Green banking in Bangladesh: Synchronous metamorphosis in banking action

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1 INTRODUCTION
This universe is has numerous planets. But our beloved Earth is the only place where life could take place. This is the place where life can survive in green environment. Plants are responsible for it. And thus we have the ecology that inhabits both plant and animal. But due to destructive activities of man as well as their strong tendency to grasp the nature, the color of our environment is becoming faded and the bio-diversity, residing there, is becoming eliminated. Because of the emission of Carbon in density and due to green house affects, the temperature of the whole world is increasing day by day. As a result, every year we are facing cyclones, floods, long Drought, and many other natural disasters. To come out from this hazardous situation, the Green Banking active ties taken by millions of banks of the world may play a vital role. Banking sectors are the main source of money for different commercial projects and those are working in Bringing the economic development of a country. Green banking is nothing but the operation of the banking activities giving especial attention upon the social, ecological and environmental factors aiming at the conservation of nature and natural resources. Green bank promotes environmental and social responsibility but operates as a traditional community bank providing excellent services to investors and clients.

2 REVIEW OF RELATED LITERATURE
Md. Maruf Ullah found that Bangladesh as one of the least developed countries is the worst sufferer of world environmental pollution through industrialization of the eastern countries. Under such extreme environment threat, the financial sector of Bangladesh is playing a key role as one of the important stake-holders of the economy enforcing the businessmen/ industrialists of the country to design their various strategy/action plans keeping in mind the crucial environmental issues. 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-owned Commercial Banks (SCBs), State-owned 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.

Md. Touhidul Alam Khan wrote an article on Green Banking: Go green, Think green. In his article he said that “in a word, we can say that green banking refers to the attempt of the banking sector to consider social, ecological and environmental factors with an aim to protect the environment and conserve natural resources”. The banking sector plays a major role in financing investment for commercial projects, which is one of the most important economic activities for economic growth. Hence, by taking various measures to save the environment, the banking sector can play a crucial role in promoting environmentally sustainable and socially responsible investment. As such, Green Banking is also known as Ethical Banking and Sustainable Banking. The purpose of Green Banking initiatives taken by central bank is to ascertain required measures to save the environment and reduce pollution while serving or financing customers and improve in-house environment management through efficiency and effective use of resources in all the branch and head offices of banks.
Bangladesh Bank is well aware of the environmental degradation situation and has already given time-to-time directions to all scheduled banks. Commercial Banks are now required to ensure necessary measures to protect environmental pollution while financing a new project or providing working capital to the existing enterprises. Banks have been advised to facilitate their clients with utmost care financing for installation of Effluent Treatment Plant (ETP) in the industrial units and to finance in Solar Energy, Bio-gas, ETP and Hybrid Hoffman Kiln (HHK) in brick field under refinance program of Bangladesh Bank. Green Economy is one whose growth in income and employment is driven by public and private investments that reduce carbon emissions and pollution, enhance energy and resource efficiency, and prevent the loss of biodiversity and ecosystem services. These investments need to be catalyzed and supported by targeted public expenditure, policy reforms and regulation changes. This is why Green Banking initiatives by all banks are a moral obligation to save the people. And the time has come for all lenders to “go green” and “think green” by setting their mindset taking remarkable footsteps through successful green banking initiatives. Khondokar Morshed Millat had a study on Green Banking in Bangladesh Fostering Environmentally Sustainable Inclusive Growth Process. They said that Bangladesh is perusing low-carbon green development without compromising the imperative of faster economic growth and social development. Development strategies of the Government of Bangladesh laid down in the perspective plan (2010-2021) and the Sixth Five Year Plan (FY 2011-15) declare clear commitment of pursuing sustainable growth. The country’s vulnerability to floods, cyclones and to the threat of inundation of large coastal areas from global warming driven sea level rise makes sustainability a prime development concern. Financial practices can crucially influence the speed of adaptation of environmentally sustainable output practices in the real economy. Aware of its responsibility practices in the financial sector, Bangladesh Bank, the central bank of Bangladesh, has spearheaded adaptation and promotion of green ban banking practices throughout the financial sector, towards safeguarding environmental sustainability. As a regular financial sector, the central bank already proceeded a long way in implementation green banking. Banks in Bangladesh have enthusiastically responded to Bangladesh Bank’s guidance towards green banking, with steps in environmentally responsible financing that are beginning to make profound impact on environmental practices in the real economy.

The central bank issued policy guidelines for green banking on February, 2011. According to the guidelines, all operating banks and financial institutions need to take effective measures to conduct environment friendly banking activities in the country. Bangladesh Bank has also issued a common reporting format to all the commercial banks to report green banking activities including the extent of carbon footprint in a structured way. Banks and financial institutions now regularly submit a quarterly report to Bangladesh Bank on their performance of green banking activities.

3 OBJECTIVES OF THE STUDY

The major objective of the study is to analyze the prospects of green banking in Bangladesh. But the specific Objectives of the study are to promote green banking among beneficiaries and in the banking sector. In particular, it is aimed to:

1. To study management of environmental risk and identify opportunities for innovative environment friendly financial products.
2. To study environmental and control regulations regarding green banking in Bangladesh.
3. To design proper environmental management system in the investment projects.
4. To create financial products and services that support commercial development with environmental benefits.
5. To emphasize more on environment conservation than on profit maximization.
6. To utilize resources properly so that excessive pressure on nature could be avoided.
7. To built an environment friendly banking system.

4 METHODOLOGY OF THE STUDY

This article is mainly based on secondary data collected from several reliable sources. The sources of secondary data are annual reports of Bangladesh Bank and various Commercial Banks, and
related articles etc. A thorough research was carried out for a period of four months when we communicated with several bank managements and finally this article is chalked. The findings will be helpful for the readers and researchers.

5 RESULTS AND DISCUSSION

Normally Green Bank is an ethical bank, also known as a social, alternative, civic, or sustainable bank, is a bank concerned with the social and environmental impacts of its investments and loans.

5.1 GREEN BANK IS

- an ethical bank
- a socially responsible bank
- a sustainable bank

5.2 BANKS GREEN BANKING ACTIVITIES

According to Bangladesh Bank green banking activities are organized by following steps.

- Policy Formulation & Implementation
- Budget Allocation & Utilization
- Green Banking Unit Formation
- Environmental Risk Rating
- Green Financing
- Climate Risk Fund Utilization
- Green Marketing and Capacity Building
- Online Banking
- In-house Environment Management
- Sector Specific Environmental Policy
- Green Strategic Planning
- Environmental Risk Management Plan
- Disclosure and Reporting

GREEN BANKING ACTIVITIES

Green Banking activities in Bangladesh are regulated and scrutinized by Bangladesh Bank. Other banks must submit a report about their green banking activities to the BB. Basically, the activities either Bangladesh Bank or Commercial banks are divided into two ways; Green banking activities in house or other than house.
5.2.1 POLICY FORMULATION & GBU FORMATION
Bans have formulate a policy by its senior executives to regulate their activities e.g. Exim Bank made a policy as per clause # 1.1 of BRPD circular # 2 dated 27/02/2011 as well as they made a special unit. 41 banks have formulated Green Banking Policy till 2012. 6 banks are yet to formulate policy for Green Banking 1.Rupali Bank Ltd, 2. National Bank Ltd, 3. Brac Bank Ltd, 4. Habib Bank Ltd., 5. Citibank N.A., 6. Bank Alfalah Limited. 45 banks have established Green Banking Unit (GBU) and 2 banks are yet to establish Green Banking Unit (GBU) Habib Bank Ltd and Citibank N.A.

5.2.2 BUDGET ALLOCATION AND UTILIZATION

BUDGET ALLOCATION
- Budget for Green Finance
- Budget for Climate Change Risk Fund
- Budget for Marketing & Capacity Building for Green Banking

Source: Analysis of Secondary Data
It is clear that Exim Bank is ahead regarding budget allocation contributing around 2600 million BDT. Agrani Bank is the lowest participator.
5.2.3 GREEN BANKING UNIT FORMATION

Every bank has to make a proper unit with top level management. The committee is responsible for reviewing the bank’s environmental policies, strategies and program.

5.2.4 ENVIRONMENT RISK RATING (ENVRR)

It is found that the budget for ENVRR has been drastically increased during last year. EnvRR has been done for 3703 projects only for April to June 2012.

<table>
<thead>
<tr>
<th>Up to March 2012</th>
<th>April - June 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>EnvRR has been done for 7165 projects</td>
<td>EnvRR has been done for 3703 projects</td>
</tr>
<tr>
<td>6896 projects have been financed by banks</td>
<td>3966 projects have been financed by banks</td>
</tr>
<tr>
<td>Banks have disbursed Tk. 50,455.71 million for these projects</td>
<td>Banks have disbursed Tk. 28,900.364 million for these projects</td>
</tr>
</tbody>
</table>

5.2.5 GREEN FINANCE

BUDGET ALLOCATION & UTILIZATION

It may be mentioned here that Banks have already used/utilized a considerable amount of fund in the sector. Banks are introducing Eco friendly business activities and energy efficient industries. Budget of green finance played a vital role which is proved by the following table.

<table>
<thead>
<tr>
<th>Bank Category</th>
<th>Budget Allocation</th>
<th>Budget Utilization(April – June ‘2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCBs</td>
<td>500.00</td>
<td>9.56</td>
</tr>
<tr>
<td>PCBs</td>
<td>8581.54</td>
<td>1555.35</td>
</tr>
<tr>
<td>FCBs</td>
<td>1017.70</td>
<td>38.00</td>
</tr>
<tr>
<td>SDBs</td>
<td>1250.00</td>
<td>206.46</td>
</tr>
<tr>
<td>Total</td>
<td>11349.24</td>
<td>1809.36</td>
</tr>
</tbody>
</table>

Source: Bangladesh Bank

5.2.6 CLIMATE CHANGE RISK FUND

The Climate Change Risk Fund will cover
(i) Fund for part of CSR activities (event) that are related to Climate Change Risk/Condition and
(ii) Fund for part of CSR activities (project) that are related to Climate Change Risk.

Climate Change Risk Fund may be required for the banks as part of their CSR activities that relate to climate change conditions.

Climate Change Risk Fund as part of CSR activities may also be required for precautionary measure for possible safeguards and mitigating hazards due to climate change.

<table>
<thead>
<tr>
<th>Bank Category</th>
<th>Budget Allocation</th>
<th>Budget Utilization(April – June ‘2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCBs</td>
<td>15.00</td>
<td>0.00</td>
</tr>
<tr>
<td>PCBs</td>
<td>1243.10</td>
<td>90.75</td>
</tr>
<tr>
<td>FCBs</td>
<td>16.30</td>
<td>0.02</td>
</tr>
<tr>
<td>SDBs</td>
<td>430.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total</td>
<td>1704.40</td>
<td>90.77</td>
</tr>
</tbody>
</table>

Source: Bangladesh Bank
5.2.7 MARKETING, TRAINING & DEVELOPMENT

In the previous year Prime Bank allocated their budget in the highest amount as we are seeing they allotted 167.98 million BDT. The total allocation was

<table>
<thead>
<tr>
<th>Bank Category</th>
<th>Budget Allocation</th>
<th>Budget Utilization(April – June)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCBs</td>
<td>10.00</td>
<td>0.00</td>
</tr>
<tr>
<td>PCBs</td>
<td>167.98</td>
<td>24.95</td>
</tr>
<tr>
<td>FCBs</td>
<td>33.28</td>
<td>0.83</td>
</tr>
<tr>
<td>SDBs</td>
<td>20.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total</td>
<td>231.25</td>
<td>25.78</td>
</tr>
</tbody>
</table>

Source: Bangladesh Bank

5.2.8 ONLINE BANKING

Banks are giving more emphasis to make the easiest way to help environment by eliminating paper waste, saving gas and carbon emission, reducing printing costs and postage expenses. Thus most of the banks are completing their works by online banking services. By this way banks can be more savings oriented and the customers are getting better service. Summary of the online banking activities in Bangladesh are as follows:

- 3967 no. of branches out of 8059 (38.03%) are equipped with online banking services.
- 38 banks are fully automated and offering online banking services in each of their branches.
- 91.50% of the total branches of PCBs have been brought under online banking coverage.
- 7.19% of SCBs branches are facilitated with online banking coverage.
- All the branches of FCBs are providing with online banking services.

<table>
<thead>
<tr>
<th>Type of Banks</th>
<th>Total number of Branches</th>
<th>Number of branches with Online banking facility</th>
<th>% of branches with Online facility</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCBs</td>
<td>3442</td>
<td>189</td>
<td>5.49%</td>
</tr>
<tr>
<td>PCBs</td>
<td>3188</td>
<td>2917</td>
<td>91.50%</td>
</tr>
<tr>
<td>FCBs</td>
<td>74</td>
<td>74</td>
<td>100.00%</td>
</tr>
<tr>
<td>SDBs</td>
<td>1415</td>
<td>49</td>
<td>3.46%</td>
</tr>
<tr>
<td>Total</td>
<td>7998</td>
<td>3042</td>
<td>38.03%</td>
</tr>
</tbody>
</table>

5.2.9 INTERNET AND MOBILE/SMS BANKING

This sector is relatively new era in the third world countries like Bangladesh. Although, it is newer but it has a lot of great achievements in its notebook.

<table>
<thead>
<tr>
<th>Type of Banks</th>
<th>% of accounts facilitated with Internet banking</th>
<th>% of accounts facilitated with banking Mobile/SMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCBs</td>
<td>0.00%</td>
<td>0.06%</td>
</tr>
<tr>
<td>PCBs</td>
<td>1.39%</td>
<td>1.37%</td>
</tr>
<tr>
<td>FCBs</td>
<td>52.61%</td>
<td>43.23%</td>
</tr>
<tr>
<td>SDBs</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

Source: Bangladesh Bank

5.2.10 BANKS’ IN-HOUSE GREEN ACTIVITIES

Strategy of reuse, recycling of materials and equipments, and source reduction and waste minimization strategy should be part of in-house environmental management. In house green activities includes-

- Common use of table stationeries instead of individual use
• Use of paper on both sides for internal consumption
• Introduction of e-statement for customers instead of paper statements
• Use of online communication in the best possible manner
• Using more daylight instead of electric lights and proper ventilation in lieu of using air conditioning
• Using energy saving bulbs
• Use of Eco Font for printing light impression on both sides of the paper
• Setting defaults like “Thinking twice before printing.”, “Printing only it really needs”, “Please check your environmental responsibility” etc. in email correspondences
• Video/Audio conference in lieu of physical travel
• Conversion of Bank’s vehicles (pool) 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
• Use of solar energy/ renewable energy sources
• Efficient use of electricity, gas and water

**Some Green Banking Slogans of Banks**
- Save paper, save trees
- Conserve energy, conserve natural resources
- Pay your bills online
- Turn off the tap when not needed
- Always use a cloth bag
- Reduce, reuse and recycle
- Digitize yourself
- Think before you press the button
- Everything has two sides
- Be paperless- kick the habit
- Use car pools to go to work
- Unplug electronic devices while not in use

### 5.2.11 SECTOR SPECIFIC ENVIRONMENT POLICY

Banks have formulated strategic design for specific policies for different environmental sensitive sectors such as Agriculture, Agri-business (Poultry & Dairy), Agro farming, Leather (Tannery), Fisheries, Textile and Apparels, Renewable Energy, Pulp and Paper, Sugar and distilleries, Construction and Housing, Engineering and Basic Metal, Chemicals (Fertilizers, Pesticides and Pharmaceuticals), Rubber and Plastic Industry, Hospital/Clinic, Chemical Trading, Brick Manufacturing, Ship breaking etc.

<table>
<thead>
<tr>
<th>Type of Banks</th>
<th>Formulation of Sector Specific Policy</th>
<th>Formulation of Strategic Planning</th>
<th>Formulation of Green Environment Policy</th>
<th>Formulation of ERM Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCBs</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>PCBs</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>FCBs</td>
<td>2</td>
<td>0</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>SDBs</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>4</td>
<td>6</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bangladesh Bank

The aim of Green Banking can be reflected through taking a work plan to bring changes in six main spheres of whole banking activities. Banks should be promised in bringing such changes.
5.2.12 GREEN STRATEGIC PLANNING

- Green Banking is a never ending process and banks are required to set green strategic planning up to 2013 and beyond.
- Vision and Mission for Green Banking covering both in-house green banking activities and green banking activities other than in-house.
- Formulation policy for proper selection of unit/project and location under different categories, proper analysis of Environmental Risks and concentration therein as per ECA 1995, ECR 1997, ERM and Green Banking guidelines and other relevant instructions issued time to time.
- Preparing sector specific environmental guidelines taking ECR 1997, EDD checklists and current environmental and climate change condition into consideration. Banks will prepare sector specific environmental guidelines only for the sectors covered in the respective bank’s portfolio.
- Policy decision (Y/N) to finance in the red category. Detailed review for a decision to finance in the red category.
- Policy for procurement and effective utilization of energy efficient products, electronic compliances, motor vehicles etc. for eco friendly atmosphere
- Automation and Improved in house green activities need to be carried on.
- Required and Rigorous Training program for Top/mid and lower level Management and at the same time clients as well.
- Board/Competent authority should be aware and updated of the current green banking activities.

5.2.13 DISCLOSURE & REPORTING

Banks have to submit their reports to the Bangladesh Bank according their working range around the year. Normally data are available on their websites. Some could submit their report quarterly, half yearly but at the final stage they have to submit their yearly reports over viewing their activities.

6 MAJOR GREEN BANKING ACTIVITIES AT A GLANCE IN BANGLADESH

- 41 banks have formulated policy for green banking.
- 45 banks have formed a Green Banking Unit.
- 41 banks have introduced a Green Office Guide.
- EnvRR has been done for 7165 projects up to March 2012.
- EnvRR has been done for 3703 projects during April-June 2012.
- 6896 rated projects have been financed up to March 2012.
- 3966 rated projects have been financed during April-June 2012.
- 504557.61 million taka has been disbursed up to March 2012.
- 289003.64 million taka has been disbursed during April-June 2012.
- 185 branches/SME unit offices are powered by solar energy (up to March 2012).
- 37 banks are fully automated (up to March 2012).
- 38 banks are fully automated (as of June 2012).
- 3042 branches have been facilitated with online coverage (up to March 2012).
- 5 banks have utilized Tk. 90.77 million from Climate Change Risk Fund (during 2nd quarter, 2012).
- Banks have financed Tk. 1811.26 million as Green Finance other than projects having ETP (during 2nd quarter, 2012)
- Banks have financed Tk. 62026.47 million as Green Finance.

7 CHALLENGES AHEAD

Bangladesh Bank Has identified some challenges for the new term “Green Banking”
SIX MAJOR CHALLENGES

- Coordination among all the concerned authorities for a green economy
- Proper awareness and effective capacity building
- Immediate concentration on sectoral lending policies and procedures
- Need for applying a quantitative approach for a more justified rating
- Shifting of different categories of industry (such as, Garments, Textiles and Tannery etc.) to a proper location.
- Awareness of the Top Management

8 RECOMMENDATIONS

Some recommendations can be given for the betterment of their effort. As the banks are enthusiastic about it and want to improve their green banking strategies they should follow the steps mentioned beneath:

- Need to apply Green Banking and use ERM guideline in an efficient manner.
- Develop a culture within the organization based on environmental governance.
- Replicate global as well as local best practice.
- Share knowledge and technical knowhow with peer groups.
- Further integration with Credit Risk Management in the overall Credit Risk methodology.
- Apply a quantitative approach for Environmental Risk Rating.
- Need to develop a database for technical assistance/issues.

9 ENDING REMARKS

Every state and commercial banks are trying to be the third generation banks with their strategies. They are implementing their eagerness with the outlook of green banking. Bangladesh Bank has issued different circulars to modernize green banking practices. If every bank accumulate their work effort into a distinct circle so that we can assure better residence for our next generation it will save our philosophy and the world created by our own labor will be more suitable to live. It will save our land as well as our earth from being perished and make our economy stronger.

10. REFERENCES