



GREEN  
FINANCIAL  
INCLUSION

BRINGING  
SMART  
POLICIES  
TO LIFE

# BANGLADESH BANK'S JOURNEY WITH FINANCIAL INCLUSION AND CLIMATE CHANGE

November 2018



CASE STUDY

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## ACKNOWLEDGMENT

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Cover photo: Floods devastate almost half of Bangladesh, forcing millions of people to flee their homes for shelters. In the photos taken from Shibaloy in Manikganj district, almost all the houses in the village are submerged leaving many people marooned on August 20, 2017.

## EXECUTIVE SUMMARY

In the face of urgent environmental, economic and social challenges brought on by climate change, Bangladesh Bank is leading the country's transition to a greener and more inclusive financial system.

Bangladesh Bank (the central bank of Bangladesh) has long recognized that financial services play a vital role in enabling the poor and vulnerable to cope with financial shocks, including those from climate change. In fact, it is one of the first central banks in the world to explicitly link financial inclusion and climate change and enact strategic plans and policies that help those at the bottom of the pyramid to manage and mitigate the financial, social and environmental impact of climate change.

The seeds of these efforts were sown decades earlier, when the central bank recognized that large segments of the population and economic activities in Bangladesh were unserved or underserved by the financial system, and that financial inclusion was a key tool for combating poverty and promoting greater social inclusion. Early action by the Bangladesh Government to embed sustainability in the national development agenda has also cultivated a commitment in the country to socially responsible, environmentally sustainable and inclusive growth.

Bangladesh Bank has played a key role in the national effort to promote sustainable development and respond to both the immediate and long-term impacts of climate change. Green financial products and services provide tools to transition to a sustainable low-carbon economy, and the central bank has implemented a range of policies, guidelines and strategic plans to mainstream sustainability and implant green banking in the financial landscape of Bangladesh.

The Policy Guidelines on Green Banking issued by Bangladesh Bank in 2011, have provided an overarching policy framework for banks and other financial institutions in Bangladesh, to gradually implement a comprehensive green banking policy that covers everything from green finance to incorporating environmental and social risk in credit assessments, to reducing waste and adopting renewable energy in bank branches.

In implementing these policy guidelines, Bangladesh Bank has learned some important lessons that will guide its ongoing work, for example, that raising awareness must come before regulation; that securing commitment from all levels of leadership in the financial sector is key to success; that a phased approach for implementation provides a manageable and realistic way to bring banks and other financial institutions on board; and that bringing new green borrowers and entrepreneurs into the formal financial system is key to creating a healthy, climate-friendly market.

## INTRODUCTION

A low-lying country with hundreds of miles of coastline and the world's largest river delta, Bangladesh is extremely vulnerable to climate change. Rising sea levels, storm surges and tropical cyclones are having negative and dramatic impacts on coastal communities, washing away homes, destroying productive farmland and driving people inland. High population density and a shortage of land to accommodate a growing population are compounding these challenges.

For the poor, financial products and services like savings accounts, loans, insurance and mobile money provide a vital safety net. From softening the blow of financial losses following a catastrophic event to smoothing consumption during recovery, financial services enable individuals and households to be more resilient in the face of unexpected setbacks.

However, in Bangladesh, as in other developing countries and emerging economies, hard-won development gains from financial inclusion are at risk from climate change.

Acutely aware of the need to address the immediate financial impacts of climate change and build a sustainable low-carbon economy over the long term, Bangladesh Bank has been a pioneer in pursuing innovative policies, regulations and norms to create a more inclusive and green financial system. By making climate-friendly products and technologies more affordable and accessible through green banking and other financial sector initiatives, even poor and vulnerable populations in Bangladesh can become part of the country's transition to greener practices.

The purpose of this case study is to clarify the important link between financial inclusion and climate change and to add to a growing body of evidence of how financial regulators are addressing pressing issues of climate change mitigation and adaptation for those at the bottom of the pyramid. It examines the work of Bangladesh Bank to enact policies aimed at transitioning the financial sector to a green economy and helping the population cope with financial losses from climate change and adapt to new livelihoods and environmental realities.



## BACKGROUND

Bangladesh is a climate-vulnerable country that experiences natural disasters almost every year. Tropical cyclones, storm surges, coastal erosion, floods and even droughts are common, causing loss of life and property. Between 1960 and 2010, 58 tropical cyclones affected Bangladesh, but it is not only the frequency of cyclones that is an issue, but the intensity of them.

A climate research study<sup>1</sup> found that between 1877 and 1995, Bangladesh was hit by less than one percent of the world's tropical storms, but accounted for a staggering 53 percent of deaths from cyclones. In 2017, the World Meteorological Organization (WMO) confirmed that Bangladesh has the world's highest recorded number of mortalities associated with both cyclones and tornados.<sup>2</sup>

The southern and central coastal zones of Bangladesh have always borne the brunt of monsoon flooding and tropical cyclones. Saltwater intrusion limits food production and affects drinking water quality in this area, and flooding intensifies water contamination and can lead to outbreaks of contagious diseases. These problems are expected to worsen with climate change, land subsidence and population growth. It is important to note that apart from pockets in northern Bangladesh and hilly regions of the southeast, the coastal areas are also home to the poorest and most food-insecure households in the country. In short, the most vulnerable people in Bangladesh also happen to live in the region most vulnerable to climate change.

The Government of Bangladesh has long understood that climate change is both a development and environmental issue, and the devastating environmental impacts and financial shocks to the economy have spurred the government to take action, from the global to local level. As early as 2000, the Bangladesh Government embraced a sustainable approach to growth when it signed the Millennium Declaration and took strides to embed the Millennium Development Goals (MDGs) in its development agenda across various government ministries, divisions and agencies. Although uneven, the results of the government's efforts have been quite impressive and received attention on the global stage.

Among other awards the Bangladesh Government has received, the Honourable Prime Minister Sheikh Hasina was awarded the UN MDG Award 2010.

### 58 CYCLONES

AFFECTED BANGLADESH  
BETWEEN 1960 AND 2010



### 53%

BETWEEN 1877 AND 1995,  
BANGLADESH WAS HIT BY LESS  
THAN 1% OF THE WORLD'S TROPICAL  
STORMS, BUT ACCOUNTED FOR A  
STAGGERING 53% OF DEATHS  
FROM CYCLONES



### 20 YEARS

WITH CLEAR TARGETS FOR  
MDG 7 IN PLACE FOR NEARLY  
20 YEARS, THE GOVERNMENT  
LOST NO TIME IN MAINSTREAMING  
THE SUSTAINABLE DEVELOPMENT  
GOALS (SDGs)



With clear targets for MDG 7 (Ensure Environmental Sustainability) in place for nearly 20 years, environmental sustainability is a priority. Bolstered by its past success, the government lost no time in mainstreaming the Sustainable Development Goals (SDGs) in its national development plan<sup>3</sup> in 2015, and today, it sees climate change and sustainability as inseparable. The government has adopted a two-pronged strategy:

- 1) To increase resilience to the impacts of climate change; and
- 2) Build a low-carbon economy rooted in sustainable development.

The national strategies and action plans outlined here detail how the government is achieving these goals.

1 Anwar Ali, 1999, "Climate change impacts and adaptation assessment in Bangladesh", Climate Research, Vol. 12: 109-116, <https://www.int-res.com/articles/cr/12/c012p109.pdf>

2 Great Bhola Cyclone, 12-13 November 1970, killed 300,000 people directly and a tornado on 26 April 1989 in the Manikganj District killed 1,300: <https://public.wmo.int/en/media/press-release/wmo-determines-highest-death-tolls-from-tropical-cyclones-tornados-lightning>

3 The 7th Five Year Plan was aligned with the SDGs and a 'mapping of ministries' was conducted to identify the roles and responsibilities of government ministries/divisions in the implementation of the SDGs.

## NATIONAL CLIMATE CHANGE STRATEGIES

In 2005, Bangladesh developed the National Adaptation Programme of Actions (NAPA) after extensive consultations with communities, professional groups and members of civil society across the country. NAPA was the beginning of a journey toward addressing the adverse impacts of climate change and promoting sustainable development.

In September 2008, this process continued with the adoption of the Bangladesh Climate Change Strategy and Action Plan (BCCSAP) intended to guide national efforts to combat climate change over 10 years.

The BCCSAP was designed as a living document that could be revised periodically as new developments in climate change science came to light and the country implemented its adaptation and mitigation programs.

The 7th Five Year Plan of the Government of Bangladesh included a Green Growth Strategy that articulated three themes, one of which was climate change management and resilience. In line with this strategy, the Intended Nationally Determined Contributions (INDC) were released in September 2015, which laid out mitigation efforts Bangladesh could take to tackle its rising emissions and contribute to global efforts to limit temperature rise to two degrees, preferably 1.5 degrees, above pre-industrial levels.

The Bangladesh Government's development plans, including the Perspective Plan of Bangladesh 2010-2021, the National Sustainable Development Strategy 2010-2021 (NSDS), and the 6th and 7th Five Year Plans, strongly emphasize managing climate change impacts for sustainable development. The government also recently released the Bangladesh Delta Plan 2100, which details commitments to address climate change impacts and environmental conservation in the country's vulnerable delta plains of the coastal regions, to ensure this area is resilient and develops sustainably.

From the beginning, Bangladesh Bank has played a key role in national efforts to address the impact of climate change and promote sustainable development.

### 2008

THE BANGLADESH CLIMATE CHANGE STRATEGY AND ACTION PLAN (BCCSAP) WAS ADOPTED, WITH THE INTENTION TO GUIDE NATIONAL EFFORTS TO COMBAT CLIMATE CHANGE OVER 10 YEARS.



### 1.5°c

THE GOVERNMENT OF BANGLADESH LAID OUT MITIGATION EFFORTS TO TACKLE ITS RISING EMISSIONS AND CONTRIBUTE TO GLOBAL EFFORTS TO LIMIT TEMPERATURE RISE TO 2 DEGREES, PREFERABLY 1.5 DEGREES, ABOVE PRE-INDUSTRIAL LEVELS.



### BANGLADESH DELTA PLAN 2100

ADDRESS CLIMATE CHANGE IMPACTS AND ENVIRONMENTAL CONSERVATION IN THE COUNTRY'S VULNERABLE DELTA PLAINS OF THE COASTAL REGIONS.



While the Bank's mandate does not explicitly mention climate change, it does include a commitment to:

*“Fostering growth and development of the country's productive resources in the best national interest”.*

This core mandate and years of concerted efforts by the national government to cultivate a socially responsible, inclusive and environmentally sustainable ethos in Bangladesh, help to explain why Bangladesh Bank stands as a pioneer in this area.

# POLICIES ON FINANCIAL INCLUSION AND CLIMATE CHANGE

## FIRST STRATEGIC PLAN (2010-2014)

In its First Strategic Plan (2010-2014), Bangladesh Bank linked financial inclusion and climate change with a strategy that met the financing needs of two important yet underserved sectors of the economy: agriculture and small and medium enterprises (SMEs). The Plan included a strategy to:

- 1) Promote bank lending to agricultural businesses and SMEs for environmentally friendly projects, such as renewable energy and effluent treatment plants; and
- 1) To mitigate the risks of lending to these sectors, including steps to facilitate crop insurance and partial risk coverage for SME loans.

## ENVIRONMENTAL RISK MANAGEMENT (ERM) GUIDELINES

A year after the release of the First Strategic Plan, Bangladesh Bank issued the Environmental Risk Management (ERM) Guidelines for Banks and Financial Institutions in Bangladesh.<sup>4</sup> The guidelines directed banks and other financial institutions to integrate ERM policies in their existing credit risk management (CRM) procedures, to protect financing from the risks of environmental degradation and ensure banking practices are sustainable. The guidelines focused primarily on environmental risks, but they included a few social risks, too.

The objective of the ERM Guidelines was to establish a minimum standard for incorporating the evaluation of environmental and social issues in risk assessments for credit and investments, which would in turn promote sustainable business practices. The Guidelines took a qualitative approach to rating environmental risks and their application was determined by quantitative thresholds of the credit or investment being assessed. The loan categories included small and medium enterprises (SMEs), corporate financing and real estate financing.

## POLICY GUIDELINES FOR GREEN BANKING

In February 2011, soon after the ERM Guidelines were implemented, Bangladesh Bank issued the Policy Guidelines for Green Banking, which was designed as an umbrella policy framework for all the Bank's future policies on green banking.

### POLICY GUIDELINES FOR GREEN BANKING

The guidelines covered the following areas identified through a prior research by the Bangladesh Institute of Bank Management:

1. Policy Formulation and Governance
2. Green Finance
3. Incorporation of Environmental Risk in CRM
4. In-house Environmental Management
5. Climate Risk Fund
6. Green Marketing
7. Online Banking
8. Capacity Development of Employees and Awareness Building of Clients
9. Disclosure and Reporting of Green Banking Activities
10. Sector-specific Environmental Policies
11. Green Strategic Planning
12. Green Branches
13. Bank/FI-specific Environmental Risk Management Plan and Guidelines
14. Product Innovation
15. Sustainability Reporting

The Policy Guidelines laid out extensive targets for banks to adopt a comprehensive green banking policy over three phases:

- > **Phase I** Included policy formulation and governance, the incorporation of environmental risk in credit risk management, initiation of in-house environmental management, introduction of green finance and the creation of climate risk funds.
- > **Phase II** Built on the work of Phase I and included incorporating sector-specific environmental policies, green strategic planning and setting up green branches. Phases I and II both introduced guidelines allowing banks and other financial institutions to develop their own systems and establish their own targets. Phase II also added a monitoring and evaluation framework that required banks to submit regular reports on their green banking activities to Bangladesh Bank using a uniform reporting format.
- > **Phase III** Introduced standards for compliance and specified the preferential treatment that would be given to institutions that achieved compliance.

<sup>4</sup> Environmental and Risk Management Guidelines for Banks and Financial Institutions in Bangladesh: <https://www.bb.org.bd/aboutus/regulationguideline/jan302011erm.pdf>

<sup>5</sup> BRPD Circular No. 02/2011: Policy Guidelines for Green Banking: <https://www.bb.org.bd/mediaroom/circulars/brpd/feb272011brpd02e.pdf>

In 2013, the Policy Guidelines on Green Banking were extended to all other financial institutions in Bangladesh,<sup>6</sup> bringing them all under one structured reporting system. Since 2013, reported information on green banking activities has been published in the SFD's *Quarterly Review Report on Green Banking Activities of Banks & Financial Institutions and Green Refinance Activities of Bangladesh Bank*, available on the Bangladesh Bank website. From FY 2013-14, the Bangladesh Bank's annual reports included a chapter on sustainable banking that highlighted the progress of green banking activities in the country's financial sector, and this practice has since been taken up by the rest of the country's banks and financial institutions in their annual reports.

In 2015, Bangladesh Bank conducted a supply-side survey to complement its available data on green finance, and in 2017 collaborated with the Bangladesh Institute of Bank Management to conduct research to support its policymaking. In January 2018, the Bank made extensive revisions to the reporting format, including adding a requirement to collect sex-disaggregated data on green finance - a first for the Bank. In June 2018, reporting data showed an 8.9 percent quarterly increase in green finance even though the total number of banks and financial institutions offering green financing has stagnated. The Bank will monitor these developments and take action as necessary to encourage the growth of green finance.

### INSTITUTIONALIZING SUSTAINABILITY

As Bangladesh Bank developed its green banking, financial inclusion and CSR policies and initiatives, it became apparent that a new department needed to be created to oversee and coordinate this work. The Green Banking and CSR Department (GBCSRD) was established in April 2013, with the staff reassigned from other departments to take on these new roles. When the Bangladesh Government adopted the 2030 Agenda for Sustainable Development and signed on to achieve the Sustainable Development Goals (SDGs) in 2015, the GBCSRD transformed into the Sustainable Finance Department (SFD), and the Bank soon instructed all financial institutions in Bangladesh to dismantle their green banking and CSR units and replace them with a Sustainable Finance Unit and Sustainable Finance Committee.

The SFD became responsible for all activities related to green banking (green finance, environmental and social risk management, and in-house environmental management) and corporate social responsibility in the financial sector, including climate finance, carbon finance, green bonds and sustainable finance. The SFD also serves as the focal point and coordinator of Bangladesh Bank for the Sustainable Banking Network and Global Social Economic Forum, as well as for the

implementation of the SDGs, the national development plans of the government and the UNFCCC Green Climate Fund.

### SECOND STRATEGIC PLAN (2015-2019)

The Bank's Second Strategic Plan (2015-2019)<sup>7</sup> went even further than the first in linking financial inclusion and climate change. By this time, the Bank was armed with evidence that its early efforts to facilitate greater financial inclusion and broaden financial access had served the Bangladesh economy well. It also recognized that financial inclusion could help the nation weather economic shocks from climate-related events, and committed to integrate environmental considerations across the financial sector. Strategic Goal 3, which aims to "promote socially responsible, inclusive and environment-friendly financing to ensure sustainable development", includes two objectives directly related to action on climate change:

- > Provide macroprudential policy support to promote environmentally sustainable green financing in agriculture; and
- > Prepare the Environmental and Social Risk Management (ESRM) Guidelines for banks and financial institutions by upgrading the existing Environmental Risk Management (ERM) Guidelines.

These objectives are accompanied by action plans with key performance indicators and timelines.

### GUIDELINES ON ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT (ESRM)

After implementing the ERM Guidelines in 2011, the Bank observed an encouraging level of awareness and enthusiasm for risk management and sustainability in the financial sector. At the same time, the government was pursuing environmental conservation and social protection as part of its SDG commitments and there was broad recognition that the credit operations of banks and other financial institutions should properly address environmental and social issues, too (e.g. labor and working conditions, community health and safety, and land acquisition and resettlement). Following rigorous multi-stakeholder consultations, Bangladesh Bank drafted the Guidelines on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions,<sup>8</sup> which were issued in February 2017 and replaced the ERM Guidelines.

6 GBCSRD Circular No. 04/2013: Policy Guidelines for Green Banking: <https://www.bb.org.bd/mediaroom/circulars/gbcrd/aug112013gbcrd04e.pdf>

7 Bangladesh Bank Strategic Plan 2015-2019: [https://www.bb.org.bd/aboutus/strategicplan/strategicplan2015\\_final.pdf](https://www.bb.org.bd/aboutus/strategicplan/strategicplan2015_final.pdf)

8 SFD Circular No.02/2017: Guidelines on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh <https://www.bb.org.bd/mediaroom/circulars/gbcrd/feb082017sfd02e.pdf>

## GREENING THE FINANCIAL SECTOR

### REDUCING THE CARBON FOOTPRINT OF THE FINANCIAL SECTOR

As the regulator, Bangladesh Bank recognized the importance of setting an example for the industry and embarked on an in-house transformation to reduce its Green House Gas (GHG) emissions. The first steps were to install rooftop solar panels, a chilled water central air conditioning system and a motion sensor lighting system to reduce electricity usage. It also digitized its paper-based processes, and in 2016 measured its own carbon footprint.

The Policy Guidelines for Green Banking mandated that all other banks and financial institutions in Bangladesh reduce their carbon footprints. In September 2014, they were instructed to switch to e-procurement to reduce paper and in May 2016, to add solar panels and implement solid waste management system and rainwater harvesting system at their branches.

### GREEN FINANCIAL PRODUCTS AND SERVICES

In 2014, Bangladesh Bank set a minimum annual target for the disbursement of green finance that required banks and other financial institutions to dedicate five percent of total loan disbursements and investments to green financing. The idea to set a regulatory quota came from the Bank's successful implementation of regulatory targets for SME and agricultural financing. However, based on its enforcement experience with targeted lending, it knew that banks and other financial institutions would need guidance, namely, a comprehensive list of green products and initiatives eligible for financing and a clearly defined scope for financing green innovations.

Since there were no standardized benchmarks, certifications, accreditation systems or certification authorities in Bangladesh for green businesses or green initiatives, the Bank decided that drafting a list itself seemed the best option. In September 2017, Bangladesh Bank issued an exhaustive list of 52 products and initiatives in 8 categories that would be eligible for green financing by banks and financial institutions (see Annex 1). This list was supplemented with a product innovation/development methodology that enabled banks and financial institutions to assess the financial profitability, environmental and social feasibility, and risk of innovative green finance products and initiatives (see Annex 1).

## 52 PRODUCTS AND INITIATIVES

IN SEPTEMBER 2017, BANGLADESH BANK ISSUED AN EXHAUSTIVE LIST, IN 8 CATEGORIES, THAT WOULD BE ELIGIBLE FOR GREEN FINANCING BY BANKS AND FINANCIAL INSTITUTIONS



### REFINANCING SCHEMES FOR GREEN PRODUCTS AND INITIATIVES

It has always been the practice of Bangladesh Bank to provide subsidized credit to targeted beneficiaries. In 2009, the Bank launched a 2 billion BDT (about USD 24 million) refinancing scheme for six green products to promote green finance and sustainability. Today, there are 4 refinancing (on-lending) schemes under its jurisdiction that support low-cost green financing:

- 1 Refinance Scheme for Green Products/Initiatives;
- 2 Refinance Scheme for Islamic Banks and Financial Institutions for Investment in Green Products/Initiatives;
- 3 Green Transformation Fund; and
- 4 ADB-Supported Financing Brick Kiln Efficiency Improvement Project.

The SFD is responsible for overseeing the day-to-day operations of the four facilities, and detailed statistics on these refinancing schemes are published in the Quarterly Review Report on Green Banking Activities of Banks & Financial Institutions and Green Refinance Activities of Bangladesh Bank.

### CLIMATE RISK FUND

Another measure introduced under the umbrella of the Policy Guidelines for Green Banking was the Climate Risk Fund.<sup>9</sup> Bangladesh Bank instructed banks and other financial institutions to allocate at least 10 percent of their annual CSR budget to the Climate Risk Fund, which could be accessed for activities related to environmental conservation and pollution control, climate mitigation and adaptation or disaster management. Funds were to be distributed either through grants or financing at a reduced rate of interest.

<sup>9</sup> GBCSRD Circular 04/2015: Formation and Management Procedure of Climate Risk Fund: <https://www.bb.org.bd/mediaroom/circulars/gbcrd/jul092015bcsrd04.pdf>

## CONCLUSION

Bangladesh Bank is among the very first AFI members to recognize financial inclusion as a tool for low-income populations to adapt to the impacts of climate change and to facilitate their participation in society-wide mitigation efforts.

The Bank deserves recognition for championing the topic in the AFI network with a staunch commitment to the cause, backed by a track record of relevant policies. By serving as an example, Bangladesh Bank laid the groundwork for subsequent buy-in by AFI members, which culminated in the adoption of the Sharm El Sheikh Accord at the 2017 Global Policy Forum (GPF) in Egypt.

Mainstreaming climate change and sustainability in Bangladesh's financial sector has been a huge task. The journey is never ending, but Bangladesh Bank has drawn many lessons from this experience that will serve it well in the years ahead. These lessons can also provide guidance to other financial regulators in the early stages of enacting green financial inclusion policies.

First, the Bank realized early on that **raising awareness, not drafting regulation, is always the first step**. Extensive consultations have preceded the development and implementation of all its green finance policies, which in turn have helped to raise awareness of environmental and social issues. By issuing an umbrella policy guideline at the beginning, Bangladesh Bank enabled the country's financial institutions to get a feel for the new framework without strict regulatory targets, and by phasing in the implementation of the guidelines and elaborating them over time, the financial sector was kept informed of the regulations on the horizon, which helped to secure buy-in from the banks to some degree.

Another lesson was that **commitment from all levels of leadership** in the financial sector is key to success. The Bank was able to secure this commitment with a mix of awareness raising at stakeholder meetings, as well as training and capacity building initiatives for banks and other financial institutions. These efforts not only helped to smooth the transition to green banking, but to mitigate the risk of non-compliance in the future. In addition to these moral suasion efforts were directives and regulations that provided incentives for institutions that complied with the Policy Guidelines on Green Banking.

Bangladesh Bank found that a **phased approach was very helpful**. Instead of deploying hard and fixed strategies and benchmarks for the Policy Guidelines on Green Banking in one sweeping move, the Bank chose to follow a three-stage process. This gradual, step-by-step approach allowed the Bank to recognize what worked and what did not, to build on lessons learned and to adjust the guidelines and strategies along the way. The Policy Guidelines therefore served as an overarching framework that helped the Bank navigate its policy direction in relatively uncharted waters.

The Bank also learned it was important to **ensure that sustainability issues were aligned with core banking regulations** (credit risk management and capital adequacy), as creating a separate sustainability regulation would have had serious consequences. By requiring banks and other financial institutions to incorporate environmental risk assessments in their existing credit risk management framework, the Bank avoided the complexities and challenges of having dual, and possibly competing, regulations.

Bangladesh Bank discovered that **market creation is vital**, and that identifying green borrowers and entrepreneurs and making them bankable needs to be a key initiative going forward. The Bank is currently working with relevant government agencies, chambers of commerce, banks and other financial institutions in this area. It sees subsidized interest rates as a way to encourage this new market while being mindful of the potential for market distortion. Thus, the Bank intends to review and evaluate this approach periodically.

Finally, Bangladesh Bank learned that banks and other financial institutions **need to be enthused about their own sustainability first**, not just about environmental sustainability. When banks and other financial institutions understand how environmental risks can affect their own solvency and sustainability if they are not mitigated, enthusiasm for environmental sustainability is a natural result. Therefore, Bangladesh Bank has learned it must **always show the business case**.

Bringing green banking into the financial landscape of Bangladesh has been a long but rewarding process for Bangladesh Bank. Today, the Bank strongly believes that green finance has strong business potential for banks and other financial institutions in Bangladesh, and that green finance will be a core driver of sustainable development. Thus, the Bank aspires to guide its activities with a comprehensive sustainable finance policy, dedicated green banking policy, credit guarantee scheme and carbon footprint management system.

The confidence it has gained and the lessons it has learned have convinced Bangladesh Bank that the market failure created by climate change can be solved by addressing financial inclusion and climate change together.



Busy Sadarghat wholesale market at the bank of the river Buriganga, Dhaka Bangladesh, March 10, 2016.

# ANNEX 1

TABLE 1: GREEN PRODUCTS ELIGIBLE FOR FINANCING BY BANKS AND FINANCIAL INSTITUTIONS IN BANGLADESH

TYPE OF SECTOR	SUB-SECTOR	TYPE OF PRODUCT/INITIATIVE
Renewable Energy	Solar Energy	1. Solar Home System 2. Solar Micro/Mini Grid 3. Solar Irrigation Pumping System 4. Surface Water Purification Plant through Solar Pump 5. Solar PV Assembly Plant 6. Solar PV Plant capable of producing 1 MW of power or more 7. Solar Cooker Assembly Plant 8. Solar Water Heater Assembly Plant 9. Solar Air Heater and Cooling System Assembly Plant 10. Solar Energy-Driven Cold Storage
	Biogas	11. Setting up of Biogas Plant on existing Dairy and Poultry Farm 12. Integrated Cattle Rearing and Setting up of Biogas Plant 13. Organic Manure from Slurry 14. Mid-Range Biogas Plant 15. Biomass-based Large-scale Biogas Plant 16. Poultry and Dairy-based Large-scale Biogas Plant
	Wind Power	17. Wind Energy-driven Power Plan
	HydroPower	18. Hydropower (Pico, Micro and Mini)
Energy Efficiency		19. Substitution of Energy Inefficient Lighting System, Electronic Material, Boiler with Energy-Efficient Alternatives 20. Auto Sensor Power Switch Assembly Plant 21. Energy-Efficient Improved Cook Stove (ICS)/ICS Renewable/ Hybrid Cook Stove Assembly Plant 22. LED Bulb/Tube Manufacturing Plant 23. LED Bulb/Tube Assembly Plant 24. Substitution of Conventional Lime Kiln by Energy-Efficient Kiln 25. Waste Heat Recovery System
Alternative Energy		26. Production of Burnable Oil by the Process of Pyrolysis
Waste Management	Liquid Waste Management	27. Installation of Biological Effluent Treatment Plant (ETP) 28. Installation of Combination of Biological and Chemical ETP 29. Conversion of Chemical ETP to Combination Type (Chemical+Biological) of ETP 30. Installation of Chemical ETP 31. Central ETP 32. Wastewater Treatment Plant 33. Sewage Water Treatment Plant
	Solid Waste Management	34. Methane Recovery from Municipal Waste and to Produce Power 35. Municipal Waste to Compost 36. Hazardous Waste Treatment Facility 37. Fecal Sludge Treatment and Recycling Plant

TABLE 1: *CONTINUED*

TYPE OF SECTOR	SUB-SECTOR	TYPE OF PRODUCT/INITIATIVE
Manufacturing of Recycling and Recyclable Product		38. PET Bottle Recycling Plant 39. Plastic Waste Recycling Plant (PVC, PP, LDPE, HDPE,PS) 40. Waste Paper Recycling Plant for Production of Recycled Paper 41. Recyclable Baggage Manufacturing Plant (from natural raw material like bamboo) 42. Recyclable Poly Propylene Thread and Baggage Manufacturing Plant 43. Solar Battery Recycling Plant 44. Used Lead Acid Battery Recycling Plant
Green (Environment-friendly) Brick Manufacturing		45. Compressed Block Brick 46. Foam Concrete Brick 47. Modern Technology Brick (like Hybrid Hoffman Kiln, Vertical Shaft Brick Kiln, Zigzag Brick Kiln, Improved Zigzag Brick Kiln, Tunnel Kiln, Conversion of Fixed Chimney Kiln into any of these kilns).
Green (Environment-friendly) Establishments		48. Green Industry or Green Building Constructed or Under Construction Accredited by USGBC-LEED, BREEAM, CASBEE, EDGE, GRIHA or any Green Building Rating System developed by SREDA, Bangladesh 49. Green-Featured Building (green Features of any building)
Miscellaneous		50. Ensuring Safety and Work Environment (for Safety System, Disaster Management System and Health Safety System of Workers) of Factories 51. Commercial Production of Vermicompost 52. Energy-Efficient Palm Oil Plant

\*\* Except the initiative of SL. 30, all products/initiatives are entitled to the refinance facility under the Refinance Scheme for Green Products/Initiatives and Refinance Scheme for Islamic Banks and Financial Institutions for Investment in GreenProducts/Initiatives)

# ANNEX 1

TABLE 2: METHODOLOGY FOR ASSESSING GREEN FINANCE INITIATIVES

FINANCIAL PROFITABILITY	ENVIRONMENTAL AND SOCIAL FEASIBILITY	PRE-RISK ASSESSMENT
1. Operating Efficiency	1. Resource Efficiency	1. Cash Flow Forecasting
2. Liquidity	2. Resource Recycling	2. Collateral Requirement
3. Solvency	3. Renewable Energy	3. SWOT Analysis
4. Profitability	4. Energy Efficiency	4. Market Analysis
5. Valuation	5. Water Management and Conservation 6. Water Use Efficiency 7. Waste Water and Effluent Treatment Management 8. Heat and Temperature Management 9. Air Ventilation and Circulation Efficiency 10. Air Emission and Quality Efficiency 11. Waste (liquid and solid) Management 12. Land Contamination Prevention/Mitigation 13. Land Acquisition and Resettlement Management 14. Labor and Working Condition Management 15. Community Health and Safety Management 16. Indigenous People and Cultural Heritage	5. Fiscal Aspects



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