

# Sustainable Banking: Analyzing Pattern of Green Banking In Bangladesh

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## Abstract

The term Green Banking is a new concept in Bangladesh, though the idea is not new. It has shifted the profit maximization goal of banks to 'planet, people and profit goal'. In Bangladesh, the banks are categorized as FCBs-Foreign Commercial Banks, PCBs- Private Commercial Banks, SCBs- State owned Commercial Banks, SDBs- the Specialized Development Banks. Bangladesh Bank – has issued the Green Banking Guideline in 2011 which is a mandatory policy guideline for all the scheduled Banks operating in the country. This study focuses on how the phase-wise action plan is applicable for all banks operating in Bangladesh are coping up to meet the target within the stipulated deadline. It is found that the SCBs and SDBs are showing constantly poor performance in adopting the idea. It is also mentionable that recently the focus is more on direct green financing to indirect green financing. Some banks are welcoming the idea of 'going green' whereas others are still in the dilemma in taking the challenge.

**Keywords:** Green finance, sustainability, environmental risk, online-banking, climate risk fund

## 1. Introduction

Apart from maximizing shareholders value, businesses have responsibility towards the society in general and financial sector, being the steward of all kinds of commercial transactions, has all the more responsibility to steer the economy in a sustainable way. Environment has many direct and indirect effects on a country's economy and timely intervention of financial institutions can ensure that positive effect is nurtured and maximized. In a bank-dependent economy like Bangladesh's, environmentally-aware and sustainable banking, otherwise and more commonly termed as 'Green Banking' thus turns out to be of paramount importance. With that thought in mind, the central bank of the country – Bangladesh Bank – has drafted and enacted the Green Banking Guideline in 2011 which is a mandatory policy guideline for all the scheduled banks as well as other financial institutions to follow.

The Green Banking policy mandate as given by Bangladesh Bank (BB) encompasses a holistic approach towards sustainable economy by drawing attention to avenues like – in house environment management, sustainability training, paperless banking, green marketing activities, formation of climate risk fund, environmental risk rating of projects and most importantly green financing. The phase-wise action plan is applicable for all banks operating in Bangladesh hence the paper here tries to show how the different category of banks – namely State-own commercial bank, state-own specialized development banks, public commercial banks and foreign commercial banks are coping up to meet the target within the stipulated deadline.

### 1.1 Literature review

As Socially responsible Corporate Citizens, banks have great responsibility to enhance the efforts taken by the concerned government to attain the target of reducing the emission of harmful carbon (Mani; 2011). Sustainable development thus can be made possible by the timely intervention and planned contribution by the financial institutions and specially Banks. In the book 'Sustainable Finance and Banking' the natural progression of banking evolves into sustainable banking from its former defensive banking status to serve as a full-fledged ever-flowing entity (Jeucken; 2001). To popularize the concept of banking towards sustainable development, more often coined as 'Green Banking' is thus a significant aspect for the Central bank of Bangladesh – Bangladesh Bank (BB). The governor of BB, Dr Atiur Rahman stated that Green Banking and CSR activities coupled with other measures will lead the country into more broad-based inclusive growth and thus push the country to the fulfillment of vision 2021 mandate (Rahman;2010).

On-line banking – a feature of green banking is also gaining momentum as the banking industry is transforming into full digitalization and creating customer satisfaction with internet connectivity whereas reducing the environmental impact of human travel and paper-based banking system (Islam; 2010). However, online banking is not the only aspect of green banking as in reality; Green Banking has a much wider perspective. It normally starts with the vision to protect the environment by considering the environmental aspect before financing a

project and its future implications. There can be environmental risk checking where finance would be provided to a project only when it meets the safety standards or the environmental hazard of such project is minimal compared to other projects. Such policy and technology can steer the efficient implementation of green banking in a country. (Bihari;2011). Bangladesh Bank thus includes Environmental risk rating, climate management fund, online banking in its Green Banking Policy Mandate.

One important feature of the mandate is the significance it puts on Green Financing – meaning financing awarded towards the project which has either direct or indirect positive contribution towards environment-friendly products, operations etc. Such credit can be provided to the 40 identified environment-friendly businesses including waste reduction, alternative and renewable energy, green manufacturing endeavors, green bricks etc. According to the Bangladesh bank Green Banking Report – 2012, Indirect green financing is quite higher than direct green financing which made the central bank ensue a new directive to gradually increase the percentage of direct green financing in the overall green financing allocation banks plan to invest in a year. The paper here looks at whether this directive is followed by the different categories of Banks and at what rate this change is taking place.

The concept of green banking being quite new in the scholarly world of Bangladesh, few researches shed light on the prospect problems and solution to implement Green banking more extensively in Bangladesh. According to the researches, every small green step taken today would have long time impact in building a greener future and every business activity or commercial entity can work towards a better global environment (Marufullah; 2012).

Banks in Bangladesh and in fact all over the world are not adopting green banking policies only to adhere to the directives given by their concerned authority. The other factor which are influencing the adoption of green banking are – to defend against the legal problems of not abiding green banking procedures, to be economically efficient, to improve brand image, to attract the environment-conscious citizens and corporates in the customer base etc (Ahmed et al;2013). Also, Banks realize that a different stream of revenue generation is possible with green financing.

Various other researchers also conclude that green banking not only encompass income generation, but it also creates employment and reduce poverty (Joan & Lal; 2006). A people-centered, multi-level, responsive and participatory, socially environmentally sustainable business practices promotes mentorship and stewardship of the social economy (Cotula; 2002). Hence, banks - the primary driver of economy in Bangladesh - need to fuel the green Banking and especially green financing across the country. The research here thus shows to what extent the various aspects of green banking is present among the various categories of banks and the amount of shift towards or from a sustainable economy considering the quarter-wise green banking scenario in 2013 and 2014.

#### 1.1.1 *Methodology*

The information presented in this research paper is primarily collected from various reliable and credible sources. For proper understanding of the issue and finding avenues to conduct in-depth study, a preliminary face-to-face interview was conducted with the concerned authority of Green Banking Unit of Bangladesh Bank. The secondary data is collected from the green banking reports available at the official website of the Central Bank of Bangladesh – Bangladesh Bank.

#### 1.1.2 *Findings*

##### **Green Finance**

For green finance, in year 2013, the utilized amount reached at pick in the last quarter. And in year 2014 the same trend is seen. Overall the amount has increased in the recent year. This gives an idea that banks are focusing on utilizing the fund of green finance by welcoming new projects.

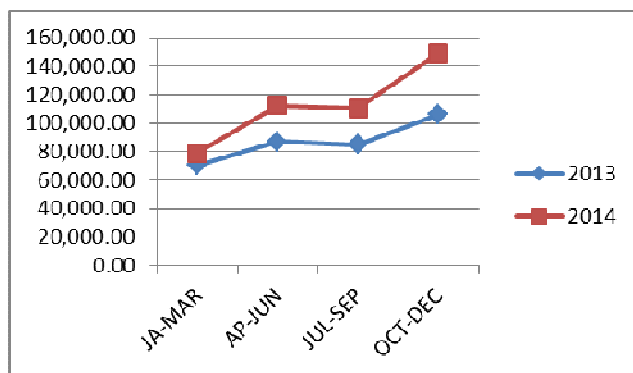


Figure 1: Utilization of green finance

### Climate Risk Fund

For the utilization of climate risk fund in year 2013, the dramatic change is seen- from second quarter to third quarter as the amount decreases sharply, on the other hand at the last quarter there is a sharp increase. So it is clear that year 2013 was not showing a common trend in climate risk fund utilization.

If we look at year 2014, we see banks managed this fund quite systematically and the utilization although had a small fall in the second quarter, showed an increasing pattern afterwards.

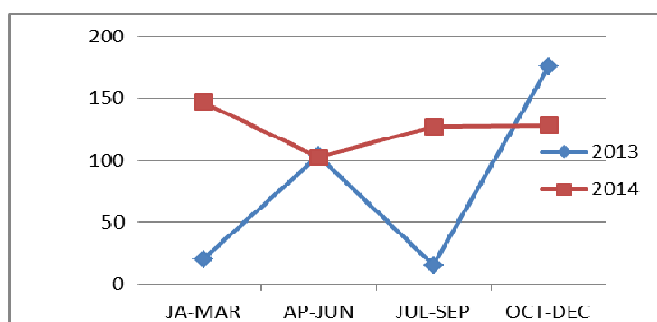


Figure 2: Formation of Climate Risk Fund

### Marketing, Training and Capacity Building

For the utilization of marketing, training and capacity building fund, banks are showing a constant increasing pattern in year 2013. The quarterly shift from June 2014 to September 2014 evidences the highest increase in respect of utilization of fund in marketing, training and capacity building.

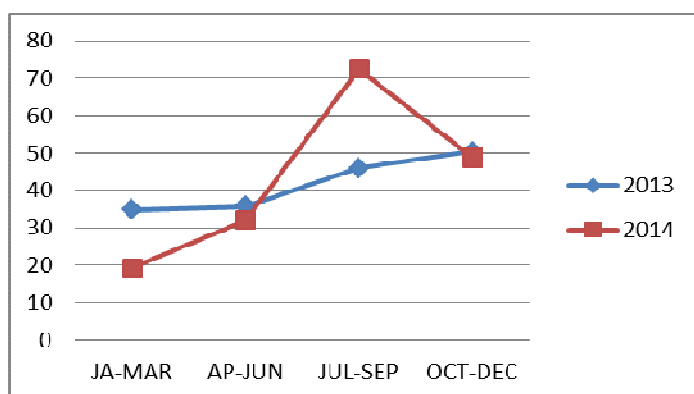


Figure 3: Green marketing and training expenditure

### Environmental Risk Rating (EnvRR)

Among a total number of 34,143 applied projects 27,677 were financed after rating during the year 2013. The quarter December 2013 is showing the biggest number of financed projects. Total amount disbursed to projects was 1,567,590 million BDT in the year. The data presented in tabular form is given below to have a glimpse

quarter-wise projects numbers and the amount disbursed-

Table 4: Projects with Environmental risk rating - 2013

Year 2013				
	Jan- March	April-June	July-Sept	Oct-Dec
<b>Number of projects applied for EDD</b>	8,991	8,878	7,383	8,891
<b>Number of projects rated</b>	8,117	8,063	6,815	8,188
<b>Number of projects financed after rating</b>	6,733	7,238	6,152	7,554
<b>Amount disbursed to the rated projects(in million taka)</b>	338,926.03	433,501.31	404,099.46	391,062.77

The table below shows the EnvRR for year 2014. As we can see the quarter October to December 2014 evidences the highest increase in respect of both number of projects financed after rating and the amount disbursed for those projects .Over all 31,583 projects were financed and a sum of 1,482,265 BDT was used for the purpose.

Table 5: Project with environmental risk rating - 2014

Year 2014				
	Jan- March	April-June	July-Sept	Oct-Dec
<b>Number of projects applied for EDD</b>	11,270	11,349	12,203	10,424
<b>Number of projects rated</b>	9,191	9,502	10,117	9,779
<b>Number of projects financed after rating</b>	7,115	7,725	7,943	8,800
<b>Amount disbursed to the rated projects(in million taka)</b>	361,665.73	349,350.23	384,915.00	386,334.23

### Category-wise Green banking activities

Green banking activities as carried out by different categories of Banks in Bangladesh is analyzed below:

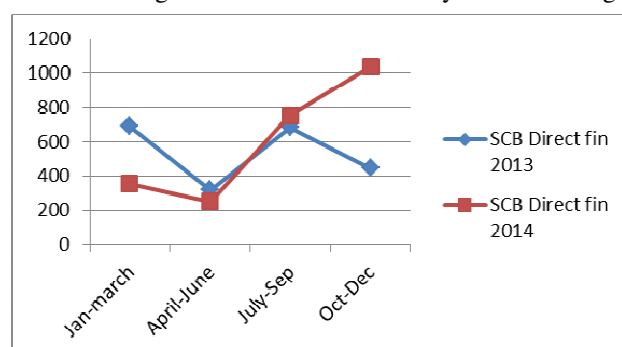


Figure 4: Direct green finance by State-own Commercial Banks

The above figure shows the quarter-wise trend of direct green financing activities taken by the SCB's in the year 2013 and 2014. While the pattern of direct green financing follows similar trend during the first 3 quarters, the fourth quarter s of both years shows great variation. In 2014, the expenditure on direct green financing heavily increased due to BB's directive on increasing direct finance initiatives rather than indirect finance.

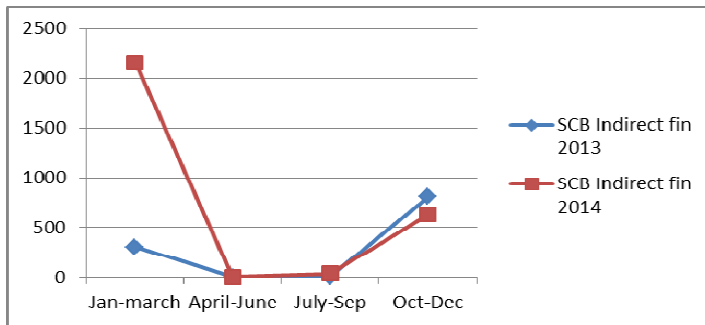


Figure 5: Indirect green finance by State-own commercial banks

On the contrary, the quarter-wise indirect finance activities in both 2014 and 2013 follows a consistent pattern. However, the drop in the Q1 2014 expenditure is too steep compared to that of 2013. Such anomaly requires further data to see whether it's an one-off event or the coming years follows this trend religiously.

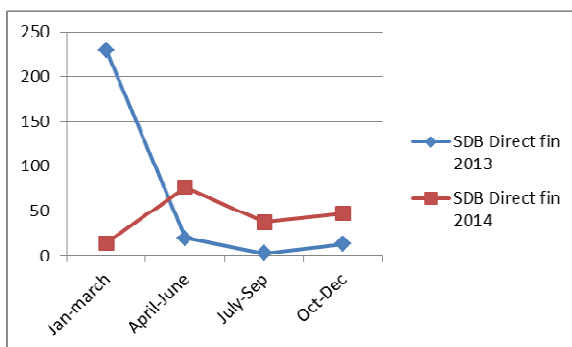


Figure 6: Direct green finance by SDB's

In case of SDB's again the pattern of direct green financing in the last 3 quarters is similar over the years. However, there has been a great rise in the direct financing activities in the Q12014. Judging by the expenditure in indirect finance category in quarter one of 2014, it can be said that the focus of the SDB's was more on direct green financing that indirect financing in 2014. This also follows the BB directive of increasing direct finance activities.

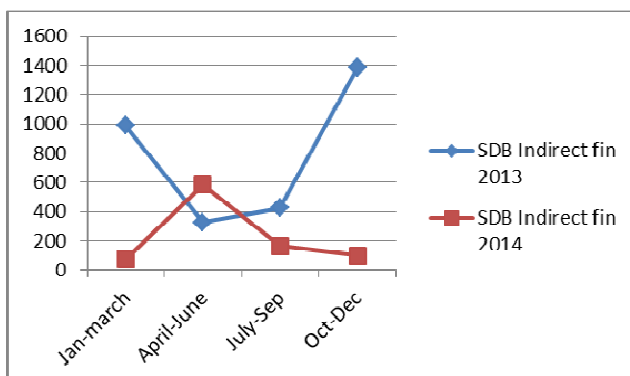


Figure 7: Indirect Green Finance by SDB's

It's obvious from the above figure that the SDB's are trying to follow BB directive to increase the total amount of direct green financing activities whereby limiting or decreasing indirect finance activities. We can see that in 2014, the indirect finance activities show a decreasing trend over the quarters contrary to the pattern in 2013.

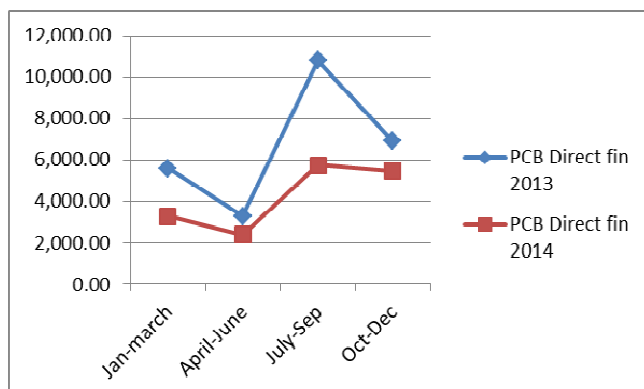


Figure 8: Direct green finance by PCB's

However, in case of PCB's, a comparison can be made of the above figure with the below figure. Whereas above figure denotes that direct finance activities have decreased in 2014 than that of 2013, despite showing an increasing trend over the quarters.

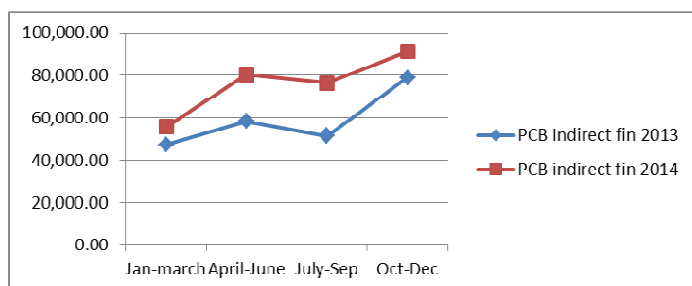


Figure 9: Indirect green finance by PCB's

However, in case of indirect finance activities as shown in the above figure, PCB's expenditure have increased in 2014 than that of 2013 and in this case too, there is a consistent increasing trend over the quarters in both years.

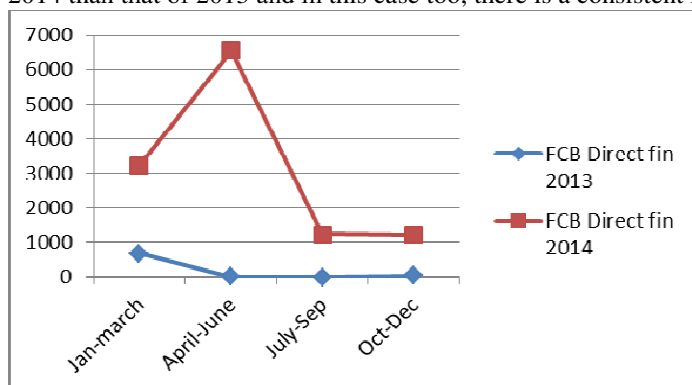


Figure 10: Direct green finance by FCB

In absolute amount, FCB's expenditure in direct green financing activities have increased greatly. However, except for a peak in Q2 2014, the overall direct green financing activities show a decreasing trend.

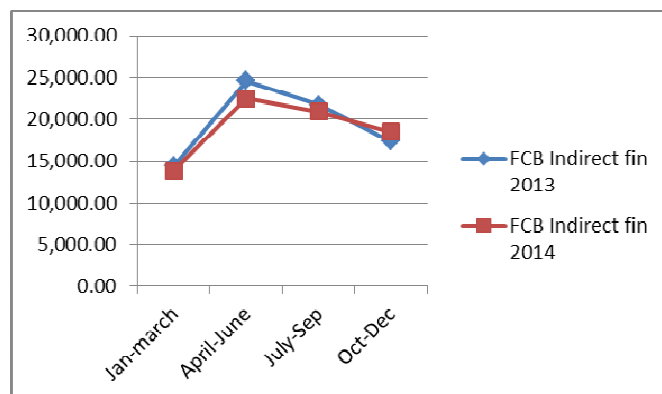


Figure 11: Indirect green finance by FCB

In case of indirect green financing by FCB's, both the amount as well as the trend over the quarters have been constant. Hence, from the above two figures, it can be deduced that FCB's expenditure in indirect green financing has not increased over the years and overall green financing activities shows a decreasing trend. This is a problematic area as the FCB's scope of green financing is much more than what have been materialized.

Table 6: Solar-powered branch and ATM's

2013								
	Jan-mar		April-June		July-Sep		Oct-Dec	
T o B	bran_sol	atm_sol	bran_sol	atm_sol	bran_sol	atm_sol	bran_sol	atm_sol
SCBs	0%	0	0%	0	0%	0	0%	0
SDBs	2%	0	2%	0	2%	1	2%	2
PCBs	6%	179	6%	180	6%	180	7%	181
FCBs	5%	4	5%	4	4%	4	4%	6
<b>Total</b>	<b>3%</b>	<b>183</b>	<b>3%</b>	<b>184</b>	<b>3%</b>	<b>185</b>	<b>4%</b>	<b>189</b>
2014								
	Jan-mar		April-June		July-Sep		Oct-Dec	
T o B	bran_sol	atm_sol	bran_sol	atm_sol	bran_sol	atm_sol	bran_sol	atm_sol
SCBs	0%	0	1%	0	1%	0	1%	0
SDBs	2%	0	2%	0	2%	0	2%	0
PCBs	8%	181	8%	185	8%	198	9%	221
FCBs	5%	6	5%	6	5%	6	5%	6
<b>Total</b>	<b>4%</b>	<b>187</b>	<b>4%</b>	<b>191</b>	<b>4%</b>	<b>204</b>	<b>4%</b>	<b>227</b>

In case of in-house environment management procedure by all types of banks, a static position can be noticed over the quarters as well as over the years. The number of branches or ATM booths with solar energy facility, here denoted by the variables bran\_sol and atm\_sol respectively shows a steady and meager percentage compared to the vast number of branches and ATMs the banks have throughout the country. To increase the adoption of environment-friendly operations in banks, there needs to be some more policy implementation, supervision as well as incentives to materialize the BB guideline to build green branches.

Table 7: Mobile or online based touch points in Banks

2013				
	Jan-Mar	Apr-June	July-Sep	Oct-Dec
SCBs	12.3	16.7	15.9	23.8
SDBs	5.7	6.1	6.3	7.7
PCBs	92.2	94.6	96.6	96.9
FCBs	100.0	100.0	100.0	100.0
<b>Total</b>	44.1	47.0	47.6	51.8
2014				
	Jan-Mar	Apr-June	July-Sep	Oct-Dec
SCBs	20.79%	24.24%	46.87%	52.00%
SDBs	8.61%	8.87%	9.19%	5.64%
PCBs	99.42%	99.94%	99.86%	99.73%
FCBs	90.54%	100.00%	100.00%	100.00%
<b>Total</b>	52%	54%	63%	65%

However, Banks have progressed in terms of online banking facilities, as represented in the above table. Such move into paperless banking is also a part of in-house environment management practice while offering customer a better and up-to-date solution. Judging by the types of banks, SCB's have shown a staggering growth in the Q3 and Q4 2014 to implement online banking facilities while PCB's are getting closer to FCB's in online banking facilities.

#### 1.1.3 Conclusion

'Green' or in other word 'sustainable banking' is worldwide a major issue now. Not only through protecting and/or preserving environment, such financial inclusion in sustainable measures result onto special jobs, economic uplift and create a long-lasting positive impact in a country's economy. Based on the research findings, it is visible that different categories of Banks in Bangladesh are implementing various green banking related action plans to align themselves with the policy mandate given by Bangladesh Bank. However, the patterns of such activities, in many cases, are not up to the target. Also, in some cases, it is noticed that a profound importance is given on indirect financing whereas the focus of green financing has already gradually shifted around the world to the direct green financing endeavors. Also, green banking concept influences the notion of mobile or online based banking platform. However, the concept is not equally strong when it comes to in-house management of the banks. The quarter-wise trend pattern of all such green banking activities are quite similar in nature with a few extreme values, generally observed during the first quarters of a year.

#### 1.1.4 Scope for further research

As green banking is yet relatively new in Bangladesh and for in-depth trend analysis, similar research based on timeline could be done some more years after to provide a holistic view of the progress or lack thereof. Also, whether such policy has any positive contribution or relation with the performance of the banks in Bangladesh can also be an interesting research area to delve into.

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