

Green Banking Practices in Bangladesh

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Abstract: This contribution basically focused the green banking practices in Bangladesh. This study is mainly based on secondary data discussing about the planning of the green strategic and implementation, the house activities, the activities of the mobile banking, the online banking activities, green financing, and some instructions for green banking practices. Green Banking is a modern concept of the banking business through considering the corporate social responsibility (CSR) as well as environmental issue. Nowadays, it is the most acceptable and popular practices of the green banking by banks because leads to competition of globally. On an average, bank is allocated Tk.2 billion for green banking in 2012. The concept of green Banking is relatively new in Bangladesh and yet to get momentum, but in the developing countries it is passing through a mature stage. The study concludes that green banking practices in Bangladesh is not satisfactory at all

Keywords: Green banking practices, Green finance allocation, Environmental issues, corporate social responsibility (CSR) and Online Banking etc.

I. Introduction

A Green Bank is an ethical bank, a socially responsible bank and a sustainable bank. Green Banking is providing innovative green products and support activities that are not hazardous to the environment and help conserve the environment. Green Banking has a role to safeguard the planet from unusual weather patterns, rising greenhouse gas, and declining air quality, with the aim of ensuring economic growth which is sustainable. Bangladesh Bank is the first central bank in the world which has taken real initiatives, according to a definite agenda in its vision and mission to play a specific role in Green Banking by taking responsibility in safeguarding the planet from unusual weather patterns, rising greenhouse gas and declining air quality Green Banking is not limited only to in-house green activities, but extends to facilitating Green financing. Green financing through due diligence checklists under Environmental Risk Management (ERM) Guidelines is not intended to squeeze investment; rather it is for sustainable finance. Green financing under Green Banking activities can make a great contribution to the transition to resource efficient and low carbon industries, i.e. green industry and green economy in general. A Green Economy can be thought of as an alternative vision for growth and development; one that can generate growth and improvements in people's lives in ways consistent with sustainable development. A Green Economy promotes a triple bottom line: sustaining and advancing economic, environmental and social well-being.

Objectives of the study

1. To show green banking practices in Commercial Banks
2. To focus the major Green Banking Activities.
3. To show of Banks' In-house Green Activities

Rationale of the Study:

In the age of global warming and climate change, delivering right services are not enough for clients but also practicing of green banking concept for friendly environmental issue as the corporate social responsibility is inevitable (CSR) to the target customer or clients and for sinking of global warming.

Methodology of the study:

The study is conducted only based of secondary data and these data are collected from annual report of, Bangladesh Bank, company's corporate profile, daily news paper, different journals & articles, bank's websites and Bangladesh banks websites.

Reasons of practicing of Green Banking:

The broad objective of the green banks are avoiding waste and giving priority to environment and society. Focusing on environment-friendly initiatives by providing innovative financial and ensure sustainable development.

- Using organizational resources with responsibility.

- Keeping the world livable for a long period of time.
- To minimize paper works as much as possible inside and outside the bank.
- To achieve cost and time efficiency.

II. Literature Review

“Green banking is generally defined as promoting environmentally friendly practices that aid customers in reducing their carbon footprint through their banking operation activities. These practices include such things as online banking, statements, bill payments, and account opening. Banks also invest in internal initiatives to reduce their own carbon footprint” (Schmidheiny and Zorraquin 1996). While green banking is not yet a key reason for most customers to select one financial institution over another, customer demands and greater environmental awareness are driving a number of financial institutions to go green (Nigamananda Biswas, 2011). The factors like customer demand and environmental awareness are also influencing Bangladeshi Banks to adopt more environmentally friendly business policies. However, the effect of green banking on variables such as image has not yet been examined. Chang and Fong (2010) do in fact examine the notion of GBI, but only as a driver of satisfaction and loyalty, not as a result of green banking activities. According to their survey on consumers who had the experience of purchasing green or environmental products in Taiwan, a green corporate image exerts a positive effect on green customer satisfaction and green customer loyalty. On the other hand, Chen (2010) suggests that companies develop green banking in order to comply with environmental pressures, obtain competitive advantages, improve corporate image, seek new market opportunities and enhance their product value. However, Chen (2010) does not actually test the relationship between green banking and green image. Moreover, his study is not related to the banking sector but to information technology products.

Hartmann; Ibáñez; and Sainz (2005) relate green banking to green image by testing the green branding effects on attitudes towards the brand. They support that a well-implemented green positioning strategy can lead to more favorable perceptions of the brand, indicating a positive relationship between green marketing and green image. However, their research is limited to an experimental online setting. Bangladesh Bank has undertaken different steps to make green banking a reality. “Bangladesh Bank has launched the Tk 2.0 billion Green Banking Refinance Scheme in August 3, 2009 to fund renewable energy projects in the country that has been reeling under chronic power cut” (www.thefinancialexpress-bd.com). According to Bangladesh Bank, “People are not aware of our green financing fund. They even do not know from where it is available. This is mainly responsible for the poor disbursement. Another initiative that Bangladesh Bank has taken is about the interest rate related to green banking loan. “Bangladesh Bank (BB) has increased the interest rate for green banking aiming to encourage the commercial banks to strengthen disbursement of the loan under its refinance scheme, officials said” (www.thefinancialexpress-bd.com).

Despite the factors like customer demand and environmental awareness, there are some other factors that influence banks to implement green banking. Cost saving is one of the important benefits of green banking (Heim and Zenklusen 2005). In few cases the environmental management system resulted in lower risk, greater environmental stewardship and increase in operating profit (Jeucken, 2001). In future, market will reward those industries or the companies, which emerge as the efficient users of the energy and raw materials and will penalize the less efficient one. Further, the investors in the stock market are equally aware of environmental pollution and would take a stand against those industries/institutions that do not comply with pollution norms (Gupta, 2003; Goldar, 2007). According to Nigamananda (2011) “Some other benefits of green banking are: It will rationalize the paper use by giving free access to do all the banking transactions through Internet Banking, SMS Banking, Phone Banking and ATM Banking. Free Electronic Bill Payment Services and E-Remit services for remitting funds to the customers' home country. This is a unique service.

Bangladesh Bank's Green Activities Other than In-house

Refinance Scheme:

Bangladesh Bank has launched a refinance program of Taka 2 billion for the following types of Green financing:

Amount Disbursed under Refinance Scheme

	December, 2011	April, 2012
Solar irrigation pumping station	18.87	18.87
Solar home system	59.37	59.86
Bio-gas	132.21	132.41
ETP	20.78	26.96
HHK	20.00	20.00
Solar PV module assembling plant	Nil	248.80

Source: Bangladesh Bank Annual Report 2012

An indicative Green Banking policy and strategy framework has been developed. Bangladesh Bank's Green Banking policy initiatives are being rolled out in 3 phases (December 31, 2011; December 31, 2012 and December 31, 2013).

Commercial Banks' Green Banking Initiatives

Policy Formulation and Governance: As per existing guidelines, banks are required to formulate and adopt a broad environmental or Green Banking policy and strategy, approved by their Board of Directors in case of commercial Bangladeshi banks and by their Regional Head/Competent authority in case of foreign commercial banks operating in Bangladesh. Policy formulation should be the first priority, because if policy is not there or if it is not approved by the competent authority, then the adaptation and implementation of Green Banking activities that are to be linked with and compliant with the phases (December 2011, December 2012 and December 2013) will not be on track. Out of 47 commercial banks, 40 banks have formulated their own Green Banking Policy Guidelines approved by their Board of Directors/Competent authority, while the remaining 7 (Rupali Bank Ltd, National Bank Ltd, Brac Bank Ltd., Habib Bank Ltd., National Bank of Pakistan, Citibank N.A. and Bank Alfalah Limited) are yet to formulate their own policy for Green Banking.

Budget Allocation: Banks shall approve a considerable amount for Green Banking in their annual budget, which will include (i) Budget for Green Finance (ii) Budget for Climate Risk Fund and (iii) Budget for Marketing & Capacity Building for Green Banking. Banks have allocated Tk. 5252.07 million in their annual budget for 2012 where (i) Tk. 5052.59 million is for Green Finance (ii) Tk. 194.35 million is for the Climate Change Risk Fund and (iii) Tk. 5.13 million is for marketing and capacity building for Green Banking. Since projects having ETP fall under Green financing, the total allocation of the annual budget for Green Banking in fact will be Tk. 15917.19 million.

Green Banking Unit (GBU)/Cell/Desk: The GBU must be an effective team comprising competent officials (senior/mid/junior) and including members from Corporate /SME/Consumer/Retail/Agricultural Financing /IT Division /General Banking or any other relevant departments. The members conducting Green Banking activities are supposed to meet regularly, or as and when required, for preparing the Green Banking report. The Risk Management Head may lead the Green Banking Unit. There may be a permanent position of Assistant Coordinator who will assist the team leader and play a vital role in coordination among all the members of the unit. So far 43 banks have formed a Green Banking Unit (GBU) for contributing to Green Banking activities, while 4 banks (Sonali Bank Ltd, Habib Bank Ltd, National Bank of Pakistan and Citibank N.A.) are yet to establish GBU.

Incorporation of Environmental Risk in Core Risk Management (CRM)

Environmental risk is not a part of credit risk, but it is a facilitating element of credit risk when it is linked with the credit risk due to environmental condition/climate change. A strong credit risk graded project or business deal may be weakened by a high Environmental Risk Rating (EnvRR) because of high environmental risk therein. Environmental risk in this case has a greater impact over credit risk in the overall credit risk methodology. So, Bangladesh Bank is looking for incorporation of environmental risk in the Core Risk Management (CRM) that mandates considering EnvRR in the overall credit risk methodology, in order for the overall rating to do required justice to a project/business deal. Incorporation of environmental risk in CRM is also important for computation of adequate capital under Risk Based Capital Adequacy (RBCA) and the CAMELS rating under off-site supervision as well. Banks are now assessing EnvRR as per the Environmental Due Diligence (EDD) Checklist of Environmental Risk Management (ERM) guideline. Up to March 2012, EnvRR has been done for 7165 projects and 6896 projects have been financed by banks. Banks have disbursed Tk. 504557.61 million for these projects

Banks' In-house Green Activities:

A. Common in-house Green activities as reported by banks are as follows:

- 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
- More concentration on developing a Green Office Guide for reducing the information gap/reducing hazards/increasing efficiency/awareness/reducing pollution/developing
- Green Banking for sustainable finance.

B. 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

Green Finance:

Components those are related to Green Finance are:

- (A) Financing Green Projects/Events such as ETP, projects having ETP, bio-gas plant, bio-fertilizer plant, solar panel/renewable energy plant, solar irrigation pumping station, solar home system, solar PV module assembling plant, Hybrid Hoffman Kiln (HHK).
- (B) Any project/event financed by banks for producing energy resource efficient products or any project/event financed by banks for possible safeguards and mitigating hazards due to environmental condition or climate change and others (if any).

Banks have disbursed a total amount of Tk. 159762.81 million as Green Finance. Bank’s type-wise contribution towards Green financing is shown in the following table:

Green Projects/Events	SCBs	PCBs	FCBs	SDBs	Total
ETP	77.68	3134.80	705.97	1.00	3919.45
Projects having ETP	5758.74	122694.64	19726.55	0.00	148179.73
Bio-gas Plant,	28.31	219.70	0.00	0.00	248.07
Solar/Renewable Energy Plant	29.77	756.02	0.00	0.00	985.79
Bio-fertilizer Plant,	0.00	4.50	0.00	0.00	4.50
Hybrid Hoffman Kiln (HHK)	112.40	795.17	0.00	0.00	907.57
Others	5249.70	5.20	220.00	0.00	5517.70

Source: Bangladesh Bank Annual Report 2012

Online Banking

The following issues have been looked into for Online Banking.

- A substantial portion of internal works of the bank is done through online banking system (through use of outlook, e-mail).
- Access to online banking service for the customers is getting wider day by day.
- Data on No. of branches with online coverage,
- No. of accounts facilitated with internet, mobile/SMS banking etc.

The online banking scenario looks promising, wherein 3042 out of 7998 branches (38.03%) are equipped with online banking services. Thirty seven banks, mainly private and foreign commercial banks, are fully automated ensuring online banking services in each of their branches. 89.05% of the total branches of PCBs have been brought under online banking coverage. In the case of State Owned Commercial Banks (SCBs) 5.49% of their total branches have been brought under online banking coverage, with Sonali Bank having comparatively a better scenario having 9.08% online coverage.

Type of Banks	Total number of Branches	Number of branches with Online banking facility	% of branches with Online banking facility
SCBs	3442	189	5.49%
PCBs	3078	2741	89.05%
FCBs	63	63	100%
SDBs	1415	49	3.46%
Total	7998	3042	38.03%

Source: Bangladesh Bank Annual Report 2012

Banks have started to concentrate on mobile/SMS banking and internet banking. It shows from the returns that 3.91% and 1.42% of the total number of accounts have been facilitated with mobile/SMS banking and internet banking respectively.

Major Green Banking Activities at a Glance

- 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)

Source: Bangladesh Bank Annual Report 2012

Green Strategic Planning

- Green Banking is an ever ending process and banks are required to set green strategic planning upto 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 there in as per ECA 1995, ECR 1997, ERM and Green Banking guidelines and do the irrelevant instructions issued time to time
- Preparing sectors specific environmental guidelines taking ECR 1997, EDD checklists and current environmental and climate change condition into consideration. Banks will prepare sectors specific environmental guidelines only for those 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

III. Recommendations & Suggestions

- Government should carefully monitor and supervise the green banking practices in Bangladesh.
- Bangladesh bank must monitor the adherence of green banking guidelines by the commercial and non-commercial banks.
- Government encourages the general people about green banking awareness through the electronic and print media.
- Coordination among concerned authorities.
- Speeding up awareness and effective capacity building.
- Immediate concentration on sectoral lending policies and procedures.

- Shifting of different categories of industry (such as, garments, textiles, and tannery) to a proper location.
- Awareness of top management.
- Encouraging borrowers to go green.
- Need to apply green banking and use environmental risk management (ERM) guideline in efficient manner.
- Develop a culture within the organization based on environmental governance.
- Replicate global as well as local best practices.
- Share Knowledge and technical know-how with peer groups.
- Further integration with credit risk management in the overall credit risk methodology.
- Apply quantitative approach for environmental risk rating.
- Develop a database for technical assistance/issues.

IV. Conclusion

Banks already have entered into the second phase, having an implementation deadline (December 31, 2012) for Green Banking activities. Banks will need to concentrate on Sector Specific Environmental Policies. They need to formulate strategies to design specific policies for different environmental sensitive sectors. In view of the above context, banks are to concentrate on the following issues: 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 group's 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 Banks must take climate change and environmental consideration as a prior commitment in all their activities. They must be proactive in building internal resources and capacity to identify, appraise and close Sustainable Energy Finance (SEF) deals. It is expected that the banking sector will play an intermediary role between economic development and environmental protection and lead from the front towards a sustainable future of Bangladesh.

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