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## AN INSIGHT ON GREEN BANKING PRACTICES IN BANGLADESH: A STUDY ON COMMERCIAL BANKS

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### ABSTRACT

Green Banking is any form of banking activities that are socially responsible as well as ensure sustainable development and protect the environment. This study aims to provide evidence on green banking initiatives taken by the commercial banks in Bangladesh over the past decade. Quantitative data was collected from different secondary sources to analyze the green banking practices in Bangladesh. The findings revealed that commercial banks in Bangladesh initiated a number of green banking activities during the past few years. The green banking practices of the commercial banks eventually contributes to improve the brand image of the banking sector at national as well as international level. The study also found that there is a need to monitor the commercial banks' budgets and utilization of budget for the purpose of green banking practices. This study might be useful for policy makers and the banking organizations in Bangladesh in understanding more about its shortcomings and opportunities in green banking practices.

**KEYWORDS:** Green banking, Practices, Commercial banks, Bangladesh.

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### INTRODUCTION

Green Banking is any form of banking from that the country and nation gets environmentally benefits (Lalon, 2015a). Environmental issues catch greater attention from last few years; pressure is being exerted for implementation of green initiatives on all industries, including financial services. Greater environmental awareness and customer demands are driving factors for a number

of financial institutions to go green (Nath, Nayak, & Goel, 2014). Environment is a key focus between ethical and traditional banks that want to appear more ethically oriented, or that see a shift to more environmental practices to their advantage. In general bankers “consider themselves to be in a relatively environmentally friendly industry in terms of emissions and pollution” (Biswas, 2011).

Banks are mainly service rendering organizations and do not produce as such any tangible products (Ullah, 2013). Therefore, their process of funding and operating, marketing and distribution of service do not harm to the people in particular and environment at a large. Even their “final disposal” does not contribute in harmful effect to environment as like tangible goods producing sector. Most of the business is in our society reach to the customers through different channels but banks have direct contact with people and consumer while providing their services (Choudhury, Salim, Al Bashir, & Saha, 2013). Thus, their services have a direct link to people and reflection or impact upon the people. Peoples in the one hand become the suppliers of resources and at the same hand they become client of banking. It is important that banking sector has played a dynamic role for ensuring sustainable environment and bank investment to socially responsible areas.

Every commercial bank tries to give up environmentally polluted investment and normally banks contribute to build relationship among different industries on the base of different project. If a project breakup environment rules, banks are not responsible for this. For economic development, improving sustainable environment and protection of environment bank play transitional role (Bihari, 2010). These types of environmentally friendly activities are called green banking. Every commercial bank in Bangladesh contributes their funding for sustainable environment. If a bank wants to try lead in global market, banks need to use green technology and their banking activities should not be harmful for environment and social life (Singh, 2015).

According to GARG (2015), green banking has been working as an umbrella because its activities will ensure sustainable development, protecting the environment and also ensure the socially responsible. By the green banking activities bank will contributes to remove the ill effect of global warming (Singh, 2015). Against this backdrop, banking sector in Bangladesh has taken different initiatives to go green banking and they try to ensure sustainable development in Bangladesh by the green banking activities because bank is a service rendered organization and they have a direct relation with the customer. Every customer of bank like to green banking activities and green banking activities help to positive development in Bangladesh economy (Islam & Das, 2013). Commercial banks in Bangladesh provided a lot of efforts for green banking practices over the past decade. However, the issue of green banking practices by the commercial banks in Bangladesh has got a cursory attention. Therefore, this study attempts to provide an overview of green banking practices of commercial banks in Bangladesh during the past decade.

## **LITERATURE REVIEW**

Meena (2013) stated that for economic development and protection of environment bank can ply important role. By the banking activities, bank can ensure sustainable development. Author also said that protection of environment, environmental promotion, socially responsible investment, social audit and overall social improvement is called green banking. The main objective of this

paper is to ensure sustainable development by green banking. Nath et al., (2014) said that people of the world effected by the global warming in various ways, its impact on human life, for this our society facing different problems for the climate change issues and also said that survive from this situation environmental management is needed by the sustainable ways.

Sharma and Mani (2013), highlighted the green rating standard that develop by the reserve bank of India. It was a secondary data based study. The study compares the green banking activities of private and government commercial banks and found that private commercial banks were more serious and active to ensure green banking activities and ensure sustainable development by green banking initiatives in India and also recommended that state own commercial banks in India need more initiatives to ensure green banking activities because state own commercial banks are working root level in India. So, green banking activities can play important role to ensure sustainable development.

Oyegunle and Weber (2015) discussed about the sustainable development ensure by green banking. The study said that is banking sector ensure sustainable development by banking activities that time needs proper guideline on green baking because only green banking can ensure sustainable development and without green baking rules and regulation bank cannot operating their green banking activities. For absence of proper guideline of green banking most of the bank does not maintain green banking activities. Lalon (2015) stated that green banking activities of commercial banks in Bangladesh. Green banking is a burning issue not only in Bangladesh but also all over the world. There is a far different between green banking and conventional banking. Green banking will ensure betterment of our environment and it will ensure inclusive development of economy of any country. It was a secondary data base study. Author said that green banking strategy will ensure encouraging environmentally friendly practices and sustainable economic development of Bangladesh as well.

Bihari and Pandey (2015) said that the main purpose of green banking is to reduce carbon footprint and stimulating environmental favorable banking practices. The study tries to find out consciousness of green banking amongst bank employees, general people, associates and to build up awareness on green banking for different stakeholder such as the general public, bank employees and consumers of the banks. Banking sector in India has taken different initiatives under the green banking and played significant role for increasing green banking activities.

Chowdhury and Dey (2016) said that banking sector in Bangladesh has played important role for green banking. Bangladesh bank has taken different initiatives for developing green banking and Bangladesh bank has been financing on green banking directly or indirectly. Central bank of Bangladesh established a policy guideline and a green banking strategy, on the basis of this guideline and strategy commercial banks are promoting their green banking activities. In Bangladesh every commercial bank announced green banking budget.

## MATERIALS AND METHODS

Literature that focused on green banking practices in Bangladesh commended by central Bank of Bangladesh has been included in this study. Literature has been identified from various electronic and non-electronic databases such as journals, reports, proceedings and related documents for review. Electronic database searches had mainly been carried out using key terms in green finance, green banking, green practices, the climate, green economy and green Bangladesh. In this study literature reference have been cited for those studies that are available in full text. Website of the central bank of Bangladesh was also searched to find the related documents and reports of green practices. Only those documents were written in English was considered for this review process. This study demonstrated only literature that included discussions, findings and evidences related to green banking, go green, green practices, green environment, green economy and green Bangladesh. Findings and discussion of this review study were based on currently available information, data and evidences from published literatures and documents that focus on green banking, go green, green practices, green environment, green economy and green Bangladesh by commercial banks in Bangladesh.

## FINDINGS AND DISCUSSION

Green banking is important issue of banking sector in Bangladesh. Central bank of Bangladesh has given emphasized on banking sector and develops a guide line for effective green banking activities in Bangladesh. For this, Bangladesh Bank has announced three phases of green banking in Bangladesh. According to these phases banks need to fix the proportion for green banking and implement different strategies to execute the green banking practices and also go for online banking. Banks also need to make disclosure of green banking practices into their annual reports or on their website. From the review of different sources, this study tries to analyze the current status of green banking activities of commercial banks in Bangladesh. Details are as follows:

### *Allocation and utilization of fund for green banking activities*

This study finds the data from different reports that every commercial bank in Bangladesh has formulated their green banking guideline & strategy and banks approved their board of directors or respected authority for internal green banking practices. Moreover, every bank has distributed a favorable amount of fund for green banking activities. Green banking budget must be included in their annual reports and budget.

**Table 1: Allocation and utilization of fund for green banking activities**

Annual allocation of funds (Million in Taka)				Utilization of funds ((Million in Taka)					
Year	Green Finance	Climate Risk Fund	Marketing , Training and Capacity building	Total	Green Finance	Climate Risk Fund	Marketing , Training and Capacity building	Total	% of Utilization
2014	663522.	2172.92	1460.97	667155.9	139011.	125.66	45.75	139182.	20.86%

	02			0	38			79	
2015	262461.24	1765.58	42800.36	307027.18	124002.96	235.18	15.42	124253.55	40.47%
2016	433132.81	764.67	752.65	434,650.13	137,253.22	314.90	6.40	137574.52	31.65%
2017	114356.74	207.83	685.80	115250.37	170798.65	231.29	10.43	171040.37	<b>48.40%</b>

Source: Review Report on Green Banking Activities of Banks & Financial Institutions and Green Refinance Activities of Bangladesh Bank (2014-2017).

Table 1 shows that Bangladesh bank has identified three main sectors for green banking are green finance, climate risk fund and marketing, training & capacity building. Every year central bank allocated much more money for green banking but commercial banks are not proper utilizing these fund. In 2014, only 20 percent used of total allocated fund, in 2015 and in 2016 total utilization of allocated fund 40.47% and 31.65% but it is positive sign that in 2017 banks have used 48.40 % more than their allocated money. Every commercial bank emphasized for using green banking fund for green finance and climate risk but they have given less important on marketing, training and capacity building. For using fund of green banking private commercial banks are better than state own commercial banks.

### Environmental Risk Rating (ERR)

Environmental risk is an important part of green banking activities. Under this activities commercial banks try to ensure their credit will go to environmentally friendly project and bank will ensure calculate their environmental risk. Table 2 shows that commercial banks have started ERR since July 2011. Banks have done environmental risk rating 9824 projects in 2014 and 27270 projects in 2017. The numbers of projects rating in 2017 have increased more than three times higher than the previous years. In 2015, total disbursed amount tk. 366455.36 and in 2017 total disbursed amount tk. 857728.96. From 2015 to 2017 disbursed amount increased 13.41%.

**Table 2: Environmental risk rating (ERR)**

Year/ Areas	No. of Projects Applicable for EDD	No. of Projects Rated	No. of Rated Projects Financed	Amount disbursed in Rated projects (in million taka)
2014	9824	9169	8205	366455.36
2015	15651	13357	11587	547319.42
2016	20607	17911	15061	578382.43
2017	27270	25035	18073	857728.96

Source: Review Report on Green Banking Activities of Banks & Financial Institutions and Green Refinance Activities of Bangladesh Bank (2014-2017).

### Green finance of CBBs

Commercial banks of Bangladesh have distributed their green finance in two ways i.e. directly and indirectly. Every State-owned commercial bank has distributed green finance directly but Private commercial banks and foreign commercial banks have distributed their amount indirectly because SCBs and FCBs have no sufficient branch in rural and remote areas in Bangladesh. Table 3 shows that under the green banking activities CBBs have taken different activities and banks have contributed much more amount in this area. SCBs and PCBs have contributed all areas of green banking activities. In 2014, banks have distributed tk. 7984.85 and in 2017 distributed tk. 13206.16. Banking sector in Bangladesh, green financing increasing year to year.

**Table 3: Direct green finance (in million Taka)**

Sectors/Year	2014	2015	2016	2017
Renewable Energy	916.13	602.46	713.14	338.57
Energy Efficiency	485.75	644.08	963.83	404.31
Solid Waste Management	173.80	0.00	0.00	0.00
Liquid Waste Management	461.96	1250.43	1205.86	6618.79
Alternative Energy	0.00	97.60	9.59	4.90
Fire Burnt Brick	2539.27	1934.44	1705.26	2380.05
Non Fire Block Brick	20.5	54.29	164.92	4.46
Recycling & Recyclable Product	990.19	845.19	4077.85	868.30
Green Industry	1528.23	2207.36	1209.08	1862.49
Safety and Security of Factory	45.57	91.02	443.10	246.75
Others	823.45	311.44	0.00	477.54
<b>Total</b>	<b>7984.85</b>	<b>8038.41</b>	<b>10492.63</b>	<b>13206.16</b>

Source: Review Report on Green Banking Activities of Banks & Financial Institutions and Green Refinance Activities of Bangladesh Bank (2014-2017).

### Climate Risk Fund

Most of the area of south part of Bangladesh affected by various natural disasters. Commercial banks have built up climate risk fund in these areas. Table 4 shows that CBBs under the green banking activities banks have contributed much more amount for marketing, training & development activities. In 2014 banks have contributed tk. 264.59 and in 2017 tk. 274.40 is bigger than contributed amount in 2014. There is no consistent in contribution this sector but it is very important sector for banking sector. By this sector every commercial bank can ensure skill work force.

**Table 4: Marketing, training & development budget utilization 2012 and 2016**

Bank category	Budget Utilization (Million in Taka)			
	2014	2015	2016	2017
SCBs	4.40	7.50	8.30	11.83
PCBs	123.45	135.50	155.40	210.34
FCBs	20.34	26.78	33.50	45.67
SDBs	2.55	3.45	4.20	6.56
Total	264.59	173.23	201.40	274.40

Source: Review Report on Green Banking Activities of Banks & Financial Institutions and Green Refinance Activities of Bangladesh Bank (2014-2017).

### Online, internet & SMS banking

Every commercial bank in our country operating online banking service and they contributed huge amount in this sector. Banks provide online banking service year to year. Table 5 shows that under the green banking activities banks have taken different activities, Online banking system is one of them. Private commercial banks and foreign commercial banks all branches are operating Online banking system. State own commercial banks are trying to go Online banking system rapidly. In 2014, there is no ATM service of banking sector in Bangladesh but 65.40% banks provided online banking services out of total branches. In 2017, all private commercial banks have provided online banking services but special development bank and state own commercial not provided all branches online service.

**Table 5: Online banking**

Year/Factors	No. of ATM		No. of Total Branches	No. of Branches with online coverage	% of Online Branches
	Own	Shared			
2014	00	00	8979	5872	65.40%
2015	7749	77601	9458	7100	75.07%
2016	8870	87596	9760	7054	72.27%
2017	10135	103833	10034	7965	79.38%

Source: Review Report on Green Banking Activities of Banks & Financial Institutions and Green Refinance Activities of Bangladesh Bank (2014-2017)

### ATM services by banks

Every commercial bank in Bangladesh provides ATM service by separately or jointly for 24 hours banking services and operating their few branches and ATM booth by solar energy for make sure sustainable development. Table 6 shows that in 2014, 4.60% branches are driven by solar energy out of total branches. It is increasing year by year in 2017 total 533 branches and 217 ATM/SME unit offices driven by solar power. Private commercial banks are more emphasized on solar power energy those state-owned commercial banks.

**Table 6: Solar powered branches and ATM/SME units**

Year/ Areas	No. of Branches	No. of branches powered by Solar Energy	%	No. of ATM/SME units powered by Solar Energy
2014	8979	413	4.60%	227
2015	9435	433	4.59%	251
2016	9760	522	5.35%	252
2017	10039	533	5.31%	217

Source: Review Report on Green Banking Activities of Banks & Financial Institutions and Green Refinance Activities of Bangladesh Bank (2014-2017).

### Major Green Banking Activities at a Glance

**Table 7: Major Green banking activities in Bangladesh at a glance**

Activities	2014	2015	2016	2017
Unit of Green Banking	55	56	56	56
Policy of Green Banking	53	55	56	56
Guideline for Green Office	55	54	56	56
Projects of Environmental Risk Rated	9179	13704	17911	25035
Financed of Environmental Risk Rated Projects	8205	11587	15061	18073
Amount for Rated Projects (Taka in Million)	366455.36	547319.42	578382.43	857728.96
Solar Powered Branches	413	433	522	533
Solar Powered ATM/SME Units	227	251	252	717
Online branches (as % of total branches)	65.40	75.07	72.27	79.38%
Green Finance (Taka in million)	139011.38	124646.47	137253.22	170798.65
Percentage of Green Finance of Total Fund.	0.46	0.55%	0.63%	0.38%



Utilization from climate risk fund (Taka in million)	125.66	237.57	314.90	231.29
Utilized for Green Marketing, Training & development (Taka in million)	45.76	15.42	6.40	10.43

Source: Review Report on Green Banking Activities of Banks & Financial Institutions and Green Refinance Activities of Bangladesh Bank (2014-2017).

From the previous discussion, the green banking practices of the commercial banks in Bangladesh can be summarized as below:

- All private and foreign commercial banks have adopted green banking policy and state own bank has no green banking policy. Private commercial and foreign commercial bank has taken more green banking activities than the state own and special development commercial banks.
- In 2014, there is no ATM service of banking sector in Bangladesh, but now 65.40% banks provided online banking services out of total branches. In 2017, all private commercial banks have provided online banking services but special development banks and state-owned commercial banks do not provide online service in all branches.
- Commercial banks are not interested to give loan to environmentally damaging projects. Every commercial bank has been followed policy guideline for environmental friendly investment and makes sure about different essential investment factors.
- Bangladesh Bank has played important role to increase green banking activities of commercial banks. Central Bank has taken various initiatives for green banking such as publish green banking report, arranged technical support and directly green investment.
- Under the green banking initiatives bank provided online activities that inspires the banking diminishes use of paper which create product image nationally and internationally. The study also found that make consciousness amongst the stakeholders about the sustainable business practices banks have taken different initiatives such as solar equipment, effluent treatment plant, Bio-gas Plant, Hybrid Hoffman Kiln etc.

## CONCLUSION

Green banking is now burning issues around the world including Bangladesh. Government of Bangladesh is very conscious about green banking and also taken necessary action to put it into practices. Government realizes that without sustainable development, country development is not possible and green banking can play key role for sustainable development. Government targeting to achieve sustainable development goal by applying the green banking practices and commercial banks plays key role to achieve the desired goal. For effective green banking practices, there is need of proper training of bank's employees and also need of proper monitoring of different banking credit projects. There is also needed to monitor the commercial banks budgets and utilization of budget for green practices. It should be also mandatory for every commercial bank to publish their green practices as a part of their annual reports and on website as well.

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