

## “Green Banking practices and its present scenario in Bangladesh”

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**Abstract:** In economic system one of the most important elements is the role of bank. Banking activities greatly influence the operation of other business firms and industries. Due to environmental issue green banking initiatives are practiced by developed countries from long ago by following the slogan “Be green, Go green”. Developing countries like Bangladesh also responding to protect environment and adopt green banking policy. This study presents the current scenario of green banking practices by examining annual report (2015-2016) of Bangladesh Bank, reports of State-Owned Commercial Banks (SCBs), State-Owned Specialized Development Banks (SDBs), Public Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs), and green banking policy and guideline introduced by Bangladesh Bank. The result shows that Bangladesh is now at very early stage to implement green banking services. Public Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs) are performing well than State-Owned Commercial Banks (SCBs), State-Owned Specialized Development Banks (SDBs) in providing green banking services in Bangladesh.

**Key Words:** Developing Countries, Economic System, Green banking, Green Finance.

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Date of Submission: 05-03-2018

Date of acceptance: 23-03-2018

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### I. Introduction

Global warming is an alarming issue all over the world. Because of environment pollution world becomes warmer day by day and causes many destructive natural disasters that ultimately a massive threat to human being as well as planet. In recent years green banking concept get familiarity in Bangladesh though developed countries practiced it many years ago. Financial activities of banks play vital role to build sustainable development. The term green banking usually indicates that the financial activities of banks giving attention upon the social, ecological and environmental factors to conserve nature and natural resources which is also known as ethical banking or sustainable banking. The aim of green banking initiatives is to protect environment. Banks can accomplish this by being environmental friendly as well as examining several factors before investing money. Banks by themselves can be green by reducing carbon footprint from banking activities. No doubt that for our future sustainability green banking is obligatory. Concerning to protect environment, in 2011 Central Bank of Bangladesh introduced a green banking guideline. After that different types of banks respond to this guideline enthusiastically and took green banking initiatives and launch innovative green products (Millat, 2012). Green banking initiatives also promote corporate social responsibility of the banks.

### II. Methodology Of The Study

The investigation of this study mainly based on secondary data which is collected from several sources such as annual report of different kinds of private banks, state owned commercial banks, foreign commercial banks, green banking policy of Bangladesh Bank, journals, newspapers, websites and related articles. The researchers did not conduct any survey or interview to examine the current green banking practices of banks in Bangladesh. Microsoft word and Excel were used to prepare and present the data.

### III. Objectives Of The Study

The main objective of this study is to analyze green banking practices in Bangladesh. The secondary objectives of this study are following:

- To compare among different kinds of banks regarding their green banking initiatives.
- To identify the areas where green banking activities are practiced by banks in Bangladesh.
- To examine green banking services launched by banks in Bangladesh.

#### **IV. Literature Review**

Global environmental crisis is an alarming issue which cannot be overlooked. As part of the society, the companies need to do business contributing to the economy in such a way so that they don't harm the environment. Since banking sector is a major part of the economy, the liability of doing something for the environment also should be accepted by the banks.

As one of the least developed countries Bangladesh is the worst sufferer of world environmental pollution through industrialization of the western countries (Ullah, 2013). 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 (Ullah, 2013).

Realizing the intensity of environmental crisis banks are adopting new and improved ways of doing business trying to minimize threats to the environment. The concept of green banking is the result of banks initiative to protect the environmental degradation.

Green banking emerged from the idea of doing banking activities in a sustainable way so that the banks can make profit properly utilizing the advantages of technology. Green Banking is defined as promoting eco-friendly banking practices and reducing emitted carbon mark from banking activities (Islam, 2015).

According to Bangladesh Bank Annual report (2016-17), Green banking 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. Bangladesh is in need of proper adaptation and utilization of green banking.

According to (Rahman, 2013), to adopt green banking, banks should adopt technology, process, and products which result in substantial reduction of their carbon footprint as well as develop sustainable business.

Banks can be green through bringing changes in six main spheres of banking activities, those are Change in Investment Management, Change in Deposit Management, Change in House Keeping, Change in the Process of Recruitment and Development of Human Capital, Corporate Social Responsibility (CSR), and Making Consciousness among Clients and General Mass (Rahman, 2013). In order provide green banking services to the customers, banks should adopt such changes in effective and efficient manner.

Shaumya & Arulrajah (2017) explained green banking approach involves using environment friendly practices at every level from adapting environment friendly practices within the banking organizations and also considering the environmental aspect of the projects while funding and investing in commercial projects. The green banking practices can be considered as good evidences to prove that, banks are very keen in reducing their carbon footprint and energy consumptions. It is seen that banks around the world have started giving high priority and attention to green banking (Shaumya & Arulrajah, 2017).

Ullah(2013) indicated green Banking involves pursuing of financial and business policies that are not hazardous to environment and help to protect environment. He also stated that the purposes of Green Banking are to use resources with responsibility avoiding waste and giving priority to environment and society.

According to Bangladesh Bank (BB) policy guidelines for green banking (2011), Banks have been advised to facilitate their clients with utmost care in opening Letter of Credit (L/C) for installation of Effluent Treatment Plant(ETP) in the industrial units also Banks have been advised to finance in Solar Energy, Bio-gas, ETP and Hybrid Hoffman Kiln (HHK) in brick field under refinance programme of BB. Green banking Services like mobile banking, online banking are getting popular gradually in Bangladesh. These services are not only helping the people but the saving the environment as well.

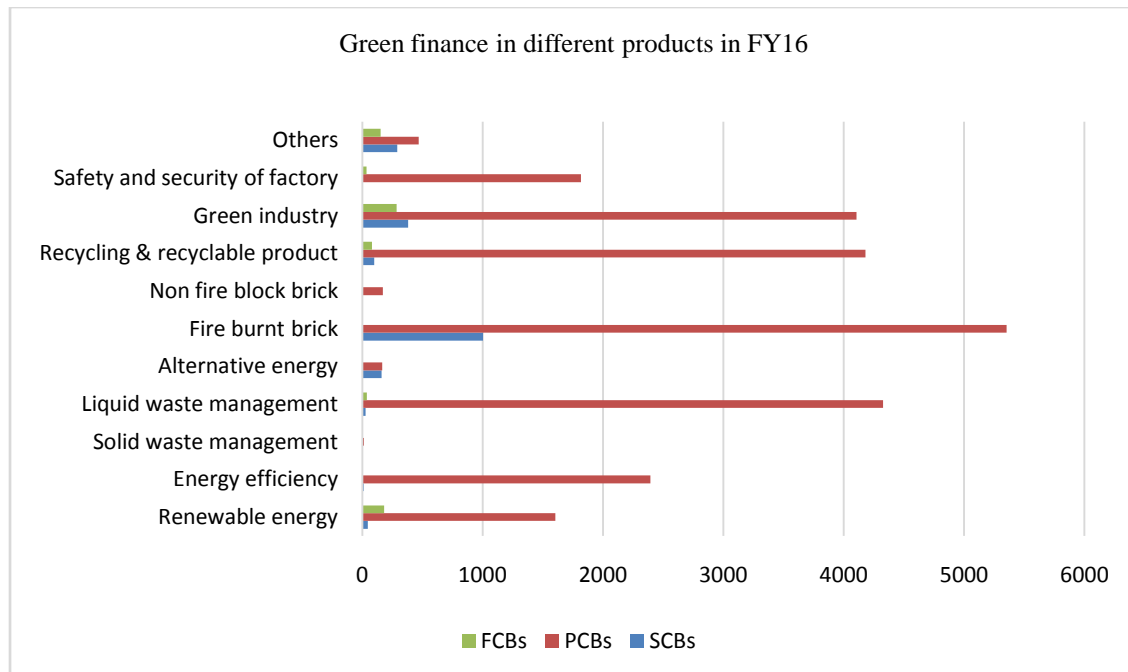
**V. Analysis & Findings**

To analyze the present scenario of green banking practices in Bangladesh annual report of Bangladesh Bank (2015-2016) and reports by State-Owned Commercial Banks (SCBs), State-Owned Specialized Development Banks (SDBs), Public Commercial Banks (PCBs), and Foreign Commercial Banks (FCBs) were taken into consideration. Based on different categories the findings are shown using tables and charts.

**Table 1** Green finance in different products in FY16

(million Taka)				
Category of green finance	SCBs	PCBs	FCBs	Total
Renewable energy	44.4	1605.0	182.0	5495.7
Energy efficiency	10.1	2394.3	0.6	2530.3
Solid waste management	0.0	12.2	0.0	12.2
Liquid waste management	26.3	4326.5	36.2	4838.0
Alternative energy	160.0	164.8	0.0	334.0
Fire burnt brick	1003.8	5353.9	0.0	7157.9
Non fire block brick	0.0	169.8	0.0	209.8
Recycling & recyclable product	99.1	4179.6	80.0	4877.4
Green industry	380.0	4106.2	283.6	5025.8
Safety and security of factory	0.0	1817.1	34.8	1947.4
Others	290.1	467.9	151.7	929.6
<b>Total</b>	<b>2013.7</b>	<b>24597.4</b>	<b>768.8</b>	<b>33358.2</b>

Source: Bangladesh Bank Annual Report 2015-2016



**Fig 1** Green finance in different products in FY16

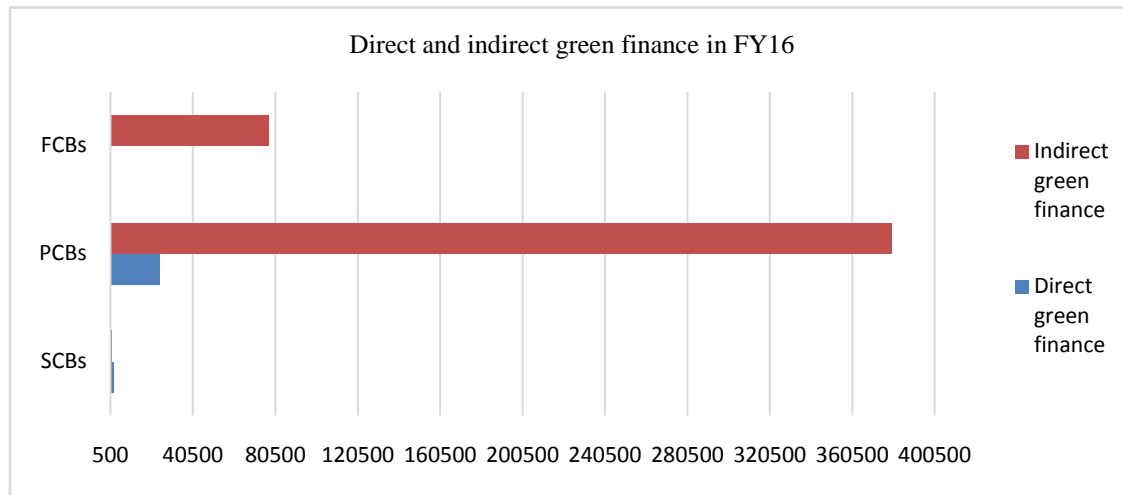
Table 1 shows green finance in different products by State –Owned Commercial Banks (SCBs), Public Commercial Banks (PCBs), and Foreign Commercial Banks (FCBs). Green finance is investment in eco-friendly ventures. Banks in Bangladesh are engaging more in green financing. The figure implies Public Commercial Banks (PCBs) spend highest amount on Fire burnt brick, Foreign Commercial Banks (FCBs) spend

more on Green Industry whereas State –Owned Commercial Banks (SCBs) spend highest amount on Fire burnt brick. Fire burnt brick gets the highest priority both by PCBs and SCBs.

**Table 2** Direct and indirect green finance in FY16

Type of banks/NBFIs	(million Taka)			
	Direct green finance	Indirect green finance	Total green finance	Sector wise contribution
SCBs	2013.7	1234.5	3248.2	0.6
PCBs	24597.4	379887.5	404485.0	80.4
FCBs	768.8	77547.3	78316.1	15.6
Total	33358.2	469863.1	503221.3	100.0

Source: Bangladesh Bank Annual Report 2015-2016



**Fig 2** Direct and indirect green finance in FY16

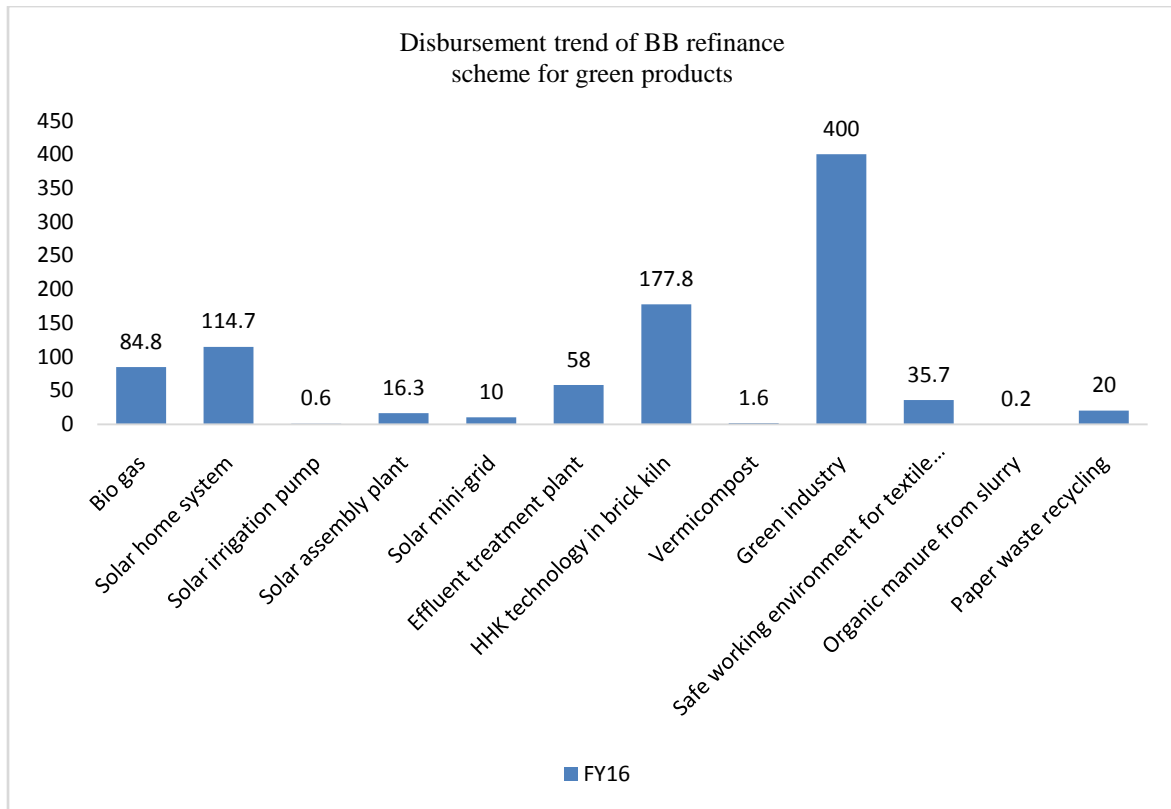
Table 2 shows Direct and indirect green finance in FY16 by different banks in Bangladesh. It is visible from the chart that Public Commercial Banks (PCBs) are spending more on indirect green finance and direct green finance. Foreign Commercial Banks (FCBs) are in the second position in terms of spending on indirect green finance. State –Owned Commercial Banks (SCBs) should increase their participation on indirect green finance and direct green finance.

**Table 3** Disbursement trend of Bangladesh Bank (BB) refinance scheme for green products

Green Product Category	(million Taka)	
	FY16	
Bio gas	84.8	
Solar home system	114.7	
Solar irrigation pump	0.6	
Solar assembly plant	16.3	
Solar mini-grid	10	
Effluent treatment plant	58	
HHK technology in brick kiln	177.8	
Vermicompost	1.6	
Green industry	400	
Safe working environment for textile & garments industry workers	35.7	
Organic manure from slurry	0.2	
Paper waste recycling	20	

Total	919.7
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Source: Bangladesh Bank Annual Report 2015-2016



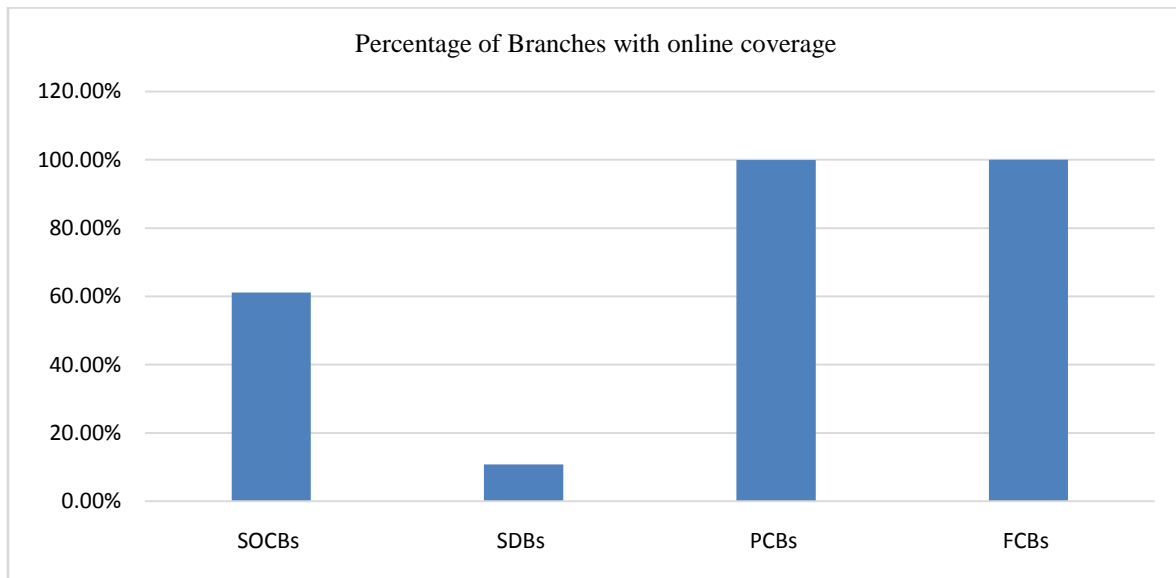
**Fig 3** Disbursement trend of BB refinance scheme for green products

Table 3 shows Disbursement trend of Bangladesh Bank refinance scheme for green products. According to (Speer, 2011) green products, services or practices allow economic development while conserving for future generations. He also added a green product is one that has less of an environmental impact or is less detrimental to human health than the traditional product equivalent. It is visible from the chart that, Green industry which refers projects that contribute in energy conservation, water management, and efficient usage of resources ranks at the top followed by Hybrid Hoffman Kiln (HHK) technology in brick kiln. HHK technology is used to produce brick that uses energy efficiently to reduce diverse effects to the environment. Other products should also get priority. Preferences should be given to environment friendly projects.

**Table 4** Online Banking

Type of Bank	No. of ATM (Own)	No. of ATM (Shared)	No. of Total Branches	No. of Branches with online coverage	% of Online Branches
SOCBs	178	13,173	3,726	2,279	61.16%
SDBs	0	1	1,410	152	10.78%
PCBs	8,517	70,215	4,552	4,551	99.98%
FCBs	175	4,207	72	72	100.00%
Total	8,870	87,596	9,760.00	7,054	72.27%

Source: Review Reports on Green Banking Activities of Banks & Financial Institutions and Green Refinance Activities of Bangladesh Bank, 2016



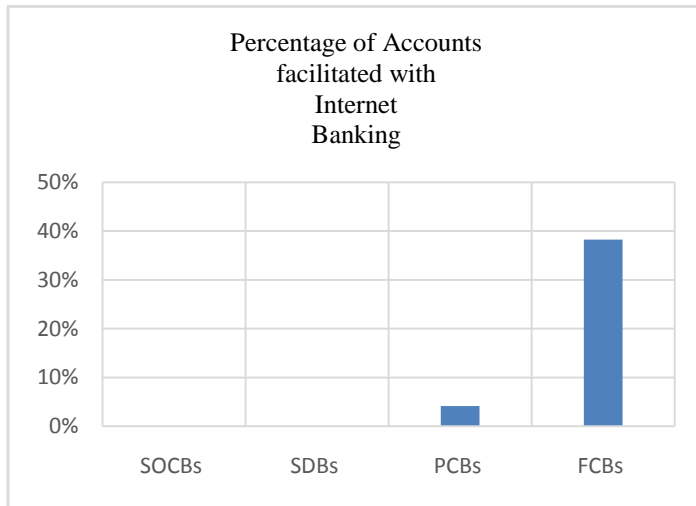
**Fig 4** Online Banking

Table 4 shows no. of Automated Teller Machine(ATM) owned and shared as well as no. of branches with online coverage by State-Owned Commercial Banks (SCBs), State-Owned Specialized Development Banks (SDBs), Public Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs). It is visible from the figure that Public Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs) have the highest number of online branches. Banks can reduce environment risk by establishing more branches with online coverage and ATM booths.

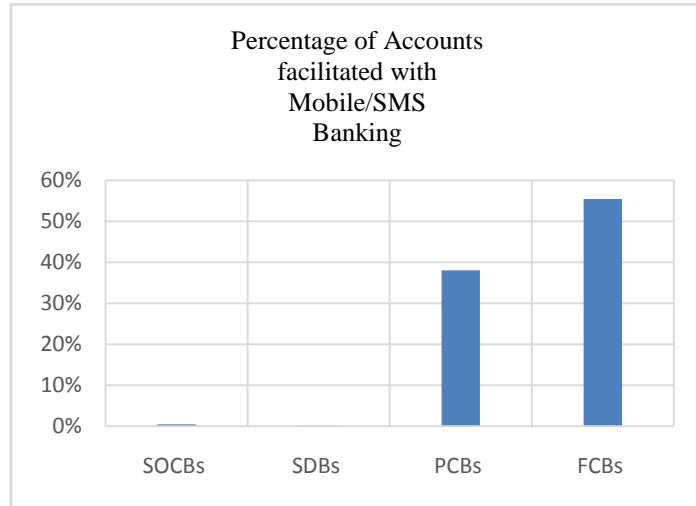
**Table 5** Internet and SMS Banking

Type of Bank	% of Accounts facilitated with Internet Banking	% of Accounts facilitated with Mobile/SMS Banking
SOCBs	0.00%	0.48%
SDBs	0.00%	0.13%
PCBs	4.15%	38.02%
FCBs	38.26%	55.47%
Total	2.03%	17.42%

Source: Review Reports on Green Banking Activities of Banks & Financial Institutions and Green Refinance Activities of Bangladesh Bank, 2016



**Fig 5a** Internet Banking



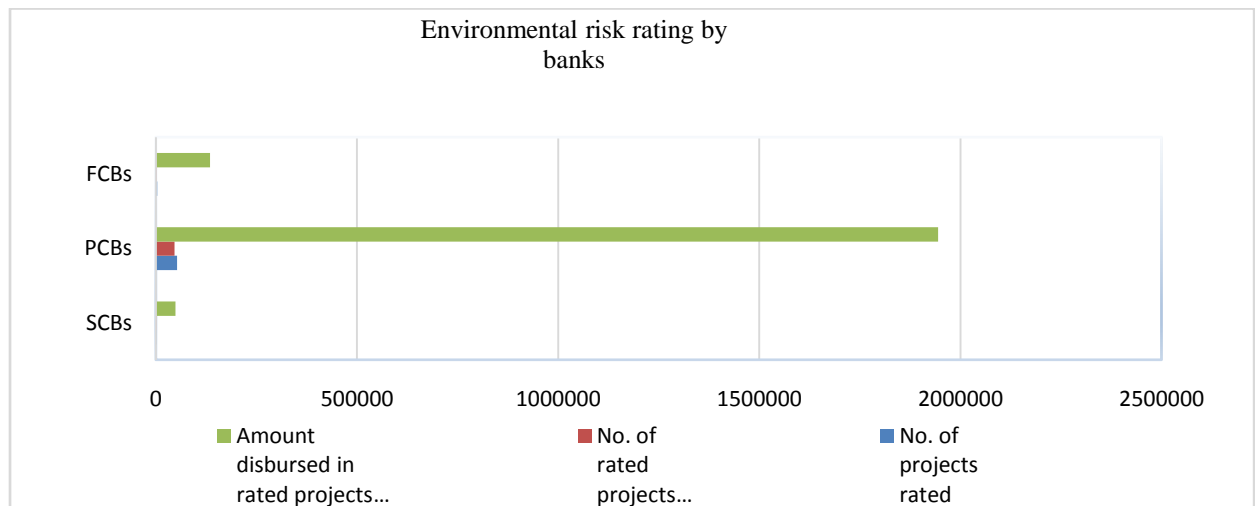
**Fig 5b** Mobile/SMS Banking

Table 5 shows no. of accounts facilitated by Internet and SMS Banking by State-Owned Commercial Banks (SCBs), State-Owned Specialized Development Banks (SDBs), Public Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs). It is visible from the figure that Foreign Commercial Banks (FCBs) has the highest number Accounts facilitated with Internet Banking and SMS banking as well. Public Commercial Banks (PCBs) are also providing Internet Banking and SMS/Mobile banking more than State-Owned Commercial Banks (SCBs) and State-Owned Specialized Development Banks (SDBs). Through Internet and SMS Banking banks facilitates their clients to view financial transactions using mobile, internet and digital technology.

**Table 6** Environmental risk rating of banks

Type of Bank	No. of projects rated	No. of rated projects financed	Amount disbursed in rated projects (million Taka)
SCBs	1967	1916	48404.3
PCBs	52182	46531	1944815.5
FCBs	2974	1717	134839.3
Total	57161	50214	2130413.2

Source: Bangladesh Bank Annual Report 2015-2016



**Fig 6** Environmental risk rating by banks

Table 6 shows Environmental risk rating by banks which presents no. of projects rated for environmental risk also projects financed and amount distributed in rated projects by FCBs,PCBs and SCBs. It is visible from the figure that PCBs distributed highest amount in rated projects. FCBs come second in the position. In terms of no. of projects rated and financed FCBs, PCBs, SCBs are in close proximity.

## VI. Conclusion

The economy of Bangladesh immensely depends on agriculture. A handsome part of our GDP is influenced by agriculture. High carbon emissions from developed countries causing global warming resulting huge changes in Climate. Changing of climate has already negatively affecting our agriculture as well as GDP by increasing frequency of flood, drought, excessive rain and cyclone. Global warming is also posing a threat to Bangladesh geographically. Average temperature increase due to global warming will cause loss of significant portion of our land due to rise of sea level in near future. So it is high time that we should take steps to lower carbon emission and establish progressively more green projects. One of the productive ways which was globally recognized and followed is introduction of green banking and funding on green projects. More likely green banking can aid Bangladesh to fight against global warming and lessen bad effects of climate change.

Banks in Bangladesh have already initiated various green banking actions and started practicing green banking on small level. They can encourage their clients to invest on different green projects such as solar power generation project, alternate power generation project, electricity through wind mill etc. Banks can familiarize and promote green banking initiatives as part of their CSR activities. Privilege during loan approval and concession on loan can be given to the clients upon their investments on green projects or carbon lowering actions. Bangladesh Bank has set mandatory rules and regulations for investment on green banking for all banks and they are bound to follow them strictly. State-Owned Commercial Banks (SCBs), State-Owned Specialized Development Banks (SDBs), Public Commercial Banks (PCBs), Foreign Commercial Banks (FCBs) should follow the rules and regulations of Bangladesh bank to implement green banking. This should be established considering that going green or practicing green banking and encouraging green projects will increase the brand value of banks which in turn will make them recognized globally.

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IOSR Journal of Business and Management (IOSR-JBM) is UGC approved Journal with SI. No. 4481, Journal no. 46879.

Asma Akter "“Green Banking Practices and Its Present Scenario in Bangladesh”." *IOSR Journal of Business and Management (IOSR-JBM)* 20.3 (2018): 69-76.