

Banking Regulation & Policy Department
Bangladesh Bank
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Chief Executives
All Scheduled Banks in Bangladesh

Policy Guidelines for Green Banking

Introduction:

We are aware that global warming is an issue that calls for a global response. The rapid change in climate will be too great to allow many eco-systems to suitably adapt, since the change have direct impact on biodiversity, agriculture, forestry, dry land, water resources and human health. Due to unusual weather pattern, rising greenhouse gas, declining air quality etc. society demands that business also take responsibility in safeguarding the planet. Green finance as a part of Green Banking makes great contribution to the transition to resource-efficient and low carbon industries i.e. green industry and green economy in general. Green banking is a component of the global initiative by a group of stakeholders to save environment. The state of environment in Bangladesh is rapidly deteriorating. The key areas of environmental degradation cover air pollution, water pollution and scarcity, encroachment of rivers, improper disposal of industrial medical and house-hold waste, deforestation, loss of open space and loss of biodiversity. In addition, Bangladesh is one of the most climate change vulnerable countries. In line with global development and response to the environmental degradation, financial sector in Bangladesh should play important roles as one of the key stake holders.

In response to the above, urgent measures are required by stake holders for sustainable development and thereby save the planet. Banks hold a unique position in an economic system that can affect production, business and other economic activities through their financing activities and thus may contribute to pollute environment. Moreover, energy and water efficiency and waste reduction are of high concern for many big banks. Green banks or environmentally responsible banks do not only improve their own standards but also affect socially responsible behavior of other business.

Bangladesh Bank's Earlier Initiatives:

BB is well aware of the environmental degradation situation as mentioned above and has already given time to time directions to all scheduled banks. Commercial Banks are now required to ensure necessary measures to protect environmental pollution while financing a new project or providing working capital to the existing enterprises. Banks have been advised to facilitate their clients with utmost care in opening Letter of Credit (L/C) for installation of Effluent Treatment Plant(ETP) in the industrial units. Banks have been advised to finance in Solar Energy, Bio-gas, ETP and Hybrid Hoffman Kiln (HHK) in brick field under refinance programme of BB. A comprehensive guidelines on Corporate Social Responsibility (CSR) has been issued where banks have been asked to concentrate

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hard on linking CSR at their highest corporate level for ingraining environmentally and socially responsible practices and engaging with borrowers in scrutiny of the environmental and social impacts. Banks have been brought under the purview of E-commerce with a view to providing the customers with online-banking facilities covering payments of utility bills, money transfer and transactions in local currency through internet as well. Considering the adverse effects of Climate Change, banks have been advised to be cautious about the adverse impact of natural calamities and encourage the farmers to cultivate salinity resistant crops in the salty areas, water resistant crops in the water locked and flood prone areas, drought resistant crops in the drought prone areas, using surface water instead of underground water for irrigation and also using organic fertilizer, insecticides by natural means instead of using chemical fertilizer and pesticides.

Adopting Green Banking Policy:

Now it is the high time for the banks to adopt a comprehensive Green Banking Policy in a formal and structured manner in line with global norms so as to protect environmental degradation and ensure sustainable banking practices.

With a view to developing green banking practices in the country, an indicative Green Banking Policy and Strategy framework has been developed for the banks in the following manner:

Green Banking Policy needs to be covered through time frame work which will be segregated into 3 phases.

1. Phase-I

Banks are to develop green banking policies and show general commitment on environment through in-house performance. The time lining for the actions to be taken under Phase-I should not exceed December 31, 2011.

1.1 Policy Formulation and Governance

Bank shall formulate and adopt broad environmental or Green Banking policy and strategy approved by their Board of Directors. A high powered Committee comprises of directors from the Board in case of scheduled Bangladeshi Banks and a high powered committee comprises Regional Chief of Global Office and members from the top management including CEO in case of Foreign Banks should be responsible for reviewing the banks environmental policies, strategies and program. Bank shall approve a considerable fund in their annual budget allocation for green banking.

Banks are required to establish a separate Green Banking Unit or Cell having the responsibility of designing, evaluating and administering related green banking issues of the bank. A senior executive should be assigned with the responsibility of heading the unit. The unit will report to the high powered committee time to time.

1.2 Incorporation of Environmental Risk in CRM

Banks shall comply with the instructions stipulated in the detailed guidelines on Environmental Risk Management (ERM) in consideration of a part of the Green Banking Policy. Bank shall incorporate Environmental and Climate Change Risk as part of the existing credit risk methodology prescribed to assess a prospective borrower. This will include integrating environmental risks in the checklists, audit guidelines and reporting formats. All of this will help mainstream Environmental Risk that cover possible sources of Environmental Risk such as Land use, Climate change related events (cyclone, drought), animal diseases/pathogens such as avian influenza, solid waste including waste feed, animal waste, carcasses, sediments, wastewater discharges, hazardous materials, etc will be reviewed under Environmental Due Diligence (EDD) checklists.

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1.3 Initiating In-house Environment Management

Banks shall prepare an inventory of the consumption of water, paper, electricity, energy etc. by its offices and branches in different places. Then it should take measures to save electricity, water and paper consumption. A 'Green Office Guide' or at least a set of general instructions should be circulated to the employees for efficient use of electricity, water, paper and reuse of equipments. In place of relying on printed documents, online communication should be extensively used (where possible) for office management and make sure that the printers are defaulted to duplex for double-side printing to save papers. Banks may apply Ecofont in printing to reduce use of ink, use scrap paper as notepads and avoid disposable cups/glasses to become more eco- friendly. Installation of energy efficient electronic equipments and automatic shutdown of computers, fans, lights, air coolers etc. will help reducing electricity consumption. Energy saving bulbs should replace normal bulbs in branches/offices of the banks. Banks should make plan to use solar energy at their premises to save electricity. Bank should take steps to save energy from corporate business travel and encourage employees to purchase energy efficient cars (that consume less fuel) can reduce gas and petroleum consumption.

1.4 Introducing Green finance

Eco friendly business activities and energy efficient industries will be given preference in financing by bank. Environmental infrastructure such as renewable energy project, clean water supply project, wastewater treatment plant, solid & hazardous waste disposal plant, bio-gas plant, bio-fertilizer plant should be encouraged and financed by bank. Consumer loan programs may be applied for promoting environmental practices among clients.

1.5 Creation of Climate Risk Fund

Bank should finance the economic activities of the flood, cyclone and drought prone areas at the regular interest rate without charging additional risk premium. However, banks should assess their environmental risks for financing the sectors in different areas for creating a Climate Change Risk Fund. This will be used in case of emergency. The bank would ensure regular financing flows in these vulnerable areas and sectors. The fund could be created as part of banks' CSR expenses.

1.6 Introducing Green Marketing

Green marketing is the marketing of products that are presumed to be environmentally safe. Green marketing incorporates a broad range of activities, including product modification, changes to the production process, packaging changes, as well as modifying advertising. It refers to the process of selling products and/or services based on their environmental benefits. Such a product or service may be environmentally friendly in itself or produced and/or packaged in an environmentally friendly way.

Banks should use environmental causes for marketing their services to consumer. Green marketing is expected to help awareness development among common people.

1.7 Online Banking

Online banking is the practice of making bank transactions or paying bills via the Internet on a secure website of the respective bank that allows the customers to make deposits, withdrawals and pay bills.

Banks should give more emphasis to make the easiest way to help environment by eliminating paper waste, saving gas and carbon emission, reducing printing costs and postage expenses.

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1.8 Supporting Employee Training, Consumer Awareness and Green Event

Employee awareness development and training on environmental and social risk and the relevant issues should be a continuous process as part of the bank's Human Resource Development. Awareness development among consumers and clients would be a continuous job of a bank under its public relation department.

1.9 Disclosure and Reporting of Green Banking Activities

Banks shall report on the initiatives/practices to BB and disclose in their respective websites.

2. Phase-II

The time lining for the actions to be taken under Phase-II should not exceed December 31, 2012.

2.1 Sector Specific Environmental Policies

Banks need to formulate strategies to design specific policies for different environmental sensitive sectors such as Agriculture, Agri-business (Poultry & Dairy), Agro farming, Leather(Tannery), Fisheries, Textile and Apparels, Renewable Energy, Pulp and Paper, Sugar and distilleries, Construction and Housing, Engineering and Basic Metal, Chemicals (Fertilizers, Pesticides and Pharmaceuticals), Rubber and Plastic Industry, Hospital/Clinic, Chemical Trading, Brick Manufacturing, Ship breaking etc.

2.2 Green Strategic Planning

A bank should determine green targets to be attained through strategic planning. Bank should determine a set of achievable targets and strategies, and disclose these in their annual reports and websites for green financing and in-house environment management as well. For in-house environment management, the target areas should cover attaining energy efficiency in the form of the use of renewable energy, reduction of electricity, gas, and petrol consumption, reduction of Green House Gas(GHG) emissions, issuance of e-statements, electronic bill pay, saving papers, environment friendly office buildings etc. For Green Financing, the target areas should cover reducing loans for certain environmentally harmful activities, attaining a particular percentage of environmental loans as percentage of total, introducing eco-friendly financial products etc.

2.3 Setting up Green Branches

A Green Branch should be featured by the provision of the maximum use of natural light, use of renewable energy, use of energy saving bulbs and other equipments, reduced water and electricity use, use of recycled water etc. Such a branch of a bank would be specifically designated as a 'Green Branch'. A Green Branch will be entitled to display a special logo approved by Bangladesh Bank. The criteria for certification of a 'Green Branch' will be circulated by Bangladesh Bank in due course of time.

2.4 Improved In-house Environment Management

Strategy of reuse, recycling of materials and equipments, and source reduction and waste minimization strategy should be part of in-house environmental management in Phase-II. Banks should increasingly rely on virtual meeting through the use of video conferencing in lieu of physical travel which would help saving cost and energy.

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2.5 Formulation of Bank Specific Environmental Risk Management Plan and Guidelines

A bank should develop and follow an environmental risk management manual or guidelines in their assessment and monitoring of project and working capital loans. In addition to the compliance of national regulation the bank may set internationally accepted higher environmental standards. In this connection, Green initiatives by a group of banks will not only be effective but will also offer competitive advantage. Bank alliances may prepare standard and guidelines for themselves for improving Green Banking practices.

2.6 Rigorous Programs to Educate Clients

Clients and business houses should be encouraged and influenced to comply with the environmental regulations and undertake resource efficient and environmental activities. Banks should introduce rigorous programs to educate clients.

2.7 Disclosure and Reporting of Green Banking Activities

Banks should start publishing independent Green Banking and Sustainability reports showing past performances, current activities, and future initiatives. Updated and detailed information about banks environmental activities and performances of major clients should be disclosed.

3. Phase-III:

A system of Environmental Management should be in place in a bank before the initiation of the activities of Phase-III. Banks are expected to address the whole eco-system through environment friendly initiatives and introducing innovative products. Standard environmental reporting with external verification should be part of the phase.

The time lining for the actions to be taken under Phase-III should not exceed December 31, 2013.

3.1 Designing and Introducing Innovative Products

Alongside avoiding negative impacts on environment through banking activities, banks are expected to introduce environment friendly innovative green products to address the core environmental challenges of the country.

3.2 Reporting in Standard Format with External Verification

Banks should publish independent Green Annual Report following internationally accepted format like Global Reporting Initiatives (GRI) targeting their stakeholders. There should be arrangement for verification of these publications by an independent agency or acceptable third party.

4. Reporting Green Banking Practices on Quarterly Basis

Banks shall report their initiatives/activities under the said program to the Department of Off-site Supervision of Bangladesh Bank on quarterly basis. Banks shall submit their first quarterly report on June 30, 2011 basis within July 15, 2011 and similarly they will be required to continue to submit reports on the subsequent quarters within the next 15 days of the respective quarter end.

Banks shall keep their annual report and websites updated with the disclosures on green banking initiatives/activities.

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5. The compliant banks practicing Green Banking will have the following preferential treatments:

- (i) BB will award points to banks on Management component while computing CAMELS rating where there will ultimately be a positive impact on overall rating of a bank.
- (ii) BB will declare the names of the Top Ten Banks for their overall performance in green banking activities in the BB websites.
- (iii) BB will actively consider green banking activities/practices of a bank while according permission for opening new bank branch.

Please acknowledge receipt.

Yours sincerely,

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