

DEVELOPMENTAL CENTRAL BANKING IN BANGLADESH

Recent Reforms and Achievements (2009-12)



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Bangladesh Bank

Foreword

Bangladesh Bank (BB), a developing country central bank, is mandated by its charter to promote and maintain high level of output, employment and real income, fostering growth and development of the country's productive resources; besides preserving monetary and financial stability. While remaining ever watchful about preserving stability, BB has also remained proactive in its mandated developmental role, with monetary and credit policy stance supporting attainment of the government's inclusive growth and poverty reduction goals based on national aspirations and global visions like the UN MDGs.

In recent years, BB has brought about deeper engagement of the country's financial sector in this developmental role with a social responsibility driven financial inclusion drive in a manner reinforcing rather than impairing stability; by simultaneously stimulating incremental output and its demand generated by new employment and income. To promote and facilitate the financial inclusion drive BB has taken up comprehensive reform and upgrading of the country's financial market infrastructure; including inter alia setting up of fully automated nationwide online clearing and settlement system, hastening automation in banks, and appropriate regulatory and supervisory regimes for effective oversight of risk management, internal controls and customer interest protection for the new customer segments acquired in financial inclusion drives. Incentives like modest refinance lines from BB and limited interest subsidies from government budget have been made available where necessary, to promote lending to small-holder/tenant farmers and SMEs. All banks operating in Bangladesh, local and foreign, private and state-owned, have come forward enthusiastically in the financial inclusion drive, reaching out to new customer segments with new branches and new cost effective service delivery modes through locally active Micro Finance Institutions (MFIs), and off branch mobile phone/smart card based arrangements using area agents in local communities. State-owned banks have achieved a major breakthrough into new customer base by opening around ten million new bank accounts of small holder farmers and other rural and urban people of

small means, free of charge and with nominal initial deposits as low as Taka 10 (about twelve cents); enabling direct delivery of agricultural input subsidies and social safety net payments from the government into these accounts, besides usual savings and payment transactions. Moreover, the financial inclusion campaign promoting socially responsible financing, BB's green banking initiatives promoting environmentally responsible financing have also been embraced by Bangladesh's banking sector with warm enthusiasm.

Aided by these initiatives, the real economy in Bangladesh remains abuzz with activity. Substantial improvement in well being of the rural population is evidenced by tightness of the rural labor markets with sharp rise in real wages, and by decline of poverty at annual rate of around two percent of population. Bangladesh's real GDP growth has averaged above six percent in recent years, amid ongoing global economic slowdown. This booklet highlights the various facets of recent BB initiatives in its mandated developmental role. I hope this will be of interest to general readers and staffers of other central banks, stimulating mutual learning from each other's experiences and ideas about how central banks can play developmental role in a manner reinforcing rather than impairing stability.



(Atiur Rahman)
Governor

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1. Background

Bangladesh Bank (BB), the central bank of Bangladesh is mandated by its charter to promote and maintain high level of output, employment and real income, fostering growth and development of the country's productive resources besides the orthodox mandates of preserving monetary and financial stability. Accordingly, BB's monetary and credit policies consistently adopt stance supportive of the government's inclusive growth and poverty reduction set in light of domestic aspirations as well as of global visions like the UN MDGs. BB adopts a two pronged approach in supporting growth objectives without compromising the monetary and financial stability objectives. Firstly, a BB guided corporate social responsibility driven financial inclusion campaign is reaching out with financial services to the hitherto un-served and under-served productive economic sectors (like small holder agriculture and SMEs), stimulating employment, income and output. Secondly, BB's credit policies maintain some degree of deliberate directional bias, encouraging and supporting credit flows for productive purposes while discouraging credit expansion for unproductive wasteful and speculative uses. Employment and income generated by credit flows to productive sectors create new domestic demand while at the same time also generating new output to meet the additional demand, acting as inbuilt stabilizer.

This two pronged growth supportive approach has served Bangladesh economy well. The economy has been growing at a steady pace (six percent plus real GDP growth annually over the past decade); aided by sustained macroeconomic stability (fiscal deficits in low single digits as percent of GDP, CPI inflation seldom rising beyond single digits, stable domestic currency and growing foreign exchange reserves); private sector dynamism; social consensus and civil society activism for inclusive socioeconomic growth. Poverty is on steady decline with consistent pro-poor stance in social sector public expenditure; improvements attained in social development indicators are superior on some counts to those of higher income neighbors. Population growth has slowed down, and steadily rising per capita GNI is on course for crossing the minimum Middle Income Country (MIC) threshold by 2020 or earlier.

2. Financial inclusion campaign

BB has launched a comprehensive financial inclusion campaign to reach out with services hitherto un-served and underserved population segments and economic sectors (like small holder agriculture and SMEs). Motivated about their Corporate Social Responsibility (CSR) obligations by a preceding BB initiative, banks have enthusiastically engaged themselves in the financial inclusion campaign, innovating cost effective service delivery modes to reach out to diverse new customer segments. These initiatives have been supported by developments in IT infrastructure with nationwide connectivity for on line banking, with introduction of mobile phone based banking, and with fully automated inter-bank clearing and settlement of paper based and electronic fund transfers. Specific thrusts of the financial inclusion initiatives are summarized in the following paragraphs.

2.1. Support and promotion of agricultural lending

Besides agricultural lending from two state owned agricultural lending institutions (Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank), all commercial banks operating in Bangladesh (state owned or private sector owned, domestic or foreign) are now extending agricultural credit, directly, through regulated Micro Finance Institutions(MFIs) or through intermediaries in value chain. Total disbursements of agricultural credit are on steadily rising trend Taka 92.84 and 131.37 billion respectively from FY09 to FY12. Alongside close monitoring of credit volumes, a specialized BB department exercises oversight on hassle free credit disbursement and other customer interest protection issues. Mobile phone based financial service delivery processes promoted by BB is expanding rapidly, and is expected to facilitate cost effective agricultural credit delivery and recovery to and from farmers in remote rural locations.

2.2. Credit program for sharecroppers

Sharecropper farmers had long been excluded from formal financial system because of lack of collateral. In the FY10 BB launched a refinance scheme worth Taka 5.0 billion for landless sharecroppers in partnership with BRAC, the largest non-bank MFI in Bangladesh. This is a first ever initiative for this productive group of farmers. The scheme is

promoting social collateral; peer pressure ensures loan repayments and mitigates default risks. Under this scheme, BRAC has provided loans to almost 481 thousand sharecroppers in 250 upazilas in 48 districts till September 2012; against which BB has provided BRAC with refinance facility.

Apart from this, state-owned banks also extend loans to sharecroppers, a sizable number of whom are women farmers. Agricultural credit totaling Taka 10.86 billion was disbursed by these banks in FY12 to around 500 thousand sharecroppers. Some privately owned banks too are also coming forward to provide such loans to the sharecroppers recently, prompted by their CSR obligations.

2.3. Credit at concessional interest rate promoting cultivation of spices, lentils, oilseeds, etc.

Agricultural credit at concessional 4 percent interest rate per annum is being extended by banks to farmers for growing of pulse, spices, lentils and oilseeds. Banks get six percent interest subsidy from government through BB against these loans. Local productions of these specialized crops are already contributing significantly towards reduction of import dependence.

2.4. Support of credit for crop diversification

An ADB assisted crop diversification credit project is extending credit for growing of higher value crops (vegetables, fruits, flowers, spices, oilseeds) in the country's poverty ridden North-Western region. The new second version of the project is disbursing these loans through BRAC, under oversight of two private sector banks (BASIC, and Eastern Banks).

2.5. Credit for environmentally benign projects supported by Taka 2.0 billion BB refinance line

BB has introduced a refinance line for banks against their loans to environmentally beneficial projects like renewable energy generation, installation of Effluent Treatment Plants (ETP) and of new energy efficient technologies (like Hybrid Hoffman Kilns (HKK) in brick manufacture) at a concessional 5 percent interest rate. Till October 2012, BB refinanced a total of Taka 801.1 million from this refinance line

including Taka 358.0 million in solar energy, Taka 227.9 million in bio-gas, Taka 90.4 million in ETP and Taka 124.8 million in HHK technology-based brick making industry.

2.6. No-frill accounts for farmers and other underprivileged people

In a major financial inclusion initiative, banks have opened more than ten million new bank accounts in names of small farmers and other rural and urban people of small means at no charge, with nominal initial deposits as low as Taka ten (about twelve US Cents). These accounts are being used by the account holders for receipt of agricultural input subsidies; social safety net payments etc.; besides use as savings and payments medium.

2.7. School banking, financial literacy initiatives

With a view to fostering savings habits and financial literacy among the young, banks have launched 'School Banking' initiatives in schools. So far, 45 scheduled banks have opened around 67 thousands accounts for the school students. Besides, a DFID supported financial literacy campaign is underway to create mass awareness of benefits of opening bank accounts and using to best advantage of account holders.

2.8. SME credit programs

Considering SME development as one of the important development agenda of the country, BB has initiated a comprehensive policy and programs on SME credit with the following special features:

- Setting up an indicative target for SME loan disbursement;
- Following the Area Approach Method with cluster development policy;
- Prioritizing small entrepreneurs, women entrepreneurs with special emphasis for manufacturing and services sectors;
- Following a separate business strategy in financing SME with speedy loan sanction and disbursement.

Accordingly, an indicative yearly target of disbursing SME credit by the banks and financial institutions were fixed for every year since 2010. Till September 2012, about Taka 496.0 billion (about 85 percent of the target)

were disbursed to 3,59,110 enterprises. The SME activities of all banks and financial institutions are under the purview of strict monitoring of BB. A new department namely 'SME and Special Programmes Department' has been established on December 2009 in BB, which is solely responsible for policy formulation, facilitating fund, monitoring and development of entrepreneurship in the SME sector. Besides, a separate inspection department has also been established in BB to effectively monitor this type of credit.

2.9. Refinance schemes under SME sector

BB, with the help of government and different development partners, is now implementing five refinance schemes (Bangladesh Bank Fund, IDA Fund, ADB-1 Fund, ADB-2 Fund and JICA Fund) for banks and financial institutions against their disbursed SME credit. All these funds are of revolving in nature. Till 30 September 2012, an amount Taka 25.72 billion has been refinanced against 32,018 enterprises. Against the disbursement, Taka 17.61 billion has been recovered and the outstanding amount of SME credit was stood Taka 17.69 billion as on 30 September 2012. Besides, with the assistance of JICA, a two-stage loan scheme amounting to JPY 5.0 billion has been formed to provide medium to long-term fund to small and medium enterprises through refinance and pre-finance facilities. Under this scheme, refinancing has been commenced since October 2012 having priority in productive manufacturing and service sector; and Taka 82.4 million has been refinanced so far to 22 enterprises.

2.10. Women entrepreneurship development

For mainstreaming women in economic activities, BB has taken a number of initiatives to ensure women entrepreneurs to have access to financial facilities on simple terms and conditions. To ensure loan facility for the women entrepreneurs, at least 15 percent of total BB refinance fund for SME sector has been allocated for them at a reduced interest rate of 10 percent. Banks and financial institutions may sanction loan up to Taka 2.5 million to women entrepreneurs without collateral but against only personal guarantee under refinance facilities provided by BB. In order to include a large number of micro women entrepreneurs in the SME credit facilities, a policy of group based lending of up to Taka 50 thousand or above has been initiated.

BB has been providing refinance facilities to improve the existing SME loan environment and to make it more women friendly. The share of women entrepreneurs in total SME loan disbursement has been increasing successively. The number of women entrepreneurs and amount of financing by banks and financial institutions in 2010 were 13831 and Taka 18.05 billion respectively. In 2011, banks and financial institutions collectively disbursed Taka 20.48 billion to 16696 women entrepreneurs. At the end of September 2012, Taka 17.24 billion has already been disbursed among 12287 women entrepreneurs through banks and financial institutions. Additionally, under different refinance window of BB, Taka 4.47 billion has been refinanced to 6365 enterprises.

2.11. SME cluster development

With a view to mainstreaming SME credit, banks and financial institutions are advised to adopt cluster development policy. The objectives of this policy include strengthening of the existing cluster, development of new clusters in special sector, development and expansion of sustainable and competitive technology, skill development of entrepreneurs, development of marketing channels, reduction of credit risk and enhancement of overall product development. There are some localities in Bangladesh with conducive environment for producing distinct manufacturing goods; and again there are some localities that are famous for producing certain manufacturing goods. BB has already taken various initiatives for identifying different clusters around the country and is encouraging all stakeholders for further development of such clusters.

As per directives of BB, banks and financial institutions are also coming forward for SME cluster development. Various small-scale manufacturing clusters have already been identified by this time in 20-25 districts of Bangladesh. Light Engineering Cluster-Bogra; Agricultural Machineries Cluster- Sherpur, Bogra; Monipuri Tnat (handloom) Cluster-Kamalganj, Moulavi Bazar; Agar Cluster- Baralekha, Moulavi Bazar; Khadi Cluster-Chandina, Comilla; Bamboo-Cane Cluster, Munshigonj; Leather and Footwear Cluster-Bhairav, Kishoregonj; Small Garments Manufacturing Cluster-Syedpur; Handicrafts Culture-Jamalpur; Tant Cluster-Ulipur, Rangpur; Tant Cluster-Shirajgonj; Soya bean cluster-Laxsmipur are some mentionable clusters in which banks and financial institutions are disbursing SME credit.

2.12. Customer interest protection

With a view to prompt resolution of the complaints against banking services at the customer level, to observe the level of satisfaction of the bank customers and to ensure improved customer services the 'Customers' Interest Protection Centre' (CIPC) was established in the head office of BB and in its branch offices in last March 2012. Since the inception of the CIPC complaints have been coming to this centre everyday through telephones, mobile phones, e-mail and by post too. The number of total complaints, received up to September 2012, is 3824 out of which 3018 complaints have been resolved by this time. The rate of resolution is 79 percent. In the CIPC with other devices of electronic communication a separate dedicated (hot line) number '16236' has also been provided. This hot line has been proved most fruitful for standardization of banking services. Recently a new department named 'Financial Integrity and Customer Services Department' has been opened for dealing with the complaints of the customers and clients of Banks and Financial Institutions more quickly and easily.

Besides, for the improvement of the standard of customer services the banks have been advised to rationalize the charges, realized from the customers, as far as possible and to display the chart of the deposit and the interest rate as well as the schedule of charges in the suitable and easily noticeable places in the banks and also in their respective web-sites.

3. Automation of the banking system

BB has taken numerous innovative initiatives to build a country-wide modern technology based, efficient and more secured banking system including automated payment systems, online banking system, online CIB service, mobile banking, e-commerce, new services in the Information Technology (IT) sector especially outsourcing facility, etc. Installation of National Payment Switch software will be soon completed which will open new windows of e-commerce in Bangladesh.

3.1. Modernization of payment systems and achievements

To address the growing demand for a fast, secure and state-of-the art payment system in Bangladesh, BB has introduced fully automated clearing settlement of interbank paper based and electronic fund transfers which is hugely facilitating branch based and mobile phone/smart card

based banking. Bangladesh Automated Clearing House (BACH), the first ever electronic clearing house came into operation on October 2010. It has two wings namely Bangladesh Automated Cheque Processing System (BACPS) and Bangladesh Electronic Funds Transfer Network (BEFTN).

3.1.1. Bangladesh automated cheque processing system

With the participation of 47 banks of the country, BACPS started its activities within Dhaka clearing area since 07 October 2010. In this process all the clearing instruments, i.e., cheques, drafts, pay orders, dividend and refund warrant have been standardized. Each instrument was encoded with MICR (Magnetic Ink Character Recognition) line, which includes information on the amount, transaction code, clients account, routing number and the cheque leaf's serial number. Currently, 1.5 million (approximately) regular and 90 thousand high value cheques and other instruments are being cleared per month through BACPS. On an average, 95 percent of the clearing instruments are now being cleared through BACH.

3.1.2. Bangladesh Electronic Funds Transfer Network

BEFTN is the most critical component in the development of a modern payments system infrastructure among the present initiatives. BEFTN started its 'Live Operation' on 28 February 2011. A wide variety of credit transfer applications such as payroll, foreign and domestic remittances, company dividends, retirement, bill payments, corporate payments, tax payments, government license fees and person to person payments as well as debit transfer applications such as mortgage payments, membership dues, loan payments, insurance premiums, utility bill payments, etc. are settled under the network. It brings down the operational cost, reduces risk and increases the efficiency of the payments process. Currently, approximately 200 thousands EFT-credit and 2 thousand EFT-debit transactions are being processed per month on an average with an increasing trend.

3.2. On-line banking

At present out of 47 banks in Bangladesh, 37 banks are fully online, 4 banks partially launched online services (selected branches are connected) while other banks are working on introduction of online services. Therefore, around 80 percent of the country's total banks are offering online banking services to their customers.

3.3. On-line CIB service

In the past, long time was needed to provide the Credit Information Bureau (CIB) report by manual system. BB started the CIB online project since 06 December 2009 with the financial assistance of DFID. BB inaugurated highly desirable CIB online on 19 July 2011. Banks, financial institutions and entrepreneurs are already getting the benefits of this service. This service has been a great saver of time and cost of doing businesses for all banks. This is a web-based online solution through which banks and financial institutions can furnish credit information at any time around the year and they can access credit reports by searching online very quickly from their respective workstation.

Due to this system, banks and financial institutions are now able to collect credit information quickly through searching from their own institutions. With the help of online service, now it is possible to get a CIB report within few seconds. Banks and financial institutions are now able to disburse credit to their clients quickly because of quickening the process of getting CIB report.

3.4. Mobile banking services

The mobile banking has been introduced to modernize the banking system of Bangladesh. This has been done for extending the banking services using the network of mobile operators in order to substitute conventional branch banking systems. Mobile Financial Services (MFS) are acknowledged worldwide for their cost-effectiveness and rapid transaction to extend opportunity of banking services in the remote rural areas. In order to bring the vast unbanked/under-banked population under the umbrella of formal financial service BB has taken steps to introduce bank-led mobile financial services. Disbursement of inward foreign remittance and domestic fund; payment of utility bills, salary, allowances, pension; buying and selling of goods and services; balance inquiry; tax payment; Government subsidy payment and payment of the benefits of social safety nets can easily and quickly be provided through mobile financial services. The opportunity to provide this service 24 hours a day 7 days a week made it up-to-date and admired.

BB has taken many initiatives to make the MFS more effective. The 'Guidelines for Mobile Financial Services' was issued on 22 September 2012. Approval for starting MFS was given to 23 banks till date out of

which 14 banks have started the same. Approximately 1.5 million people have opened mobile banking accounts at present. Banks are offering different mobile services through thirty (30) thousand bank-agents countrywide. The total amount of transaction is about 10 billion taka per month and the daily volume of which is 350 million taka. Volume of transaction is increasing at a rate of 15 percent per month. Approximately 35 billion taka has been disbursed through MFS till date. The mobile network operators are collecting utility bills worth half a million per month which is increasing day by day. Approximately twelve (12) thousand railway tickets are sold per month using mobile financial services.

MFS has created the opportunity of fast and cost-effective transaction even to the remotest corner of the village as well as it has given access to modern banking services to the rural poor including the social safety net beneficiaries. It is also promoting the habit of savings of the rural people. In this way, each mobile phone is turning out to be a small bank contributing positively to the increased fund-flow to the rural areas of the country. As a result, rural economy is being rejuvenated widening the real base for participatory growth of the country.

3.5. e-Commerce

BB issued a circular in November 2009 stating specific e-commerce operations which can be offered by the scheduled commercial banks of Bangladesh for online utility bill payment from client's accounts to recipient's accounts, online money transfers from one account of a client to his/her another account in the same bank, collection of money from/to buyer's bank account to seller's bank account for purchase/sale of products under e-commerce system, transaction via internet using credit cards in local currency, etc. Two banks have already started e-commerce activities whereas the remaining banks are getting ready to start e-commerce at the earliest.

3.6. National payments switch

The decision for establishing National Payment Switch (NPS) has been taken within the scope of national information and communication policy in order to make the payment systems of Bangladesh more efficient and dynamic. Necessary hardware for NPS has already been set

up and installation of switch software is going in full swing. The switch is expected to create a single, integrated and effective platform for settling interbank electronic payments derived from different channels such as Automated Teller Machine (ATM), Point of Sale (POS), internet, mobile application, etc. Because of which, country's e-commerce activities are expected to be safer, faster, sophisticated and reliable through the electronic settlement of all financial transactions. NPS will act as a mother switch in the country. It will connect all the child switches already in place in the private sector. This will also connect the e-payment gateway of Public Accounts Department (PAD) of BB. BB strongly encourages that all the commercial banks within the territory of the country connect to all the international gateways, e.g. VISA, MasterCard, Maestro etc. only through NPS.

4. Automation in Bangladesh Bank

BB proved itself as an advanced organization in the pace of technological development. The Central Bank Strengthening Project (CBSP) started in late 2003 with financial assistance of the International Development Association (IDA) to achieve the goal of automating its business process along with infrastructural and capacity building of BB. Substantial progress has already been made in its implementation during the last four years. Now BB has more than 150 servers, around 4000 PCs and sufficient number of printers & scanners. The process of providing laptops to all officials is in order. Implementation of CBSP is expected to be completed by December 2012. By then BB will be fully automated. The World Bank considers this project of BB as the most successful one of all projects taken in Bangladesh in recent time.

4.1. Networking

The network is running successfully since 17 May 2010 under the package of network access switch. All the departments of the head office and branch offices have been connected through LAN or WAN. Around 4 thousand computers are now connected in the network system where the designated staff can log in to work. It has also ensured the security and availability of the information reserved in BB through implementing the establishment of advanced data centre and disaster recovery site within the network. The network has given opportunity to the employees of BB to be connected with the international information highway. It has brought swiftness in executing overall function of BB as

well as it has been helping promotion of skills and development of knowledge-based talent of the BB officials. Apart from this, video conference at home and abroad is being possible by this network.

4.2. Enterprise Resource Planning (ERP)

BB has been preparing financial statement electronically following the international standard by Systems, Applications & Products (SAP) of Enterprise Resource Planning. ERP is facilitating electronic accounting, budgeting, accounts payable, accounts receivable, cash management, fixed assets management, human resources management, budget and cost centre accounting, material management etc. It is playing a supporting role to improve BB's entire working skills. Now the BB officials can get complete information regarding salary statement, accounting of the advance taken, various personal information sitting at their desk by the system. Procurement of BB has also been completed through the automated process improving the efficiency and transparency of BB's procurement process.

4.3. Core banking applications

Banking application software has already been implemented to automate BB's entire banking activities. Most of the financial transactions of the government are accomplished electronically through it. For example, government debt from the bank system i.e., debt management through treasury bills/bonds; treasury bill/bond sale, repurchase, secondary trading; foreign exchange reserve management; prize bond, sanchayapatra, wage earners bond, various investment bond sale, profit disbursement and realization etc. are being done electronically.

4.4. Enterprise Data Warehouse

Enterprise Data Warehouse (EDW) is an advanced technology based data warehouse, used as a central data center for collection of information from banks and financial institutions through online system, preservation, electronically run analysis. All types of macroeconomic data such as import, export, remittance, inflation data and banking data, monetary policy, banking supervision, credit information, and research based data are centrally preserved and processed by the EDW. Bank and

financial institutions are having facilities to upload their various information from own offices by using web portal. Monetary policy, currency management, bank supervision policy decisions, etc. of central bank can be made quickly by using this information. Data preserved in this data center can be used for research works at national and international level. Forecasting and preparation of various reports through data analysis, data mining, and data modeling by using diverse tools, time series analysis and other research-based work can now be accomplished by the EDW.

4.5. Website and intranet development

The BB website launched in 2001 of its own accord has been redesigned recently with latest technology. It has already been praised by most users as a rich and informative website. The website contains all up-to-date information necessary for financial and economic research purposes. Intranet in BB has been improved beside its website as a strong base of information management. It helps to take decision and execution process by providing, reusing & sharing data at timely manner. News regarding economy and financial sector published in various daily newspapers are downloaded everyday in the intranet. Besides, up-to-date information related to foreign exchange reserve, exchange rate, monthly inflation rate, remittances by Bangladeshi nationals are shown here through graph and charts. Digital versions of various guidelines, circulars, forms etc. are also displayed in the intranet.

BB connected intranet with various softwares created by its own in-house knowledge resource has been proved useful for its officials who can get required information sitting at their desk. The issuance of access pass has been modernized through online request by the designated officials on behalf of the visitors to enter the building. All internal office/administrative circulars or orders of BB are now uploaded directly in the intranet with discontinuation of hardcopy circulation of the same. For this, employees of head office along with all branch offices can quickly complete their tasks having knowledge about these circulars as soon as they are uploaded avoiding unnecessary printouts or cyclostyles saving huge amount of papers in line with the green banking idea.

5. Green banking initiatives

Bangladesh is committed to pursue low-carbon green development without

compromising the imperative of faster economic growth and social development. Development strategies of Government of Bangladesh laid down in the Perspective Plan and the Sixth Five Year Plan declare clear commitment of pursuing sustainable growth. The country's vulnerability to floods, cyclones and to the threat of inundation of large coastal areas from global warming driven sea level rise makes sustainability a prime development concern.

Financing practices can crucially influence the speed of adoption of environmentally sustainable output practices in the real economy. Aware of its responsibility of putting in place socially and environmentally responsible practices in the financial sector, Bangladesh Bank, the central bank of Bangladesh, has spearheaded adoption and promotion of green banking practices throughout the financial sector, towards safeguarding environmental sustainability. As a regulator of financial sector, the central bank already proceeded a long way in implementing green banking. Banks in Bangladesh have enthusiastically responded to Bangladesh Bank's guidance towards green banking, with steps in environmentally responsible financing that are beginning to make profound impact on environmental practices in the real economy.

The central bank issued policy guidelines for green banking in February 2011. According to the guidelines, all operating banks and financial institutions need to take effective measures to conduct environment friendly banking activities in the country. Bangladesh Bank has also issued a common reporting format to all the commercial banks to report green banking activities including the extent of carbon footprint in a structured way. Banks and financial institutions now regularly submit a quarterly report to Bangladesh Bank on their performance of green banking activities.

Under green banking initiative, BB has launched a revolving refinance scheme amounting to BDT 2.0 billion so that banks and financial institutions may provide financing facility to solar energy, bio-gas, Effluent Treatment Plant (ETP) and Hybrid Hoffman Kiln (HHK) sector at a very convenient as well as concessional rate. From this scheme BB refinanced a total of Taka 801.1 million to 24 banks and one non-bank financial institution.

Proper compliance of green banking policy has taken into consideration to judge the management capacity of banks and financial institutions

while computing CAMELS rating. The top 10 banks have been graded annually on the basis of their overall green banking activities and uploaded their names in BB website as well. Green banking activities of a bank are being considered seriously at the time of approval of its new branch. BB's IT based green banking initiatives through online banking, e-banking, e-commerce, online CIB, automated clearing house, mobile banking, e-tendering, e-recruitment, etc have reduced the use of paper which eventually save our valuable forest. On the other hand, it reduces printing and postal costs significantly. BB has issued the Environmental Risk Management (ERM) guidelines in 2011 for banks and financial institutions to adopt risk management practices to safeguard against inevitable environmental concerns. Financing to establish ETP in any industry has considered as CSR activities of banks and financial institutions. To face the challenges of global climate change, BB has given several instructions to banks and financial institutions through the Agricultural and Rural Credit Policy.

6. Achievement of satisfactory sovereign rating

Bangladesh received favorable credit ratings of BB- and Ba3 from Standard and Poor's and Moody's respectively in 2010. While many rich countries received downgraded credit ratings during and after the global financial crisis, Bangladesh's ratings remained unchanged in 2011 and 2012. According to a statement of Standard and Poor's, 'Bangladesh stands only behind India in South Asia.' Extracts from Moody's full report illustrate, 'track record of macroeconomic stability and growth prospects', 'record of full and timely debt repayment to its creditors', 'to alleviate external pressures the authorities moved by tightening monetary policy, restraining import demand and greater exchange rate flexibility' and 'a largely stable banking system that poses manageable contingent risks to the governments balance sheet'.

7. Concluding remarks

The developmental role played by BB as narrated in the preceding pages amply indicate that this role of a central bank can be carried out without conflict with the primary role of preserving monetary and financial stability. The social responsibility driven financial inclusion campaign launched by BB serves to keep productive sector away from involvement in speculative financing that eventually leads to asset price bubbles creation. Central bank's developmental role, therefore, act as an in-built stabilizer of the financial system; helping avert situation like those creating the global financial crisis of 2008-2009.

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