

## “Green Banking practices in Bangladesh”

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**Abstract:** The paper portrays the green banking practices in Bangladesh. Study is mainly based on secondary data highlighting the mobile banking, online banking, green financing, and guidelines for green banking practices as well as green banking unit. Green Banking is a new way of conducting the banking business through considering the hygienic environmental issue as well as corporate social responsibility (CSR). Nowadays, it is inevitable to practice green banking by banks because of globalization and to face the competition. On an average, bank is allocated Tk. 657.67 million for green banking in 2012. Since October 2012, Taka 838.4 million has been allocated to the following green projects. For 2012, banks have allocated Tk.20, 034.59 million for green finance of which Tk. 3273.69 million has been utilized during January-September 2012. The concept of green Banking is relatively new in Bangladesh and yet to get momentum, but in the developing countries it is passing through a mature stage. The study concludes that green banking practices in Bangladesh is not satisfactory at all

**Keywords:** Green banking, Green finance, Environment, Corporate social responsibility (CSR) and Online Banking etc.

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### I. Introduction:

The word ‘Green Banking’ is very common concept in the world. Global warming is a great issue in protection of hygienic society. There is high possibility of playing significant role of Green Banking in the global warming issue. The green banking concept is evolved in western countries and now is practiced in most of the countries in the world. It indicates endorsing environment-friendly practices and reducing carbon footprint from banking activities. Green banking is not just another corporate social responsibility activity; it is all about going beyond to keep the world livable without any significant damage. Green banking that considers all the social and environmental factors is also called ethical banking. The main objective of green Banking is to ensure the use of organizational resources in favor of the environment and society. Green banking as a concept is proactive and smart way of thinking with a vision for future sustainability of our only Spaceship earth. (Richard Buckminster Fuller, 16 November 2012). It evaluates all the factors before giving the loan whether the project is environment-friendly and has any implication on the future people and planet. Green finance as a branch of green banking makes significant 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 put aside environment. Green banking or ethically responsible banks do not only advance their own initiatives but also affect socially responsible behavior of other business.

### Objectives of the study:

The objectives of the study are as follows:

1. To analyze the green banking practices in Bangladesh ;
2. To justify the prospects of green banking practices in Bangladesh ;
3. To provide some suggestions in this regards.

### II. Methodology & limitations of the study:

The study is conducted only based of secondary data and these data are collected from annual report of, Dutch-Bangla Bank limited (DBBL), Prime Bank Limited, Islami Bank Bangladesh Ltd (IBBL), Shajalal Islami Bank Ltd, Pubali Bank Ltd, Trust Bank Ltd, Eastern Bank Ltd, United Commercial bank ltd(UCBL). The Banks are selected on the basis of random sampling. In addition to this, the data is also collected through company’s corporate profile, daily news paper, different journals & articles, bank’s websites and Bangladesh bank’s websites. The data are analyzed in aspect of practices and problems of green banking. Actually we did not interview of company executives for conducting the study. The findings of the study are reliable as the authentic sources of data. The major limitation of the study is that no primary data is involved in the study.

### **Rationale of the Study:**

In the age of global warming and climate change, delivering right services are not enough for clients but also practicing of green banking concept for friendly environmental issue as the corporate social responsibility is inevitable (CSR) to the target customer or clients and for sinking of global warming.

### **Review of related literature:**

**Atiur Rahman** (2010) in his paper focused on the present monetary and credit policy of Bangladesh Bank towards attaining broader financial enclosure. Bangladesh Bank is carry forwarding with technology driven, innovative, environment and low cost banking approach; conveying a qualitative change in banking, preparation of monetary policy, application of advanced banking technology, and use of Information and Communication Technology (ICT) to extend financial services to the door step of common people. To ensure access to financial services for all, various initiatives have been taken like trade finance; digitalization of the financial sector; channeling liquidity into productive and supply augmenting investments including agriculture, SMEs, Green Banking and CSR activities; expected to lead to more broad -based inclusive growth and therefore lessen poverty; required for pushing the country on course to the targeted vision of digital Bangladesh by 2021; the year of Golden Jubilee of their independence.

**Suresh Chandra Bihari** (2011) elucidated that Green Banking includes promoting corporate social responsibility (CSR). It starts with the aim of protecting the environment where banks consider before financing a project whether it is environment friendly and has any implications for the future. A company will be given a loan only when all the environmental safety standards are followed. Green Banking can be efficiently implemented through the use of technology and policy, he emphasized.

**Alice Mani** (2011) indicated that as Socially Responsible Corporate Citizens (SRCC), banks have a major role and responsibility in enhancement of governmental efforts towards substantial reduction in carbon emission. Banks can practices and initiatives of Green Banking for sustainable development. The author examined and compared the green lending policies by banks in India in the light of their compliance and commitment to environment protection and environment friendly projects.

**Green Banking Policy of BASIC Bank Limited, Bangladesh (2011)** was go forwarded in response to increasing consciousness over climate change, environmental degradation, need for urgent measures for sustainable development to be addressed by some of the stakeholders in the world. Banking system holds a unique position in an economy that can affect production, business and other economic activities through their procedure for financing activities which would in turn contribute to protect environment/climate from pollution. Moreover, efficiency in energy use, water consumption and waste reduction may significantly contribute for operating cost for many of the large banks of the country.

Green Banking is also significant issue in recent times. While the banking industry is undergoing computerization, networking and offering of on-line banking is naturally gaining momentum [**Mohmed Aminul Islam (2010)**].

### **III. Background of the study:**

#### **What is Green banking?**

Green Banking defined as promoting environmental-friendly practices and reducing your carbon footprint from your banking activities. Green banking thus involves a two pronged approach. Firstly, green banking focuses on the green transformation of internal operations of all banks. It means all the banks should adopt appropriate ways of utilizing renewable energy, automation and other measures to minimize carbon footprint from banking activities. Secondly, all banks should adopt environmentally responsible financing; weighting up environmental risks of project, before making financing decisions; and in particular supporting and fostering growth of upcoming ‘green’ initiatives and projects.

Generally Green banking coverage includes: Sustainable banking, Ethical banking, Green mortgages, Green loans, Green credit cards, Green savings accounts, Green checking accounts, Green money market accounts, Mobile banking, online banking, Remote deposit, Waste Management, Roof Gardening, and Green Financing.

**Reasons of practicing of Green Banking:**

The broad objective of the green banks are avoiding waste and giving priority to environment and society. Focusing on environment-friendly initiatives by providing innovative financial and ensure sustainable development.

- Using organizational resources with responsibility.
- Keeping the world livable for a long period of time.
- To minimize paper works as much as possible inside and outside the bank.
- To achieve cost and time efficiency.

**Analysis and Findings of the study:**

Bangladesh Bank selected ten commercial banks in Bangladesh on the basis of CAMEL’S rating and Risk Based Capital Adequacy (RBCA) measurement that are executing green banking practices. It is the first time of disclosing the green Banking report by central bank. Bangladesh bank also emphasizes on the environmental issue for launching new branch as well as selecting these banks such as Bank Asia ltd, Dutch-Bangla Bank limited (DBBL), Eastern Bank ltd (EBL), Islami Bank Bangladesh ltd, Mutual trust bank ltd, Prime bank ltd, Pubali Bank ltd, Standard Chartered bank, Shahajalal Islami bank ltd and Trust Bank ltd considering the green banking information till first quarter of 2012. The Bangladesh bank authority considered the following major activities under the green banking for getting the scenario of that;

- Green banking policy
- Green Banking unit
- Allotment of fund in green banking
- Funds for green financing
- Mobile banking
- On line banking
- Internet banking
- Green banking budget
- Environmental risk rating
- Effluent Treatment Plant (ETP)
- ETP related project

The above mentioned banks allotted Tk. 525 crore for green banking and Tk. 505 crore was provided for green financing among that fund. The 40 out of 47 nationalized and non nationalized commercial banks was established green banking unit. The 41 commercial banks was formulated green banking policies.

**Source:** Kaler kantho (21th June, 2012)

**Fund allocation of Green Banking:**

Banks are required to allocate a considerable amount for green banking in their annual budgets, which will include (a) Budget for green Finance (b) Budget for Climate Risk Fund and (c) Budget for marketing & capacity building for green banking. 35 Banks have allocated Tk. 23,018.36 million in their annual budget for 2012. On an average, a bank allocated Tk. 657.67 million for green banking in 2012.

**Table -1: Allocation of fund for Green Banking**

Area of allocation	Amount (in million Tk.)
Green Finance	20,034.59
Climate Risk Fund	2,141.74
Marketing& capacity building for green banking	842.73

**Source:** Bangladesh Bank

**Green Finance:**

For 2012 banks have allocated Tk.20, 034.59 million for green finance of which Tk. 3273.69 million has been utilized during January- September 2012. From the table we can realize that private commercial banks allocated the funds for green finance rather than the state - owned commercial bank. We also realized that utilization of allocation funds in private commercial banks is more than other state owned commercial banks. State development banks more used its allocated funds.

**Table-2: Allocation of Green Finance on the basis of Bank category**

Bank Category	Allocation for year 2012	Utilization(January- September 2012)	Percentage of utilization
SCBs	6,160.00	25.53	0.41%
PCBs	11,506.79	2,828.73	24.58%
FCBs	1,017.80	76.80	7.55%
SDBs	1,350.00	342.63	25.38%
<b>Total</b>	<b>20,034.59</b>	<b>3,273.69</b>	<b>16.34%</b>

Source: Bangladesh Bank

**Status of Green Finance under Bangladesh Bank’s Refinance Scheme:**

Since October 2012, 838.4 million out of taka 2.0 billion revolving fund has been allocated to the following green projects:

**Table-3: Bangladesh Bank refinance scheme for promotion of green projects:**

Category	Amount (in million Taka)
Solar irrigation pump	23.9
Solar home system	87.8
Biogas plant)	262.7
Effluent Treatment Plant (ETP)	90.4
Hybrid Hoffman Kiln (HHK)	124.8
Solar PV module assembling plant	248.8

Source: Bangladesh Bank

**Online Banking**

Access to Online Banking services for the customers is expanding rapidly along with increase in the number of branches with online coverage and accounts facilitated with internet banking. The Online Banking scenario looks promising, wherein 3,226 out of 8,199 branches (39.35%) are equipped with online banking services . 90.73% of the total branches of private commercial banks (PCBs) have been brought under online banking coverage. 4.84% of the total branches of state commercial banks(SCBs) have been brought under online banking coverage . The SCBs need to go a long way in the arena of green banking.

**Table-4: Status of online Banking**

Types of banks	State owned commercial banks (SCBs)	Private commercial banks (PCBs)	Foreign commercial banks (FCBs)	Specialized development banks (SDBs)	Total
Total number of Branches	3,469	3224	73	1433	8199
Number of branches with online facility	168	2925	73	60	3226
% of branches with online banking facility	4.84	90.73	100.00	4.19	39.35

Source: Bangladesh Bank

**Mobile Banking:**

With fast expanding mobile telephone and great enthusiasm of the banks in offering financial services through mobile phones, Bangladesh Bank issued guidelines on mobile financial services in 2011. 23 Banks have been given license to provide mobile financial services (MFS) of which 14 banks have already started their operations. These banks are presently providing MFS to around 1.5 million customers; average transaction volume is around Taka 330 million per day. The average rate of growth of customer base in mobile banking is currently 15% per month. ATM services of Banks: Most of the banks have been offering 24 hours banking services through their countrywide ATM booths. Now 4,332 ATM booths are operating in Bangladesh. Dutch - Bangla Bank is taking the leading position with installation of 2,170 ATM booths.

**Banks’ in house Green activities:**

- Use of papers on both sides for internal consumption
- Introduction of e- statement for customers in lieu of paper statement.
- Use of online communications in the best possible manner.
- Using more daylight instead of electric lights and proper ventilations in lieu of using air conditioning.
- Using energy saving bulbs.
- Video /audio conferencing in lieu of physical travel.
- Conversion of bank’s vehicles into CNG and use of energy efficient electronic equipments.
- Efficient use of printer cartridges, photocopy toner, office stationary etc.
- Sharing electronic files, voice mail, and e-mail instead of paper memos.
- Common use of table stationeries instead of individual use.

**Specific Findings:**

- 45 banks have formulated policy for green banking.
- 46 banks have formed a Green Banking unit.
- 41 Banks have introduced a Green Office Guide.
- Environmental risk rating has been done for 13,779 projects.
- 13,833 risk rated prefects have been financed.
- 13, 07,479.64 million taka has been disbursed.
- 212 Branches and 150 SME Units/ATM booths are powered by solar energy.
- 37 banks are fully automated.
- 3226 branches have been facilitated with online coverage.

**Recommendations & Suggestions:**

- ❖ Government should carefully monitor and supervise the green banking practices in Bangladesh.
- ❖ Bangladesh bank must monitor the adherence of green banking guidelines by the commercial and non-commercial banks.
- ❖ Government encourages the general people about green banking awareness through the electronic and print media.
- ❖ Coordination among concerned authorities.
- ❖ Speeding up awareness and effective capacity building.
- ❖ Immediate concentration on sectoral lending policies and procedures.
- ❖ Shifting of different categories of industry (such as, garments, textiles, and tannery) to a proper location.
- ❖ Awareness of top management.
- ❖ Encouraging borrowers to go green.
- ❖ Need to apply green banking and use environmental risk management (ERM) guideline in efficient manner.
- ❖ Develop a culture within the organization based on environmental governance.
- ❖ Replicate global as well as local best practices.
- ❖ Share Knowledge and technical know-how with peer groups.
- ❖ Further integration with credit risk management in the overall credit risk methodology.
- ❖ Apply quantitative approach for environmental risk rating.
- ❖ Develop a database for technical assistance/issues.

**IV. Conclusion:**

Bangladesh is one of the most climate change vulnerable countries to climate change in the world. From the overall discussion, it can be said that green banking practices in Bangladesh are not at a satisfactory level. In line with global development and response to the global warming, Green banking plays significant roles. Government as well as every bank should take initiatives in respect of green banking practices for protecting our environment. Bangladesh bank will emphasize with significance of green banking activities/practices of a bank while according permission for opening new bank branches and approval for launching new bank. Government should also encourage the general people about the green banking practices. The central bank should monitor or supervise commercial banks whether they are practicing green banking or not. So, every bank has to participate and contribute to green banking practices in today’s extreme national and global banking competition.

**List of terms and Acronyms:**

ETP - Effluent Treatment Plant

ATM - Automated Teller Machine  
SCB –State owned commercial bank  
PCB –private commercial banks  
FCB –Foreign commercial banks  
SDB –Specialized development banks  
CAMEL- Capital, asset, management, earnings, liquidity  
RBCA- Risk Based Capital Adequacy  
CSR –Corporate social responsibility  
HHK- Hybrid Hoffman Kiln  
SME- Small and Medium Enterprise  
ICT-Information and Communication Technology  
SRCC - Socially Responsible Corporate Citizens

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