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Green Banking and Its Challenges and Practice in Bangladesh



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ABSTRACT

Banks are a financial institution which can play an outstanding role between sustainable economic growth and environmental protection in order to prove themselves as environmentally friendly and socially accountable institution. For promoting this there is nothing but "Green Banking" which is the most talked topic in the recent banking activities and responsibilities. Green Banking refers to the banking business conducted in selected area and technique that helps the reduction of carbon emission surround the world. To aid the reduction of carbon emission bank should finance green technology and pollution reducing sectors. Green finance is an integral part of green banking that makes a great contribution to the transition to resource-efficient and low carbon industries. Green banking is certainly a new initiative throughout the world. The leading bankers and entrepreneurs have come forward to protect human being from environmental disasters. In the context of Bangladesh, if we think about it, we will find the situation to be terrible. Our people have little awareness about environmental pollution and they do not understand the severe consequences of this pollution which will create an unexpected trouble in the coming decades.



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INTRODUCTION

Among crores of skies of the Universe, ours is the only planet providing residence for animals. The reason behind this is the green environment of the planet enriched by green plants. This represents a close relationship between the animals and plants. But due to the 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 the greenhouse effect, 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 activities 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 on 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. A bank can grow itself as a green bank through the application of environmentally friendly policies in every sector of its activities and through the elimination of Carbon footprints. From its premises without changing the main banking functions. Such a bank acts as an ethical bank, moral bank, responsible bank, and Sustainable bank in a society. Green banking can facilitate both the clients, human capital and stakeholders. This also increases the goodwill of the bank as a part of its image building activities. Although this theme has been implemented in several developed countries keeping a slogan “Be Green, Go Green” before them, it has been started here in developing countries like ours in recent years. Several researchers have written about green banking. Among those most remarkable are Rashid (2010), Schultz (2010), Fenn(2012), Haque (2012), Hayder (2012), Hossan (2012), Khan (2012), and Millat (2012). This research is aimed at finding prospects of green banking in Bangladesh perspective.

Objectives of the Study

The major objective of the study is to analyze the challenges 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 -

- To study environmental risk and identify opportunities for innovative environment-friendly financial products.
- To study environmental and control regulations regarding green banking in Bangladesh.
- To design a proper environmental management system in the investment projects.
- To create financial products and services that support commercial development with environmental benefits.

METHODOLOGY

The study is mainly based on extensive literature review and various secondary data. Secondary data has been taken from the annual reports of Bangladesh Bank, various Commercial Banks, related articles, various newspaper, seminar etc. Also, the personal interview with some banker has been conducted.

Literature Review

Global warming, which is one of the most burnings & discussed issues, has the worst impact on the climate of the planet as a whole. The rapid change in climate will be too great to be adopted by the eco-systems since the change have already made a direct impact on biodiversity, agriculture, forestry, dry land, water resources and human health. As such, issue of global warming calls for a global response. Due to unusual weather pattern, rising greenhouse gas, declining air quality etc. society demands that business also take responsibility in safeguarding the planet (Bangladesh Bank Green Banking Policy).

Thombre (2011) argued that the environmental impact of a bank's external activity is huge though difficult to estimate. Thus, encouraging environmentally responsible investments and careful lending should be one of the responsibilities of the banking sector, (Sahoo and Nayak 2008). The bank should go green and play a pro-active role to take environmental and ecological aspects as part of their lending principle, which would force industries to go for mandated investment for environmental management, use of appropriate technologies and management systems (Hayder 2012). Verma (2012) stated that Indian banking is gradually coming to realize that there is a need for a shift from the 'profit, profit and profit motive to 'planet, people, and profit'. GB involves pursuing of financial and business policies that are not hazardous to the environment and help to protect the environment. The purposes of GB

are to use resources with responsibility for avoiding waste and giving priority to the environment and society.

To save our planet it is the time to take initiative for green banking. The banks should give priorities in providing a loan to the sectors that encourage environmental practices (Rashid 2010). Habib (2012) stated that much more is expected from NGOs and civil society organizations in the form of awareness development, research activities, and business monitoring. For rapid change among consumers and businesses, a collective endeavor of government, media, NGOs will be required. The following GB wheel indicates how the whole banking system works as a chain.

Source: Bangladesh Bank Annual Report, 2012

Bangladesh already maintains a satisfactory level MDGs. They are trying to Sustainable Development Goals (SDGs). According to World Commission on Environment and Development (WCED), "Sustainable development is a development that meets the needs of the present without compromising about the ability of future generations to meet their own needs (Smith, Rees, and Gareth 1998). In order to ensure sustainable development, world environmentalist groups consider that green banking would be one of the valuable arms. As a result, today's environmental stakeholders are pushing the financial community to strictly implement green banking policy which they consider will help to protect the environment."

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 because 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 the 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 on August 3, 2009, to fund renewable energy projects in the country that has been reeling under chronic power cut".

Green Banking

In the present day, business is all about being green. Everybody from Walmart to Apple is discussing how green their method, bundling, or strategies are. At the same time, green business is truly in its early stages, and the ultimate chance of being green will most likely distill down to some clearly understandable and perceptible objectives and practices. Bankers may question that the importance of the "green movement" to their own bank. The term 'Green' refers to a wide scope of social, ethical and environmental dimensions. Instead of, the final goal of this study is to implement the overall green banking which looks into the environmental aspect. "Green" is mainly to describe banks' which impacts on the environment, environmental responsibility and environmental performances in their activities.

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).

Bai (2011) argued that green banking is similar to an ordinary bank. The aim of this ordinary bank is to protect the environment and support natural resources which consider all the social and environmental or ecological factors. It is also so, called an ethical bank or a sustainable bank.

As a bank green, bank promotes environmental and social responsibility. But it operates as a traditional community bank. It provides outstanding services to investors and clients. It has adopted sustainability practices through all lines of the institute including employees, facilities, products & services, and governance.

This banking system helps to make effective and far-reaching market-based solutions to address a range of environmental problems. These problems including environmental change, deforestation, biodiversity loss and air quality issues. At the same time, green banking system recognizes and protected new business chances which benefit to customers. Green banking gives more loads to ecological issues. Its aim is to provide good ecological and social business practices. Overall this banking is really a good way for people to get more consciousness about global warming. Individually businessman will donate a lot to the environment, in addition, to create this earth a better place to live.

Challenges of Green Banking

For-profit entities green banks face a lot of challenges. These challenges are following below:

I. Matter of Diversification

Green banks limit their business exchanges to those business substances who qualify screening procedure done by green banks. With a set number of clients, they will have a little base to support them. In the event that they center their credits on specific commercial ventures, they open themselves up to being a great deal more powerless against monetary movements.

II. Start-up

Numerous banks in green business are new and are in start-up face. Generally, it takes 3 to 4 years for a bank to begin making money but it does not help banks during inflation.

III. Higher Operating Cost

Green banks require specialized talented, skills and experienced staff to provide proper services to customers. Employees like experienced loan officers are needed with additional background and experience in dealing with green businesses and customers. At their profit margins employees provides breaks to customers through discounted loan rate.

IV. Reputational Risk

If banks are involved in big projects which are damaging the environment they are likely to loss of their reputations. In the financing of ecologically and ethically questionable projects reputation risks are involved. There are also few cases where environmental management system has resulted in cost saving, increase in bond value.

V. Credit Risk

Credit risks arise because of proposing to those clients whose organizations are influenced by the expense of pollution, changes in environmental principles and new requirements on productions levels. It is higher because of the probability of customer default as an effect of uncalculated costs for capital interest underway facilities, loss of market share and third party claims.

Recommendations

The term green banking is now popular worldwide nowadays. It is for stopping the environmental degradation and making this planet habitable. The concept of green banking developed in the western countries, which has been replicated by many developing countries. We all know that the people of the whole world are concerned about the environmental degradation, especially the rising of global temperature and thereby melting of glaciers and ice-berg in the polar region and consequently rising of sea level, which will directly affect the low lying countries of the world. As green initiatives sweep across the globe, more and more financial institutions are taking note and taking action. The trend towards green banking is still largely driven by and directed toward consumer behavior. Since the banking industry is a vital institution in the economic and business activity around the world, bankers cannot remain indifferent to this burning issue. A banker may address many issues to save environmental degradation and conserve the ecological balance. Bankers are the important professional group who has interaction with the other groups of people and also with general masses. Hence, they can adopt different green activities within their in-house environment and also can initiate the protection of the air pollution, water pollution by their clients. Many banks in the developed world have already started green banking activities. The following are the suggestions of the author for effective green banking:

Banks must adopt a strategic plan to perform green activities on a long-term basis as well as a

short-term basis. The government should outline a broad guideline of green banking for environmental protection, conservation of biodiversity. Reserve Bank of India has a greater role in shaping up a concrete guideline for green banking practices and each bank and financial institutions can formulate a strategy and guideline for green banking.

A green banker must be cautious about wastage and waste management. The banks should try to control the wastage of resources like water, gas, electricity, paper, foods, etc. For example, if we draft letters on a computer rather than on paper, it will save millions of paper as well as thousands of trees that provide raw materials for paper production. Similarly, when we select a location of the branch of a bank with sufficient access to light and air, it will save huge electricity and create a healthy environment.

A green banker will not throw any waste, bottles or packing materials here and there. Each group of waste should be kept in a separate place, which does not pollute the environment and all the wastes must be disposed of separately. A green banker will not spit or cough on the floor, walls or on the road.

Additional conservation of energy and natural resources, paying bills online, remote deposit, online fund transfers, and online statements are just a few of the ways that online banking can create savings from less paper, less energy, and less expenditure of natural resources from banking activities. Customers can also save money by avoiding many of those late payment fees or overdraft fees that can sneak up if the customers use bank by-mail or branch banking services.

Since India is an energy deficit country the bank can install solar panels in all branches as an alternative energy source. They can also use the vehicles which consume less fuel which will save huge fuel import of the country. They can also use big vehicles to carry the employees of the banks instead of a personal vehicle to reduce fuel as well as a traffic jam in the roads.

Bankers must be aware of the environmental issues and they must go for financing the projects that do not pollute the environment. The industries that are financed by the banks must have effluent treatment plant, recycling facilities and smoke and gas arresting unit. The industries must not release any kind of effluents, chemicals or smoke to the environment. Banks should take initiative to make their clients aware by organizing a seminar and symposium. They can organize an awareness campaign in schools and colleges. They can participate in the tree plantation and cleanliness programmes in city areas.

In India has a lot of problems with proper waste management, drainage, and sanitation, and affected by river pollution, water pollution from pesticides, etc. Every bank can undertake a specific green project for removal of existing polluting substances from the ecosystem. Environmental conservation and protection of ecological balance should be maintained through combined efforts of multi-stakeholders. The main stakeholders are businessmen, consumers and professionals, NGOs and government organizations. Since the banking industry deals with public money, they cannot remain indifferent and must be more sensible to the maintenance of ecological balance.

The benefit of using a green credit card is that some card issuers will donate funds to an environment-friendly non-profit organization. Imagine kicking back a percentage of every rupee to spend on the customer's credit card to a worthwhile cause. Research the latest green credit card deals to find a card that will give back to the organization.

Using a green checking account helps the environment by utilizing more online banking services including online bill payment, debit cards, and online statements. Consumers should be aware that banks offer green checking account because, ultimately, it helps their profits and not for purely altruistic reasons. They can profit customers as well because many reward checking accounts will pay a high-interest rate to bank customers who meet certain monthly requirements.

Before a customer undertakes a major home improvement project, study if the project can be done in an eco-friendly manner and if the customer might qualify for a green loan from a bank. Green loans are perfect for energy-saving projects around the house. Find a better loan rate and save energy costs all at the same time.

CONCLUSION

Now when our environment fights us back and there is an urgent need to create awareness and follow green banking in today's business world of innovative technologies to make our environment human-friendly. We are forced to rethink and improve our ways of living to become more eco-friendly. A new trend hence was given birth in our endeavor to become eco-friendly which many define as 'being green'. Green banking if implemented sincerely opens up new markets and avenues for product differentiation. The banks should play a proactive role to take environmental and ecological aspects as part of their lending principle which would force industries to go for mandated investment for environmental management,

use of appropriate technologies and management systems. As the green bank has rapidly expanded its operations, the challenge for its leadership has been on managing this growth successfully and prudently.

Bangladesh is one of the most climate change helpless countries to change the climate in the world. From the overall discussion, it can be said that green banking practices in Bangladesh are not at a satisfactory level. According to global development and response to the global warming, Green banking plays important roles. The government, as well as every bank, should take initiatives in respect of green banking practices for protecting our environment. Bangladesh bank will emphasize the significance of green banking activities/practices of a bank while according permission for opening new bank branches and approval for launching the new bank. The government should also encourage the general people about the green banking practices. The central bank should monitor or supervise commercial banks whether they are practicing green banking or not. So, every bank has to participate and contribute to green banking practices in today's extreme national and global banking competition.

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