



## GREEN BANKING PRACTICES IN BANGLADESH

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### **Abstract**

In this world to cope up with changing climate and environment is a challenge. For a sustainable development green economy is an important concept. Though the concept of green economy is emerged in 20<sup>th</sup> century, still it is in a position to seeking attention from various governmental and private bodies. Main target of this study is to explore Bangladesh Bank Policy Guidelines for green banking. Bangladesh bank introduced the concept of green banking in 2011 in Bangladesh. Bangladesh bank provides several guidelines regarding green banking to the commercial banks doing business in Bangladesh. To ensure sustainable development, to ensure pollution free environment banks should introduce mobile banking, online and internet banking, use solar panel, energy efficient equipments, etc. all the banks should follow the guidelines provided by Bangladesh Bank and Bangladesh Bank should monitor and get feedback from the commercial banks.

**Key Words:** Sustainable Development, Green Economy, Online Banking, Renewable Energy.

### **Introduction**

Green economy is an important concept for sustainable development. To maintain a pollution free environment it is very important to introduce environment friendly procedures in every sector. Green banking is an emerging concept which means to use the technology and take initiatives to reduce carbon emission and using all the resources of bank with care and avoid waste. It is very important to introduce environment friendly banking activities. Reasons for taking green banking initiatives are- increasing energy consumption and energy prices, governmental rules and regulations to reduce carbon, increasing awareness of customers towards the environment friendly goods and services. Main objective of green banking is to ensure a pollution free environment and a sustainable development.

The concept of green economy and green banking is emerged in 20<sup>th</sup> century. Green banking has become a vital issue. Bangladesh is a country of natural disaster and one of the most environmentally affected country in the world. Keeping this in mind Bangladesh Bank has introduced the concept of green banking in Bangladesh in 2011.

### **Literature Review**

To save our planet it is the time to take initiative for green banking. The bank should give priorities in providing loan to the sectors that that encourage environmental practices (Rashid, 2011).

Encouraging environmentally responsible investments and careful lending should be one of the responsibilities of the banks (Sahoo and Nayak, 2008).

Bangladesh Bank governor argued that all need to change mindset about environmental issues for making a better future through greening financial transactions (Star, 2010).

### **Objectives**

The main objective of this study is to find and explore the Bangladesh Bank policy guidelines for green banking. The reasons behind adopting green banking policies of several commercial banks of Bangladesh.

### **Methodology**

This study is mainly based on literature review and secondary data. Primary data is not used in this study.

### **Sources of Data**

Data are collected from several online journals, reports of Bangladesh bank and some other commercial banks published on internet sites.

### **Limitations of the Study**

1. The main limitation is that not using any primary data.
2. Didn't interview any key personals of any organization.
3. Didn't interview any customers or clients of any bank.
4. New data are not available.



### **Bangladesh Bank Policy Guideline for Green Banking**

Bangladesh bank issued a circular on 27<sup>th</sup> February, 2011 on policy guidelines for green banking. It stated that “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 website).

Bangladesh bank published an annual report at green banking in the year 2012. In this report green banking activities has been addressed in two segments. One is Bangladesh Bank’s activities; other is other bank’s activities. Both are divided into two sectors- (1) in-house activities, (2) other than in-house activities.

As per guideline of Bangladesh bank, banks are to implement green banking practices in three phases.

Phase one: (1) policy formulation and governance, (2) incorporation of environmental risk in customer relationship management, (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.

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 guideline, (6) rigorous programme to educate clients, (7) disclosure and reporting of green banking activities.

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

### **Findings and Analysis Steps in Green Banking**

This is found that following are some steps that can be taken for going green in banking.

1. Online banking:
  - Paying bills online
  - Automated clearing house
  - Online fund transfer
  - E statements
2. Mobile banking
3. Power saving equipments
4. Green financing
5. ATM services
6. Save paper
7. Use of plastic money

Bangladesh bank selected ten commercial banks in Bangladesh on the basis of CAMELS ratings and Risk Based Capital Adequacy (RBCA) measurement that are executing banking practices. Bangladesh Bank’s green banking initiatives:

1. BB installed 8 KW solar power systems on its rooftop in March 2010.
2. Environmentally harmful incineration of non re-issuable damaged bank notes is being phased out, resorting instead to shredding.
3. All the departments of Bangladesh bank head office and its nine branch offices have already been brought under a computer network (LAN/WAN), connecting almost 3100 PCs.
4. Implementation of Bangladesh Automated Cheque Processing System (BACPS), Bangladesh Electronic Fund Transfer Network (BEFTN), Enterprise Resources Planning (ERP).
5. Credit Information Bureau online facilities.
6. Enterprise Data Warehouse (EDW) for an electronic data bank.
7. Bangladesh Bank with his network package is now activated on web based e-tendering system.
8. E-recruitment, online salary and other necessary advice, personal file updated information, office orders, notifications online balance statements for all members employee of BB, electronic pass for visitors and such many are instantly available.

Bangladesh bank has enhanced the product line under its green banking scheme from 6 to 47 and segregated these products into 10 categories which are: Renewable Energy, Energy Efficiency, Solid waste Management, Liquid Waste Management,



Alternative Energy, Fire Burnt Brick, Non Fire Block Brick, Recycling and Recyclable Product, Green Industry and Miscellaneous.

**Banks’ in House Green Activities**

- Use of online communications in the best possible manner
- Use of papers on both sides for internal use
- Efficient use of printer cartridges, photo copy toner, office stationary, etc.
- Sharing electronic files, voice mail and e-mail instead of paper memos.
- Using energy saving equipments.
- Using more daylight instead of electronic bulbs and proper ventilation instead of air conditioning.
- Common use of table stationeries instead of individual use

**Commercial Bank’s Activities**

Policy formulation and governance:

1. 47 banks formed green banking unit (GBU) for green banking activities
2. 44 banks have green office guides for in-house green activities

**Green Finance**

Green Finance combines both direct and indirect green finance. Source’s of bank’s direct green finance may be bank’s own funds or BB’s fund for renewable energy and environment friendly projects. Indirect green finance means financing the projects having ATP or alike systems.

Bank’s direct green finance activities includes:

- a) Solar panel
- b) Solar driven ATM booth
- c) Effluent treatment plant
- d) Bio gas driven irrigation plant
- e) Bio gas driven stove
- f) Automatic brick manufacturing plant reducing carbon-di- oxide

Bank’s indirect green finance includes:

- a) Bank finance for the textile factory having Effluent Treatment Plant (ETP)

**Climate Risk Fund**

Banks’ climate risk fund covers their part of CSR activities as green event or green projects related to climate change risk. Banks have utilize tk 258.89 million in 2012 for their climate risk fund.

Bank Category	Budget Allocation	Budget Utilization
SCBs	415.00	24.61
PCBs	1283.15	219.70
FCBs	17.00	14.58
SDBs	430.20	0.00
Total	2145.35	258.89

**Online, Internet and SMS Banking**

Access to online banking service for the customers is expanding day by day along with the increase in number of branches with online coverage and accounts facilitated with internet and SMS banking.

Type of banks	Total number of branches	Number of Branches with Online Banking Facilities	% of Branches with Online Banking Facilities
SCBs	3482	177	5.08
PCBs	3378	3116	92.24
FCBs	75	75	100
SDBs	1457	77	5.28
Total	8392	3445	41.05



### Major Green Banking Activities at a Glance

- 47 banks have introduced a Green Office Guide
- EnvRR has been done for 12088 projects
- 11165 rated projects have been financed
- 37 banks are fully automated
- 703633.21 million taka has been disbursed
- 11165 rated projects have been financed
- 214 branches and 161 ATM/SME unit offices are powered by solar energy
- 3445 branches have been facilitated with online coverage
- Tk 270921.53 million has been disbursed as green finance
- Tk 258.89 million has been utilized from climate risk fund
- Tk 90.42 has been utilized for green marketing, training and development

### Future Challenges

1. Coordination among all the concerned authorities for a green economy
2. Speeding up proper awareness and effective capacity building
3. Immediate concentration on sectoral lending policies and procedures
4. Need for applying a quantitative approach for a major justified environmental risk rating (EnvRR) which is now on the basis of the Environmental Due Diligence (EDD) Checklist under Subjective Criterion.
5. Awareness of the top management

### Recommendation and Conclusion

Though green banking is a comparatively new concept, but it is very helpful for sustainable development. Banks in Bangladesh continuously working on green banking policy to make themselves more responsible corporate citizen. As the consumers are becoming more concerned about the environment and they are realizing that bank can play a major role by stop investing in environmentally hazardous projects, inaction from the side of bank may deteriorate its brand value. Some important factors should be considered by Bangladesh bank and other commercial banks. These includes:

- a. Bangladesh bank should explain the economic benefits of green banking to the commercial banks in detail
- b. It should also remind the legitimate power it has as a stakeholder of the banking sector and should apply as the last resort to enforce green banking completely
- c. Commercial banks should promote its green banking activities to attract environment conscious customers and also to aware stakeholders that it is fully committed to the environment of the country
- d. Commercial banks should make all the steps to make all the branches as green branches by establishing solar panel, fully fledged internet and paperless banking etc
- e. Employees should be properly trained about green banking in terms of green banking loan, internal green environment, etc.
- f. It should develop green fund portfolio for the environmentally friendly projects with a lower interest rate
- g. Commercial banks should have close monitoring on the projects operated under green funding to ensure commercial viability as these kinds of projects have a significant failure rate

Green banking is a major issue and can take important role for development of our country. Bangladesh is one of the severely affected countries of global environmental pollution. In order to protect our future generation, we need to create pressure on global community to reduce global carbon dioxide emission.

All the commercial banks should accept and implement green banking policies and make this world livable for future generation.

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