

INCREASINGLY INTEGRATE Environmental, social, and governance criteria

In conversation with Emranul Huq, Managing Director & CEO, Dhaka Bank



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The Daily Star (TDS): Dhaka Bank has been recognised as a top performer in the 'Sustainability Rating 2023' by Bangladesh Bank. What are the most innovative and impactful sustainable financing products or strategies that contributed to this achievement?

Emranul Huq (EH): Our bank has a longstanding commitment to sustainable finance. Currently, we are focusing on increasing financing in the following areas:

- Broadband Networks and IT Solutions
- Health and Healthcare Services
- Net Metering Rooftop Solar Systems
- Energy Efficiency

We are in the digital era, and Information Technology is the most powerful tool of digitisation. By financing Broadband Networks and IT Solutions, we can contribute to the process of digitalization.

Fuel costs have been on the rise for the past few years, significantly contributing to increased electricity bills. Rooftop solar panels with net metering offer a cost-effective solution for reducing electricity expenses in large and medium-sized factories. Dhaka Bank supports financing such projects, helping manufacturers lower their production costs. This initiative is also environmentally friendly.

We also have some exposure to Health and Healthcare Services, as well as Energy Efficient Bulbs and Machinery, and we are working to enhance financing in these areas.

TDS: What future plans does Dhaka Bank have to further enhance sustainability within the financial sector?

EH: Advancing sustainability within the financial sector involves addressing unique local challenges and leveraging opportunities to drive meaningful environmental and social impact.

- Integration of ESG Criteria in Lending and Investment

Banks and financial institutions in Bangladesh could increasingly integrate Environmental, Social, and Governance (ESG) criteria into their lending and investment processes. This involves assessing the ESG performance of borrowers and investees, and offering favorable terms to those with strong sustainability practices.

- Promotion of Green and Sustainable Microfinance

Given Bangladesh's extensive microfinance sector, there is significant potential to promote green and sustainable microfinance products. Financial institutions could develop microloans that support environmentally friendly practices, such as renewable energy adoption in rural areas or sustainable agricultural

methods.

3. Support for Sustainable Agriculture
Given agriculture's pivotal role in Bangladesh, banks could develop financing products that support sustainable agricultural practices. This could include loans or grants for adopting climate-smart agriculture, improving water management, and investing in sustainable farming technologies.

- Expansion of Renewable Energy Financing

To support Bangladesh's renewable energy goals, banks could increase financing for solar, wind, and other renewable energy projects. This might involve creating specialised loan products or investment funds for renewable energy infrastructure, as well as offering incentives or guarantees to reduce investment risks.

- Enhancement of Climate Risk Management

Financial institutions could implement more sophisticated climate risk management practices to understand and mitigate the impacts of climate change on their portfolios. This could involve developing climate risk stress tests and scenario analyses to better prepare for potential climate-related disruptions and integrating climate risk into financial decision-making.

- Capacity Building and Training

Investing in capacity building and training programs for financial professionals on sustainable finance and ESG issues can enhance the sector's ability to integrate sustainability into its operations.

- Promotion of Financial Inclusion and Gender Equality

Financial institutions could focus on promoting financial inclusion and gender equality through their sustainability efforts.

- Development of Sustainable Infrastructure Projects

Investing in sustainable infrastructure projects, such as green buildings, energy-efficient public transportation, and waste management systems, can contribute to the country's sustainable development goals.

TDS: What forms of government support would be most effective in advancing the efforts in sustainable finance?

EH: Government support is crucial for advancing sustainable finance in Bangladesh. Here are several forms of government support that could effectively promote and grow sustainable finance in Bangladesh:

- Financial Incentives and Support
- Tax Incentives: Providing tax breaks or credits for investments in renewable energy, energy efficiency

projects, and other sustainable initiatives can encourage both institutional and individual investors to support green projects.

Subsidies and Grants: Offering subsidies or grants for green projects, such as solar installations or sustainable agriculture, can lower the financial barriers for businesses and individuals to invest in sustainability.

Risk Mitigation Instruments: Implementing risk mitigation tools, such as credit guarantees provided by Bangladesh Bank for sustainable finance, can reduce perceived risks for financiers and attract more private investment into sustainable projects.

2. Regulatory Frameworks and Standards
Establishing ESG Reporting Requirements: Implementing mandatory ESG (Environmental, Social, and Governance) reporting for publicly listed companies and financial institutions can enhance transparency and encourage sustainable practices.

Green Bond Standards: Developing national standards for green and social bonds, in line with international frameworks like the Green Bond Principles, can create a robust market for these instruments and ensure that funds are used effectively for sustainable projects.

Empowering the unbanked

MUJIB RAHMAN

Sustainable development has become a global imperative, with financial institutions worldwide integrating sustainability into their core policies. Financial inclusion and literacy are recognised as crucial components of sustainable finance. Despite the Bangladesh's progress in human development, a significant portion of the population remains excluded from formal financial services, primarily due to a lack of financial literacy. To address this, Bangladesh Bank has mandated that banks and non-bank financial institutions actively work towards bringing the unbanked population into the financial fold. This article will explore the state of financial inclusion and literacy initiatives undertaken by these institutions in Bangladesh.

Financial Inclusion

Bangladesh Bank has been at the forefront of efforts to extend formal banking services to underprivileged populations across urban and rural areas. A key strategy has been the introduction of No Frill Accounts (NFAs), which are designed to provide basic banking services to those typically excluded from the financial system. These accounts require minimal documentation and offer low or no fees, making them accessible to marginalized groups.

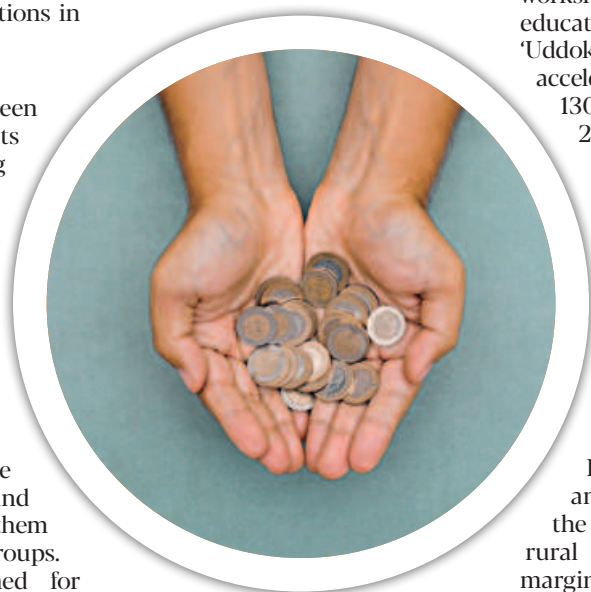
NFAs have been opened for various segments, including farmers, school children, and street children, under the guidance of Bangladesh Bank. Additionally, banks have extended these accounts to physically challenged individuals, leather workers, small footwear workers, and readymade garments workers.

BRAC Bank, a leader in this initiative, has been particularly focused on integrating small entrepreneurs, such as farmers, shopkeepers, and cottage industry workers, into the mainstream banking system. Md. Sabbir Hossain, Deputy Managing Director and Chief Sustainability Officer at BRAC Bank, highlights their efforts: "We have been opening No-Frill Accounts regularly for marginalized communities with minimal

documentation and low to no cost."

Another significant step towards financial inclusion has been the introduction of agent banking. Since geographically remote populations often lack access to traditional banking services, agent banking was launched in 2014 following recommendations from Bangladesh Bank. Bank Asia was the pioneer in this initiative, becoming the first scheduled bank to offer agent banking services. Muhammad Mynul Hossain FVP, CRM at Bank Asia explains, "Our agent banking services reach even the most remote and underserved areas, including domestic workers, ensuring that no one is left out of the financial system."

While some banks, like Dhaka



Bank, are yet to implement agent banking, they have compensated by establishing small sub-branches in geographically remote areas. These sub-branches are designed to serve marginalized populations, such as poor peasants, agricultural workers, and dairy farmers. Fakrul Abedin Milon, Head of CRM and SFU at Dhaka Bank, notes, "We focus on underserved populations through our sub-branches, and we also partner with NGOs to facilitate initiatives like NFAs."

Financial Education

Financial inclusion and financial literacy are closely intertwined. Bangladesh Bank has recognised this and has made significant

strides in promoting financial literacy across the country. Initially, Bangladesh Bank launched a comprehensive web portal featuring TV and radio commercials, videos, texts, and games tailored to the needs of the poor.

To ensure the widespread impact of financial literacy, Bangladesh Bank directed all banks and non-bank financial institutions to undertake specific measures. BRAC Bank has been a pioneer in this area, launching numerous financial literacy and education programs. Md. Sabbir Hossain explains their approach: "We regularly arrange programs, trade fairs, training sessions, and digital education initiatives. Our agent banking also conducts customer engagement workshops focused on financial education. Additionally, our 'Uddokta 101' entrepreneurship accelerator program has graduated 130 women entrepreneurs since 2021."

United Finance has also been active in promoting financial literacy, with Sudip Saha, Head of SME, emphasizing their commitment: "We hold regular financial literacy programs at our regional and geographically distant branches."

Similarly, Syed Mahbubur Rahman, Managing Director and CEO of MTB, underscores the importance of targeting rural Bangladesh and its most marginalised populations. "Our financial literacy program prioritises rural areas and marginalized groups, particularly women. We conduct group consultations with dairy farmers and women entrepreneurs to ensure they are financially empowered."

Through initiatives like NFAs, agent banking, and comprehensive financial education programs, Bangladesh Bank, along with banks and non-bank financial institutions, is making significant strides in bringing the unbanked population into the formal financial system. While challenges remain, the concerted efforts of these institutions are paving the way for a more inclusive and financially literate society, ensuring that every citizen can participate in and benefit from economic growth.