

# **Communication of Engagement (COE) Report**



**Bangladesh Bank**

**January, 2017**





**BANGLADESH BANK**  
(Central Bank of Bangladesh)

**S. K. Sur Chowdhury**  
Deputy Governor

January 24, 2017

The Secretary General  
United Nations  
New York, NY 10017  
USA

Dear Mr. Secretary General,

I am pleased to confirm that Bangladesh Bank patronizes all the ten principles of the Global Compact and believes that these Principles would help to promote the critical issues in regards to Labour Standards, Human Rights, Environment and Anti-corruption.

Bangladesh Bank has been engaged in the promotion and outreach of the UNGC Principles in policies, strategies and practices. It has been working towards a multi-stakeholder approach to consistently engage in both program/projects and capacity building initiatives to advance the MDGs and SDGs at national, regional and global context as well as launching of UNGC interventions in the country.

In this Communication of Engagement, we describe the initiatives that our organization has taken supporting the UN Global Compact and its Principles as suggested for an organization like ours. We also commit sharing this information with our stakeholders using our primary channels of communication.

Sincerely Yours,

S. K. Sur Chowdhury



## **1. About Bangladesh Bank**

Bangladesh Bank, the central bank and apex regulatory body for the country's monetary and financial system, was established in Dhaka as a body corporate vide the Bangladesh Bank Order, 1972 (P.O. No. 127 of 1972) with effect from 16 December 1971. At present it has ten offices located at Motijheel, Sadarghat, Chittagong, Khulna, Bogra, Rajshahi, Sylhet, Barisal, Rangpur and Mymensingh in Bangladesh.

### **1.1 Functions**

The Bangladesh Bank performs all the functions that a central bank in any country is expected to perform. Such functions include maintaining price stability through economic and monetary policy measures, managing the country's foreign exchange and gold reserve, and regulating the banking sector of the country. Like all other central banks, Bangladesh Bank is both the Government's Bank and the Banker's Bank, a "lender of last resort". Bangladesh Bank, like most other central banks, exercises a monopoly over the issue of currency and banknotes. Except for the one- and two-taka notes, it issues all other denominations of Bangladeshi taka.

#### **Vision**

To develop continually as a forward-looking central bank with competent and committed professionals of high ethical standards, conducting monetary management and financial sector supervision to maintain price stability and financial system robustness, supporting rapid broad based inclusive economic growth, employment generation and poverty eradication in Bangladesh.

#### **Mission**

Bangladesh Bank is carrying out following main functions as the country's central bank:

- Formulating monetary and credit policies;
- Managing currency issue and regulating payment system;
- Managing foreign exchange reserves;
- Regulating and supervising banks and financial institutions, and advising the government on interactions and impacts of fiscal, monetary and other economic policies.

### **1.2 Commitment towards Stakeholder**

BB is discharging the above functions in a forward looking, proactive, responsive and consultative manner. In aspiration for ever higher standards of performance BB is aware of its limitations in independence, logistics, professional know-how and appropriateness of skill sets in staffing; and the institution is persistent in effort to overcome these limitations. In work BB preserves and further strengthens the already earned confidence and trust of the nation, to continue being seen as a respected institution to be emulated. Towards achieving these, performance & commitments to the diverse broad stakeholder groups are as follows:

#### **1.2.1 For the Nation**

BB catalyzes and supports socially responsible and environmentally sustainable development initiatives, inter alia including fuller financial inclusion of under-served productive sectors and bringing in needed new dimensions in financial markets and institutions; to facilitate broad based

growth in output, employment and income, for rapid poverty eradication and inclusive economic and social progress.

#### **1.2.2 For the government**

BB adopts and implements monetary and credit policies conforming to national priorities, in coordination with government's fiscal and other macroeconomic objectives. It optimizes foreign exchange reserves and returns thereon, maintains stability in financial markets curbing excessive volatility, and provides analysis and advice to the government on issues in economic management and development.

#### **1.2.3 For depositors in banks and financial institutions, investors in financial assets**

BB ensures safety of deposits in banks and financial institutions through on-site and off-site supervision of their activities and with adequate financial information disclosure requirements. BB maintains an interest rate structure that provides fair return on financial assets while also supporting growth in the real sector, and promotes and supports development of markets in bonds and securities.

#### **1.2.4 For banks and financial institutions in Bangladesh**

BB provides precise prudential regulatory, risk management and disclosure framework to protect solvency and liquidity of individual institutions and stability of the overall financial system, acting as lender of last resort if and when needed. It issues regulations and enforces compliance therewith inter alia on capital adequacy, asset classification, income recognition and provisioning, large exposure and risk management; through open consultative processes. It maintains external sector viability with exchange rate stability and adequate foreign exchange reserves. It also provides a secure and quick payment settlement system. BB promotes and supports development of new financial products, services and instruments.

#### **1.2.5 For banks abroad**

BB maintains a solvent, liquid domestic financial system with precise prudential regulatory, risk management and disclosure framework in line with global best practice standards. It maintains external sector viability with exchange rate stability and adequate reserves. It also maintains a secure, quick payment system for settlement of claims.

#### **1.2.6 For the business community, including farm and non-farm SMEs**

BB maintains liquidity conditions and credit policies ensuring adequate credit flows at market driven flexible interest rates for all productive economic activities, including in sectors like agriculture and SMEs where markets have not been very responsive. It fosters macroeconomic stability through monetary and external sector management. It promotes and supports development of new financial products, services and instruments. It maintains a secure and quick payment system for settlement of claims.

#### **1.2.7 For Bangladeshis abroad**

BB facilitates remittances from earnings abroad to Bangladesh through legitimate banking channels free of involvement of money launderers or terrorism financiers. BB supports and promotes development of new investment opportunities for remittances to Bangladesh.

### **1.2.8 For BB's employees**

BB maintains an environment that reinforces pride in being employees of Bangladesh Bank with compensation structure adequate to attract and retain the best in the market, job assignments and logistically well resourced work situations encouraging continuous learning and rewarding innovativeness and performance excellence by fast tracking in career path, clear delegation and delineation of responsibilities and accountabilities, fairness and objectivity in performance appraisal and personnel placement decisions.

## **2. UN Global Compact in Bangladesh & its Principles**

The Global Compact was launched in a high-level ceremony in Singapore on 16 September 2005 by UN. Leading business executives, government representatives and other stakeholders convened at Singapore's NTUC Auditorium for the event. A special address on behalf of the United Nations was delivered by Andrew Toh, Assistant to the then Secretary-General Kofi Annan.

The Global Compact Local Network was launched in Bangladesh on 26th January 2009, at a ceremony jointly organized by the Bangladesh Enterprise Institute (BEI), the CSR Centre, and the UNDP Dhaka office.

The event brought together roughly 150 representatives of business, government and civil society, including the 41 existing Global Compact participants from Bangladesh. The launch was followed by a roundtable discussion to further set the stage for CSR efforts in Bangladesh.

Since its launch the Global Compact Network Bangladesh has been able to build awareness on Global Compact and the issue of Corporate Social Responsibility (CSR) not only among the signatories but also among the leading business houses and companies doing business in Bangladesh. The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption:

### *Human Rights*

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

### *Labour*

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

### *Environment*

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

#### *Anti-Corruption*

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

### **3. Initiatives of Bangladesh bank on UNGC's Principle**

As a voluntary initiative, the UN Global Compact seeks wide participation from a diverse group of companies. As a participant in the Global Compact, a company can adopt the Global Compact principles into day-to-day operations and undertake partnership projects in support of broad UN goals. As a participant of UN Global Compact, Bangladesh Bank patronages the Ten Principles of the United Nations Global Compact in the areas of Human Rights, Labour, Environment and Anti-Corruption.

#### **3.1 Human Rights.**

The human rights have recognized not only the civil and political rights but also the social, economic and cultural rights by giving importance to the latter through articulating and prioritizing rights to health, education, housing, and employment. Moreover, the fundamental tenet of the human rights is that every individual's dignity should be protected being a human. This dignity merely means not only political liberty but also a guarantee of economic subsistence, cultural freedom and the provision of social services.

As the Central Bank of Bangladesh, BB is working continuously to establish the human rights in its own premises as well as in the whole financial sector and surroundings. BB has already established several residential areas for its staffs with all sorts of necessary facilities; it has also provided medical and education facilities for its staffs and their family. Total number of working force of BB is 6067 till June 30, 2015. During the financial year of 2014-15, 786 of the total workforce were promoted to their next higher grade. During FY15, an amount of Taka 0.40 million was given as medical assistance from the Karmachary/ Karmakarta Kallyan Tahbil, established under the auspicious of the Governor. Besides, an amount of Taka 58.75 million was allotted to Bangladesh Bank Schools, Clubs, Day Care center, Freedom Fighters' Welfare Units, mosque, religious program etc. to carry out their recreation, welfare activities and Religious activities.

Bangladesh Bank Training Academy (BBTA) conducts a wide range of activities to attain objectives of transforming itself into a world-class center of excellence for imparting quality training to the officials of Bangladesh Bank as well as commercial banks, financial institutions, Government and non-government organizations. In view of enhancing the capacity of the faculty members and updating them with the changing knowledge frontiers in various fields relating to economics, finance and banking, BBTA also arranges various programs for the trainers with the help of trained personnel of advanced and specialized institutions at home and abroad.

Besides these, BB has sanctioned 5.13 crore in the FY 2014-15 from the 'Bangladesh Bank Disaster Management & Corporate Social Responsibility fund' for different projects addressing

health, education, environment and human resources development/capacity building, financial inclusion and women empowerment etc.

Outside its own premises, Bangladesh Bank is working to ensure human rights in the whole financial sector. As per the direction of BB (through several circulars & CSR Guideline for Financial Sector), Financial Sector of Bangladesh has spent 5168.56 million TK as their CSR expenditure. Around 96% of this total amount has been spent on i) financial inclusion of less privileged population segments and underserved economic sectors, ii) promotion of health, education and cultural/recreational activities for advancement and well being of underprivileged population segments, and iii) capacity building of the less privileged population.

Promoting gender equality in the workplace in terms of ensuring basic human rights and as a prerequisite for inclusive socio economic growth, BB has included gender equality related performance indicators in the half yearly CSR reporting by banks from December 2011 onward, with a view to monitoring year on year changes for assessing whether performance is improving or otherwise. The banking sector of Bangladesh absorbs a significant portion of the female workforce. In 2013, Bangladesh Bank directed all banks to establish a Daycare Centre, solely or in joint venture in suitable locations. Bangladesh Bank has established its own daycare centre in 2006 which has expanded rapidly over time, from 32 seats in 2006 to 70 seats at present. Recently, 5 state owned commercial banks and 22 Private Commercial Banks have established 2 separate daycare centre in Motijheel and both the centre have 60 seats.

### **3.2 Labour**

Bangladesh has enjoyed a period of relative macroeconomic stability, with inflation around 7 per cent. With respect to price stability, the BB is trying to bring the inflation rate down further through the credit/money channels. BB has an “imprecise control” over price stability owing to weak transmission mechanisms. Also, its existing instruments have a limited capacity to address volatile food inflation that weighs heavily in general inflation. In recent years, BB has widened its developmental role to play its part in the national strategy of “inclusive growth”, and is seeking to model itself as a developmental central bank. BB has solid reasons to engage in multiple mandates, especially in financial structure development and financial inclusion initiatives. These, apart from serving the national strategy of social inclusion, could potentially lead to strengthening and deepening of the financial sector and, hence, support both price stability and employment creation.

Sharecroppers as a vulnerable group have historically been outside the financial system because of lack of collateral. In 2010, BB introduced a special refinance facility (of about US\$72 million) exclusively for landless sharecroppers. This is being conducted in collaboration with BRAC, which has to date, provided loans to nearly half a million sharecroppers. BB has taken a novel initiative to facilitate the opening of bank accounts for poor farmers, wage labourers and other vulnerable groups, with an amount as small as 10 taka (US12 cents). These new accounts, which have reached nearly 13 million of the under banked population, are being used as a savings and payments medium, as well as to receive various input subsidies and social safety net payments from the government.

According to the National Child Labour Elimination Policy 2010, any child under 14 is strictly prohibited from engaging in employment, and children under 18 are not permitted to engage in any hazardous work. These children, who often live at their workplace or on the street, are unable to open bank accounts in which to secure their savings because, under Bangladeshi law, children cannot open a bank account without a guardian's approval. Consequently, children are more likely to spend their income on non-essential items to reduce the chance of their money being stolen or lost, or deposit it in a way that increases the risk of exploitation, such as with their employer. Bangladesh Bank circulated BRPD Circular No 05/2014 to bring poor and underprivileged people under banking service for developing their livelihood. Pursuant to this Circular, children should be able to make deposits and withdraw money from all commercial banks in the country. Banking services for street and working children is the scheme offered by the bank for children to open accounts by depositing only BDT10. This initiative will benefit small working children, adolescent living at home, street, in train stations, bus stands, launch terminals and footpaths with greater welfare by allowing them to make savings, protect their earnings, and minimize the likelihood that they will spend their money on unsavory purposes by bringing them within the formal banking sector and therefore improving their financial wellbeing.

### **3.3 Environment**

'Sustainability' is the key word for BB to patronize the Environment related principles of UNGC. Sustainable banking is a banking approach that creates long-term resilient and sustainable economic, social and environmental value by having a 'green', 'responsible' and 'inclusive' strategy and taking into consideration the every dimension of how a business operates in the environmental, social and economic environment. It also formulates strategies to build a company that fosters longevity, resilience and sustainability of economy, society, environment and itself through transparency and efficient utilization of resources. The main objective of sustainable banking is economic benefit and social benefit which turn into financial stability as well as social stability. BB has been integrating 'sustainability' into core banking practices through green banking, corporate social responsibility, financial inclusion and financial education. This society and environment oriented banking practices gradually create the concept of sustainable banking. Thus BB has been pursuing policy and instructions in all possible areas of sustainable banking for banks and Non-Bank Financial Institutions (NBFIs) to sustainable banking activities.

#### *Green Banking*

Bangladesh Bank has set examples for others by pioneering environmental friendly or green banking initiatives while BB has been proactively guiding the banks and NBFIs for diverse sustainable banking initiatives since 2011. Environmental Risk Management Guidelines for banks and Financial Institutions (FIs) issued vide BRPD Circular No.01/2011 to assess environmental risk in their credit and Policy Guidelines for Green Banking for banks issued vide BRPD Circular 02/2011. In 2012, Bangladesh Bank introduced a uniform reporting format for reporting green banking activities in a structured manner for banks. In 2013, Policy Guidelines for Green Banking was also issued (GBCSRD Circular No. 04/2013 and GBCSRD Circular Letter No. 05/2013) to the FIs and the banks scheduled in 2013 where they were brought under



the structured reporting system as well. To expedite the ongoing initiatives of banks and FIs at faster pace for sustaining the environment compatible to climate change risk, minimum target of direct green finance is set at 5% of the total loan disbursement/investment from January 2016 onwards for all banks and FIs (GBCSRD Circular No. 04/2014).

Banks and FIs were instructed to form a 'Climate Risk Fund' according to the above mentioned policy guidelines for green banking. To ensure the movement towards sustainability against the climate change, banks and FIs shall allocate at least 10% of their Corporate Social Responsibility budget for Climate Risk Fund & this funding can be done in both ways- by providing grants or financing at reduced rate of interest (GBCSRD Circular No. 04/2015). Total amount of utilization from climate risk fund by banks were Taka 455.68 in FY16. For the financial institutions total amount of utilization from climate risk fund was Taka 3.85 million in FY16. Meanwhile, Banks & FIs have been instructed to set up Solid Waste Management System, Rainwater Harvesting and Solar Power Panel in their newly constructed or arranged building infrastructure (SFD Circular No. 01/2016). A total amount of Taka 486.08 billion has been disbursed during FY16 by 46 banks involved in green finance.

Environmental Risk can be a facilitating element of credit risk because of its connectivity with environmental condition and climate change. Environmental Risk Rating (ERR) is obligatory above the threshold as mentioned in guidelines on ERM for banks and FIs. ERR is applicable for the projects as well as the credit facility that fall above the threshold limit. All banks have conducted environmental risk rating in FY16. The number of projects applicable for Environmental Due Diligence (EDD) during the year is 70,707. Total amount of Taka 2,242.76 billion disbursed in 52,776 rated projects out of 60,175 rated projects in FY16.

#### *BB's In house Environmental Management:*

BB installed solar power system on its rooftop for energy efficiency and chiller based central air conditioning system for reducing CFC emission. BB initiated the process to measure the Carbon Footprint of its own. E-Recruitment, Documentation Management System, Leave Management System, Online Salary and Account Statement, Personal file update system, Online Office Orders, Electronic pass for visitors and many have been introduced through BB intranet. All the departments of Bangladesh Bank Head Office and its nine Branch offices have already been brought under a computer network (LAN/WAN), connecting more than 3,500 PCs. Bangladesh Bank has introduced open data initiative for all through its dynamic website which is updated at all time. Most of the regulatory reporting from banks and FIs are collected through web upload and Enterprise Data Warehouse (EDW) system. Bangladesh Automated Cheque Processing System (BACPS), Bangladesh Electronic Fund Transfer Network (BEFTN), Credit Information Bureau Online and Enterprise Resources Planning (ERP) have started operation. Bangladesh Bank also has started e-procurement.

#### *BB Refinance Scheme of TK. 2.00 billion for Renewable Energy and Green Products:*

To broaden the financing avenue for green products like solar energy, bio-gas plant and effluent treatment plant, etc., BB constructed a revolving refinance scheme amounting to Tk. 2 billion from its own fund for six green products in 2009. In FY 2014-15, BB enhanced the product line under this scheme from 6 to 50 and segregated these products into 11 categories which are:

Renewable Energy, Energy Efficiency, Solid Waste Management, Liquid Waste Management, Alternative Energy, Fire Burnt Brick, Non Fire Block Brick, Recycling & Recyclable Product, Green Industry, Ensuring Safety & Work Environment of Factories and Miscellaneous. The cumulative refinanced amounts of the scheme up to June 2016 stood at Taka 2811.65 million. Total disbursement of refinance scheme for green products through BB has been increased by 133.71 percent to Taka 919.65 million in FY16 which was Taka 393.50 million in FY15.

*Refinance scheme for Shariah based banks and FIs:*

In September 2014, BB introduced a refinance scheme funded by liquidity of Shariah based banks and FIs in excess of their requirement which will be explicitly utilized for direct green finance of the said banks and FIs. These banks and FIs can utilize this fund for financing in the 50 products identified under BB refinance scheme. Under this scheme, 4 banks and 1 FI have signed participation agreement with BB till June 30, 2016.

*ADB Supported 'Financing Brick Kiln Efficiency Improvement Project':*

To improve the efficiency of the brick kiln through efficient use of technology and energy including reducing Green House Gas (GHG) and Suspended Particulate Matter (SPM), a relending facility namely "Financing Brick Kiln Efficiency Improvement Project" was established in BB financed by Asian Development Bank (ADB) in 2012. In this relending facility, total amount of loan from ADB was about USD 50.0 million or equivalent Taka. It has two parts: Part-A: USD 30.0 million (approximately)/equivalent Taka will be provided for conversion of Fixed Chimney Kiln (FCK) to Improved Zigzag Kiln and Part-B: about USD 20.0 million/ equivalent Taka for establishment of new Vertical Shaft Brick Kiln (VSBK), Hybrid Hoffman Kiln (HHK) and Tunnel Kiln. Relending facilities are extended to the PFIs in this purpose.

*Green Transformation Fund (GTF):*

The latest step of Bangladesh bank in fostering sustainable finance is to create Green Transformation Fund. In January 2016, BB has announced its intention to create a new longer term refinancing window naming Green Transformation Fund (GTF) of 200 million USD. The fund will be used to ensure sustainable growth in export oriented textile and leather sectors conducive to transformation of green economy in the country. It is intended to facilitate access to financing in foreign exchange by all manufacturer-exporters in export oriented textiles & textile products and leather manufacturing sectors to import capital machinery and accessories for implementing environment-friendly initiatives. The initiatives include Water use efficiency in wet processing; Water conservation and management and Renewable energy and Energy efficiency (FE Circular No. 02/2016).

### **3.4 Anti-Corruption**

Bangladesh Bank has taken various initiatives and steps to prevent corruption in financial sector, money laundering and financing of terrorism throughout the country. Bangladesh Financial Intelligence Unit (BFIU) was established in June 2002, in BB named as 'Anti Money Laundering Department'. To enforce and ensure the operational independence of FIU, Anti Money Laundering Department has been transformed as Bangladesh Financial Intelligence Unit (BFIU) in 25 January, 2012 under the provision of Money Laundering Prevention Act, 2012 and has

been bestowed with operational independence. BFIU has also achieved the membership of Egmont Group in July, 2013.

BFIU is the central agency of Bangladesh responsible for analyzing Suspicious Transaction Reports (STRs), Cash Transaction Reports (CTRs) & information related to money laundering (ML)/financing of terrorism (TF) received from reporting agencies & other sources and disseminating information/intelligence thereon to relevant law enforcement agencies. BFIU has been entrusted with the responsibility of exchanging information related to money laundering and terrorist financing with its foreign counterparts. The main objective of BFIU is to establish an effective system for prevention of money laundering, combat financing of terrorism and proliferation of weapons of mass destruction.

BFIU issued circulars for the scheduled banks and financial institutions for proper compliance of the instructions regarding prevention of Money Laundering (ML) & Terrorist Financing (TF) on 28/12/2014 and 29/06/2015 respectively. BFIU circulated Money Laundering and Terrorist Financing Risk Assessment Guidelines for Banking Sector on 08/01/2015 instructing all the banks to assess the associated risk of ML/TF regarding their respective banks. Meanwhile all the scheduled banks submitted their own risk assessment report and BFIU vetted the same.

BFIU received 1182 Suspicious Transaction Reports (STRs) during FY15. After analyzing them, BFIU disseminated 67 reports to Anti- Corruption Commission (ACC) and Criminal Investigation Department (CID), Bangladesh Police for their necessary actions. BFIU has been monitoring the status of these cases from time to time.

Besides these initiatives of BFIU, BB also instructed all the banks & FI to include their expense on 'corruption prevention activities' into their CSR expenditure through GBCSRD Circular Letter No. 10/2015. By giving this instruction, BB is trying to motivate the financial sector to promote the activities related Anti-corruption.

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