 69 percent of total emissions by 2030. Bangladesh is counting on international support to achieve a further 15 percent reduction.

Background and Strategy of the Sustainable Banking Framework

In 2011, Bangladesh Bank set up a sustainable banking framework through the **Policy Guidelines for Green Banking**. The Guidelines originally focused on encouraging banks and FIs to incorporate Environmental Risk Management (ERM) into their credit activities, and to begin publishing green banking and sustainability reports. The Guidelines called on all commercial banks to adopt (by 2013) a comprehensive green banking policy over three distinct phases, covering both their own footprint and their lending activities:

- Phase 1: Banks develop green banking policies and strategies, with dedicated governance systems and budgets.
- Phase 2: Banks formulate specific policies and targets for environmentally sensitive sectors, and develop an environmental risk management manual for assessment and monitoring of projects and working capital loans.
- Phase 3: Banks publish independently assured Green Annual Reports.

The **Guidelines on Environmental Risk Management** were introduced in 2012, in order to consider environmental factors in a structured fashion, notably via the development, in parallel, of a sector-specific **Environmental Due Diligence Checklist (EDD Checklist)** for financing environmentally sensitive sectors. The implementation of the ERM Guidelines has helped broaden the scope of the framework by expanding the risk rating system, and introducing requirements for Environmental and Social Management Systems. The **Guidelines on Credit Risk Management for Banks** provide guidance specific to assessing credit risk.

In 2017, Bangladesh Bank updated this framework and developed a much more sophisticated and rigorous E&S Risk Management procedure which incorporated social risks. The **Guidelines on Environmental and Social Risk Management** provide clear guidance regarding the following: applicability, applicable standards, roles and responsibilities of concerned bank officials; E&S due diligence procedures (including an Excel-based Environmental and Social Due Diligence [ESDD] Risk Assessment Tool); time bound covenants; action plans; and regular monitoring. These guidelines are complemented by 10 sector-specific guidance notes for banks to follow.

Support from Regulators

Bangladesh Bank has been one of the most supportive SBN country regulators in the development of its national sustainable banking framework. Notable features are the early use by BB of both financial and nonfinancial incentives for banks implementing the 2011 Guidelines for Green Banking. These include: the awarding of points for the management component of the bank's rating by the supervisor; an annual declaration of the top 10 performers in key areas of green banking; a pledge to consider green banking practices, when considering applications for licenses to open new bank branches; and a comprehensive and dense set of refinancing schemes launched in 2009, 2012, 2013, and 2015.

BB has provided many guidance documents and tools to help FIs implement the policy Guidelines. For instance, the ESDD risk assessment tool includes a set of criteria, and auto-generates actionable E&S risk ratings for bankers.

On the monitoring side, BB monitors the level and quality of implementation of the policy, through a monitoring and evaluation (M&E) tool that generates sustainability ratings for each bank. Based on four sustainability related parameters (E&S Risk Management in lending, green finance, reducing banks' carbon footprint and corporate social responsibility [CSR] activities related to the environment), this rating has a direct impact on the CAMELS rating of each bank.

RISK:

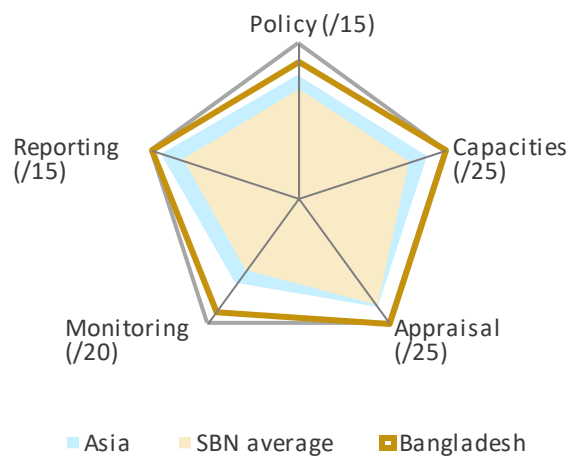
4. Environmental and Social Risk Management

Major progress has been made with incorporating social risk management into BB's policy package in 2017 via the ESRM Guidelines and the ESDD sector-specific risk assessment tool, offsetting several of the gaps of the previous sustainable banking framework. On the risk side, the Bangladeshi policy package is now one of the best of its kind, covering all core indicators and most of the subindicators and providing practical guidance.

These policies explicitly require FIs to identify and address climate risks through a mandatory question in the ESDD checklist. Going further, banks could be asked to consolidate and monitor the exposure of their overall portfolio to climate risks and disclose this information.

Although there are no penalties for noncompliance, BB has enforced ESRM in Bangladesh as a mandatory requirement. As a result, all banks have solid foundation in place. However, the consistency and quality of implementation varies from bank to bank, and BB needs to focus more on ensuring consistent quality across the financial sector.

Now that the policy package is comprehensive, it could be broken down and customized for various financial activities (such as retail banking, insurance, and institutional investors).



Subpillars	Comments on good practice and areas for improvement
Policy	<ul style="list-style-type: none"> - The ESRM Guidelines apply to all bank activities and indicate that senior management must approve and support E&S policies. - The Policy Guidelines on Green Banking require banks to publish independent green annual reports, in accordance with the GRI. Banks also must formulate strategies for different environmentally sensitive sectors, while taking into account climate risks, when assessing a borrower or loan. The Guidelines on ESRM provide further details regarding environmentally sensitive sectors, including an exclusion list to be implemented when starting to conduct the ESDD. - None of the existing guidelines require banks to adopt a climate strategy aligned with national or international commitments.
Capacities	<ul style="list-style-type: none"> - The ESRM Guidelines state that it is essential for roles and responsibilities to be clearly defined, and they outline which member of staff should be involved. - Every Bangladeshi bank has a Sustainable Finance Unit, headed by a Senior Vice President.
Appraisal	<ul style="list-style-type: none"> - The ESRM Guidelines are accompanied by a generic and sector-specific ESDD checklist providing eight typical steps for conducting an appraisal. The ESRM Guidelines advocate the incorporation of E&S requirement clauses into legal agreements.
Monitoring	<ul style="list-style-type: none"> - The ESRM Guidelines encourage banks to: categorize transactions according to automatically generated E&S risk ratings generated by the ESDD checklist; conduct periodic reviews; and introduce corrective action plans and undertake site visits, whenever necessary. One step for conducting the ESDD is to escalate transactions to the relevant authority, depending on their E&S risk rating. - None of the guidelines require the monitoring of carbon risk exposure at the portfolio level.
Reporting	<ul style="list-style-type: none"> - The ESRM Guidelines indicate that the last step to conduct ESDD is <i>“to report both internally to senior management and also externally to Bangladesh Bank and shareholders on their sustainability performance.”</i>

OPPORTUNITY:

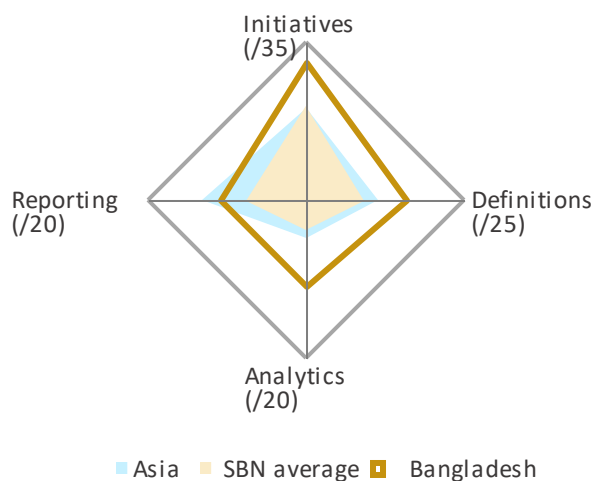
5. Green Finance Flows

The Policy Guidelines for Green Banking direct FIs to form a Climate Risk Fund, and the new ESRM Guidelines focus on environmental, social, and governance (ESG) risk management and green finance flows, which are covered separately via circulars and tools provided by Bangladesh Bank. In 2012, BB introduced a reporting template to ensure FIs report on green finance in a consistent manner. In 2016, it set a minimum target of direct green finance at five percent of the total loan disbursement of all FIs.

Since 2009, BB has also provided several revolving refinancing schemes to broaden the financing available for green products (mostly for renewable energy and energy efficiency), such as the Refinance Scheme for Renewable Energy & Environment Friendly Financeable Sectors (US\$25 million), the Financing Brick Kiln Efficiency Improvement Project (US\$50 million), and the Green Transformation Fund for Export Oriented Textile and Leather Sectors (US\$200 million).

Developing these schemes required BB to list the eligible products, clarifying their concepts and definitions. The provision of definitions and guidance could be extended to green asset classes to create and develop greener capital markets, starting with the bond market.

BB requires data reporting on a quarterly basis, but, as of now, FIs are not required to publicly disclose this information or have it verified by a third party. Nevertheless, BB is planning to introduce a new reporting format, termed the Sustainability Reporting Framework, compatible with the Global Reporting Initiative (GRI) standards. This new framework will enable FIs to assess and disclose the social and environment impacts of their investments in a globally standardized and recognized format.



Subpillars	Comments on good practice and areas for improvement
Initiatives	<ul style="list-style-type: none"> - Bangladesh Bank is providing both financial and nonfinancial incentives. For instance, it has created exclusive refinancing windows to encourage green-finance initiatives. It has also issued a circular that requires all banks to have at least five percent of their portfolio in green finance—this is monitored with the help of the M&E tool. In addition, the licensing of new bank branches is fast-tracked for banks that have adopted E&S risk management best practices. - Bangladesh Bank publicly acknowledges the top performers and could further value them by setting up a dedicated award.
Definitions	<ul style="list-style-type: none"> - To put in place the refinancing scheme, BB listed and defined the eligible green products. These definitions of products could be complemented with the definitions of green asset classes, such green bonds. - Bangladesh could also take the initiative to facilitate or support the issuance of green bonds.
Analytics	<ul style="list-style-type: none"> - A circular requires FIs to submit information on green finance flows on a quarterly basis. A reporting format is provided. BB annually consolidates and reports data on green finance in its annual report. - Although the ESDD checklist includes criteria relating to the identification of environmental opportunities (such as greenhouse gas reduction), there are currently no requirements in terms of environmental benefits calculation.
Reporting	<ul style="list-style-type: none"> - The circular mentioned above also requires FIs to report on green finance, green marketing, training and capacity development, utilization of climate risk funds, strategic plans and steps for green banking, sector specific green finance policies, and so on. - Going further, BB could encourage FIs to publicly publish this data, and have independent third parties verify this data.