

## **Green Banking in Bangladesh- A Comparative Analysis**

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*As one of the least developed countries Bangladesh is the worst sufferer of world environmental pollution through industrialization of the western countries. Under such extreme environmental threat the financial sector of Bangladesh is playing a key role as one of the important stake-holder of the economy enforcing the businessmen/ industrialists of the country to design their various strategy/action plans keeping the crucial environmental issues. In mind Green Banking (GB) is a component of the global initiative by a group of stakeholders to save the climate/environment. In this study it is tried to find out the present status of green banking practices. In doing so a comparative analysis has been initiated among different types of banks [State-own Commercial Banks (SCBs), State-own Specialized Development Banks (SDBs), Public Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs)] in operation in Bangladesh to see whether they adopted green banking policy guided by Bangladesh Bank (BB). The study concluded that only PCBs, FCBs have adopted green banking guideline and financed some of green banking based projects on the other hand SCBs and SDBs initiatives are not remarkable.*

**Keywords:** Green Banking, Environmental Issues, Bangladesh Bank Policy, Comparative Analysis.

### **1. Introduction**

The term 'Green' refers a broad range of social, ethical and environmental dimensions. However, for the purpose of the study that tends to look into environmental aspect, "green" is primarily to describe banks' impacts on the environment, environmental responsibility as well as environmental performances in their activities. Bai (2011) argued GB is similar to a normal bank, which considers all the social and environmental or ecological factors with an aim to protect the environment and conserve natural resources. It is also called an ethical bank or a sustainable bank.

The most important themes of twenty first century are the green safety and sustainable ecological balance. It has become a vital issue that must be considered by all functional areas including banking. Green banking involves environmental and social responsibility. Bangladesh is one the most environmentally affected country in the world; keeping this in mind Bangladesh Bank developed a Green Banking Policy in 2011. This study aims at studying the present status of the banks in complying with Bangladesh Bank policy to save the environment as well as to increase financial sustainability. Green banking activities include using all of the banks resources with responsibility and care, avoiding waste and giving priority to choices that take sustainability into account.

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In line with global development and response to the environmental degradation, financial sector in Bangladesh, in part, has already started playing its roles as one of the key stake holder to address the issue properly. In this paper it is tried to explore the compliance followed by State-own Commercial Banks (SCBs), State-own Specialized Development Banks (SDBs), Public Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs).

The paper is organized as follows: Literature Review is stated in the second section. Methodology is provided in section three and Objectives of the study is given in section four. Bangladesh Bank Policy Guideline for Green Banking (GB) and Steps in Green Banking are stated in fifth and sixth section respectively. The most important part of this paper is section seven which contains comparative analysis of the results and section eight shows the Green Banking Stake holders.

In section nine are pointed out various findings from the study. Section ten concludes the paper with some recommendations.

## 2. Literature Review

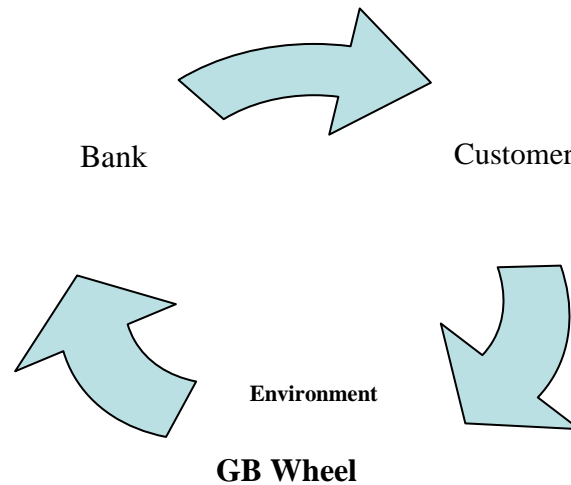
Global warming, which is one of the most burning & discussed issues, has the worst impact on the climate of the planet as a whole. The rapid change in climate will be too great to be adapted by the eco-systems, since the change have already made direct impact on biodiversity, agriculture, forestry, dry land, water resources and human health. As such, issue of global warming calls for a global response. Due to unusual weather pattern, rising greenhouse gas, declining air quality etc. society demands that business also take responsibility in safeguarding the planet (BB Green Banking policy).

Thombre (2011) argued that environmental impact of bank's external activity is huge though difficult to estimate. Thus, encouraging environmentally responsible investments and careful lending should be one of the responsibilities of the banking sector. (Sahoo and Nayak 2008). The bank should go green and play a pro-active role to take environmental and ecological aspects as part of their lending principle, which would force industries to go for mandated investment for environmental management, use of appropriate technologies and management systems (Hayder 2012). Verma (2012) stated that Indian banking is gradually coming to realize that there is need from a shift from the 'profit, profit and profit motive to 'planet, people and profit'. GB involves pursuing of financial and business policies that are not hazardous to environment and help to protect environment. The purposes of GB are to use resources with responsibility avoiding waste and giving priority to environment and society.

Bangladesh Bank Governor argued that all need to change mindset about environmental issues for making a better future through greening financial transactions (Star 2010). To save our planet it is the time to take initiative for green banking. The banks should give priorities in providing loan to the sectors that encourage environmental practices (Rashid 2010). GB is not limited within branches green activities, but extends to facilitating green investment/ financing so that a huge contribution to resource-efficient and low carbon industries, i.e. green industry and

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green economy in general can be made. Habib (2012) stated that much more is expected from NGOs and civil society organizations in the form of awareness development, research activities and business monitoring. For rapid change among consumers and businesses, a collective endeavor of government, media, NGOs will be required. The following GB wheel indicates how the whole banking system works as a chain.



### 3. Methodology

The study is mainly based on extensive literature review and secondary data. Secondary data sources were the reports of Bangladesh Bank, various seminar and workshop information and other relative information published on the banks and other internet sites.

### 4. Objectives

The study mainly aims at a comparative analysis about the green banking issue among SCBs, SDBs, PCBs and FCBs

The specific objectives of the research work are:

1. To explore the Bangladesh Bank policy guidelines for Green Banking.
2. To facilitate a comparative analysis of Green Banking practices in Bangladesh among SCBs, SDBs, PCBs and FCBs

### 5. Bangladesh Bank Policy Guideline for GB

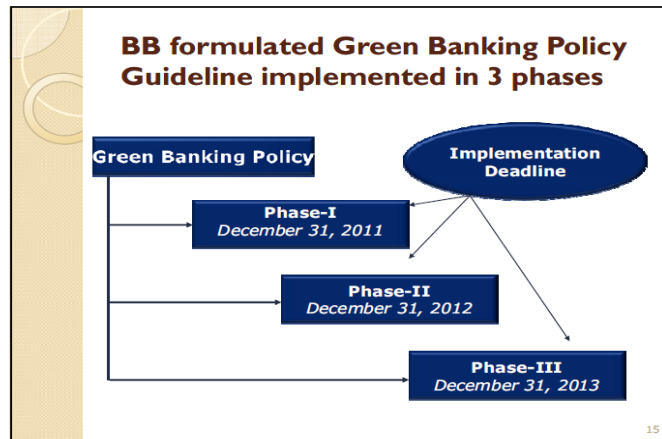
Being a responsible corporate citizen and with a view to developing green banking practices in the country Bangladesh Bank issued a circular on February 27, 2011 on Policy Guidelines for Green Banking towards banks stating "to adopt a comprehensive Green banking policy in a formal and structured manner in line with the global norms so as to protect environment degradation and ensure sustainable banking practices" (BB

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website). In line with the instructions of Bangladesh Bank, all banks have taken initiatives to formulate its Green banking policy with an aim to inculcate practices towards optimum usage of natural resources and make every effort for environmental friendly activities.

As per circular of Bangladesh Bank, banks are to implement Green banking guideline in three phases. These are:

**Diagram 1: Green banking guideline**



Source: UN conference presentation, BB Governor.

**Phase one:** (1) Policy formulation and governance; (2) incorporation of environmental risk in customer relationship management (CRM); (3) initiating in-house environment management; (4) introducing Green Finance; (5) creation of Climate risk Fund; (6) introducing Green Marketing; (7) Online Banking; (8) Supporting employee training, consumer awareness and green event; and (9) disclosure and reporting of green banking activities.

Deadline for compliance of programme under phase one was December 31, 2011.

**Phase two:** (1) Sector specific environmental policies; (2) green strategic planning; (3) setting up green branches; (4) improved in-house environment management; (5) formulation of bank specific environmental risk management plan and guidelines; (6) rigorous programmes to educate clients; and (7) disclosure and reporting of green banking activities.

Deadline for compliance of programme under phase two is December 31, 2012.

**Phase three:** (1) designing and introducing innovative products; and (2) reporting in standard format with external verification.

Deadline for compliance of programme under phase three is December 31, 2013.

## 6. Steps in Green Banking

It is found that following are some of the steps that can be taken for going green in banking:

- |   |   |
|---|---|
| <p>a. Online banking</p> <ul style="list-style-type: none"> <li>• Paying bills online,</li> <li>• Remote deposit/ bKash</li> <li>• Online fund transfers</li> <li>• E statements</li> <li>• Automated clearing house</li> </ul> | <p>b. Green Accounts (ATM Service)</p> <p>c. Green Financing</p> <p>d. Power Savings Equipments</p> <p>e. Green Debit Cards/ Credit Cards</p> <p>f. Save Paper</p> <p>g. Mobile Banking</p> |
|---|---|

## 7. Comparative Analysis

To analyze the present status of green banking practices in different types of banks the following components of Green Banking have been brought into light

### 7.1 Environmental Adoption

The negative impacts of climate changes have already started. Though banks contribute little to global warming, they have to focus on adaptation and mitigation process to cope up the adverse impacts of global warming. And green banking initiative can facilitate this process.

**Table 1: Number of banks ingraining CSR and GB practices within own establishment and in their client businesses**

Objective	SCBs	SDBs	PCBs	FCBs
Adopted socially and environmentally responsible practices(GB) in own internal operations	1	4	30	9
Providing a modern, healthy and safe workplace and creating a learning and development environment for GB	1	2	24	5
Reduce the bank's environmental impact as a result of its operation and business activity	1	2	24	5
Bank assessing the social and environmental impacts of the projects seeking finance.	1	2	20	5
Ensuring compliance of regulatory environmental and social requirements	1	2	21	5
Engaging with clients in assessing project's social and environmental impacts beyond the regulatory requirements	0	0	4	3

Source: Review of CSR initiatives of banks- 2011, *Bangladesh Bank* July 2012

From the above data it is observed that most of the PCBs and FCBs maintain environmental related issue within the bank as well as outside the banks so that the

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environmental hazard can be reduced. Though SCBs and SDBs cover most of the people of Bangladesh urban and rural area, they are yet to adopt green banking practices.

### 7.2 Online Banking

Online banking is the developing concept all over the country. Online banking is pretty convenient to not have to store all those reams of paper in file cabinet, and it reduces the amount of paper that the banks have to go through every month.

**Table 2: Online banking coverage**

Type/category Of banks	Total No. of branches	No. of branches with Online banking facility	% branches with Online banking facility
<b>SCBs</b>	3442	189	5.49
<b>PCBs</b>	3078	2741	89.05
<b>FCBs</b>	63	63	100
<b>SDBs</b>	1415	49	3.46
<b>Total</b>	7998	3042	36.3

Source: Review of CSR initiatives of banks- 2011, *Bangladesh Bank* July 2012

According to table 2 only 36.3% of all the branches of all types of banks have already come under the coverage of online banking. Among FCBs coverage is 100% , while PCBs 89.05% , SCBs 5.49% and SDBs 3.46%. It is to be noted that State-own Commercial Banks (SCBs) and State-own Specialized Development Banks (SDBs) are not aware about GB policy of Bangladesh Bank.

### 7.3 ATM Facilities

An electronic banking outlet which allows customers to complete banking transactions without the aid of a branch representative or teller. The machines will accept deposits, facilitate credit card payments and report account information. To access the features of ATM need to be a member of the bank that operates the machine.

**Table 3: ATM coverage**

Type/category of banks	Number of Banks	Total No. of branches	No. of branches under ATM facility	% branches with ATM facility
<b>SCBs</b>	4	3442	210	6.10
<b>PCBs</b>	30	3078	2950	95.84
<b>FCBs</b>	9	63	55	87.30
<b>SDBs</b>	4	1415	57	4.03
<b>Total</b>	47	7998	3272	41

Source: Annual reports of the banks, 2011.

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It is to note that only 41% banks came under ATM facilities and major contribution are the PCBs and FCBs. On the other hand a big portion of clients are out of services of ATMs who bank with SCBs and SDBs.

### 7.4 Mobile Banking

Mobile Banking is a banking process without bank branch which provides financial services to unbanked communities efficiently and at affordable cost. On the one hand, it is great to have the ability to check balances, transfer funds or pay bills from mobile. On the other hand, it saves time and energy of the customers. It also helps in reducing use of energy and paper of the bank. Most of the banks tried to introduce this paper-less facility.

**Table 4: Mobile Banking coverage**

Type/category of banks	Number of Banks	Availability of Mobile Banking	% banks with Mobile banking facility
<b>SCBs</b>	4	0	0
<b>PCBs</b>	30	10	33.33
<b>FCBs</b>	9	0	0
<b>SDBs</b>	4	0	0
<b>Total</b>	47	10	21.3%

Source: Annual reports of the banks, 2011

Only PCBs introduced mobile banking system BRC Bank (bKash) and Duch-Bangla Bank cover most of the population under this system. No SCBs, SDBs and FCBs have any contribution in mobile banking.

### 7.5 Green Financing

According to Bangladesh Bank guideline commercial banks undertook an initiative to go green by paying low interest loans to the customers who would like to setup solar equipments, ETP, Bio-gas Plant, Hybrid Hoffman Kiln(HHK) etc . Despite the country's state-owned and private commercial banks and a non-banking financial institution (NBFI) signed an agreement with BB to disburse the environment-friendly loan.

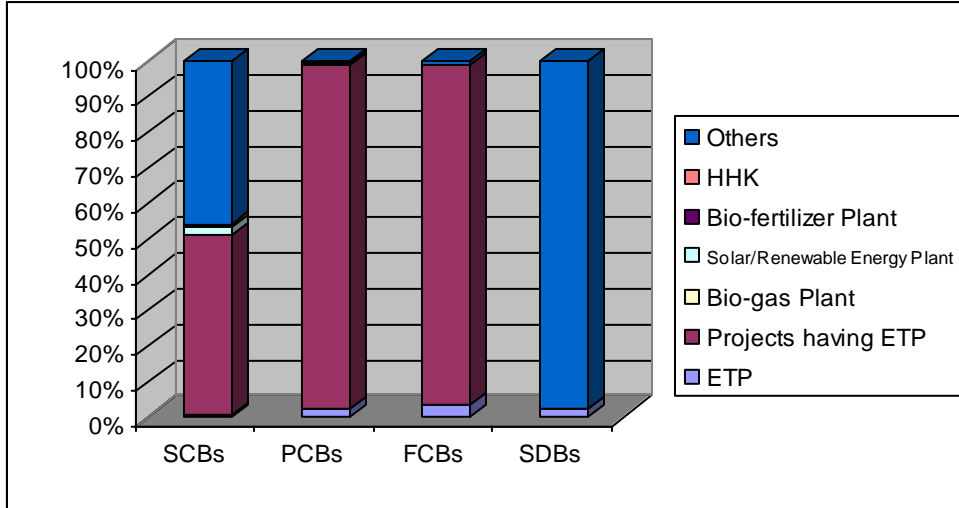
**Table 5: Category wise contributions of bank towards green financing**

	In million Taka			
	SCBs	PCBs	FCBs	SDBs
ETP	77.68	3134.80	705.97	1.00
Projects having ETP	5758.74	122694.64	19726.55	0.00
Bio-gas Plant	28.31	219.76	0.00	0.00
Solar/Renewable Energy Plant	229.77	756.02	0.00	0.00
Bio-fertilizer Plant	0.00	4.50	0.00	0.00
Hybrid Hoffman Kiln(HHK)	112.40	795.17	0.00	0.00
Others	5249.70	5.20	220.00	42.80
<b>Total</b>	<b>11456.6</b>	<b>127610.1</b>	<b>20652.52</b>	<b>43.8</b>

Source: Review of CSR initiatives of banks- 2011, Bangladesh Bank July 2012

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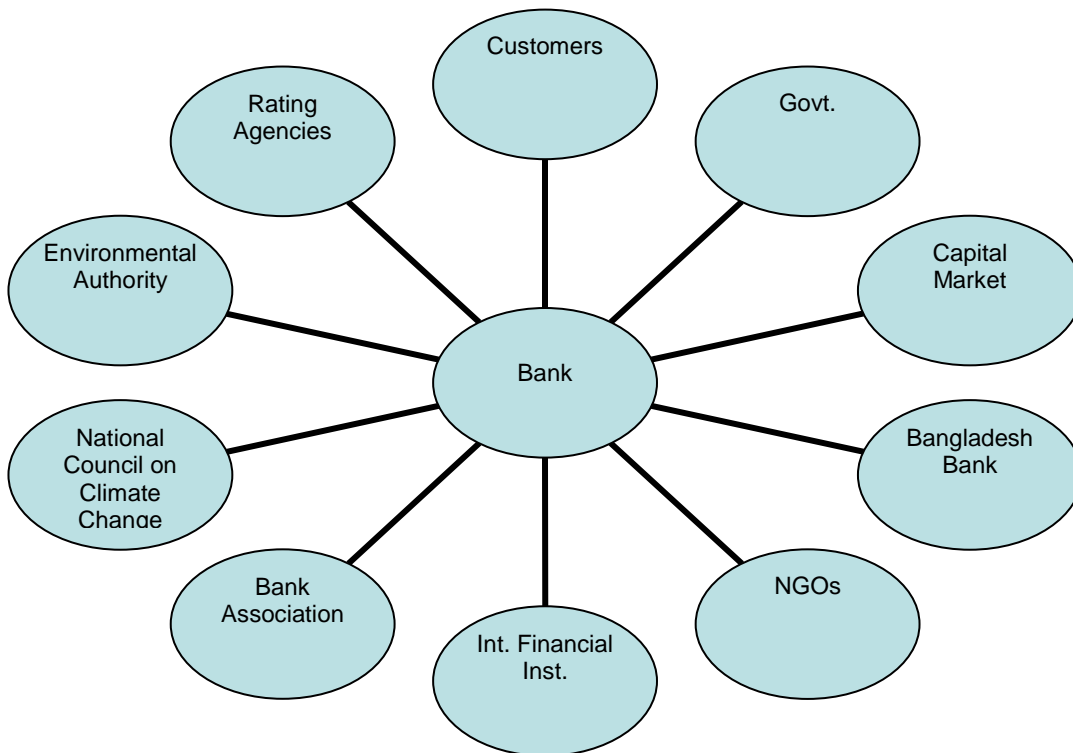
## Graph 1: Banks wise green financing



From the above table and graph it is observed that in green financing sector PCBs investment is Tk. 127.6 billion, SCBs Tk.11.4 billion, FCBs Tk.20.6 billion and SDBs Tk. 43.8 million respectively, it easily define that PCBs financing is much more higher than others.

## 8. Green Banking Stake Holders

### Diagram 2: Green Banking Stake Holders





### 9. Findings

Basically Green banking avoids as much paper work as possible and rely on electronic transactions for processing of activities. Less paperwork means less cutting of trees. Here, most of the PCBs and FCBS adopted the GB policy except SCBs and SDBs who have not taken such steps yet. Bangladesh Bank not only gives the policy but also provide technical supports for GB adoption. Bangladesh Banks developed a policy for sanction loans to environmentally harmful projects so that make sure the necessary environmental compliance factors before lending a loan/investment. GB motivates the banking system that reduces use of paper which create brand image and Create awareness amongst the stakeholders about the environment as well as environmental friendly business practices i.e. solar equipments, ETP, Bio-gas Plant, Hybrid Hoffman Kiln (HHK) etc.

### 10. Conclusions

The study concludes that in-spite of a lot of opportunity in green banking. This study was limited to investigating Green Banking practices in Banks in Bangladesh because the data was collected from secondary sources but further investigations is required to find out the impact of Green Banking activities.

As per entity concept banks are responsible corporate citizens. Banks believe that every small 'GREEN' step taken today would go a long way in building a greener future and that each one of them can work towards to better global environment. Overall Green banking is really a good way for people to get more awareness about global warming; each businessman will contribute a lot to the environment and make this earth a better place to live. The study bring to a closed that in-spite of a lot of prospect in green banking, SCBs and SDBs are far behind in the implementation of green banking only some of PCBs , FCBS have initiated towards green banking. But total scenario is very insignificant according to BB policy. There is a lot of scope for all banks and they can not only save our earth but can transform the whole world towards energy conscios. Banks must educate their customers about green banking and adopt all strategies to save earth and build banks image.

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