

Green Banking: Advancement and Opportunities

Sarwar Uddin Ahmed^{1,2}

Abstract

The objective of this paper is to discuss the contemporary green banking initiatives taken globally and more specifically in Bangladesh. North America and European regional banks were found to be forerunners in adopting green banking practices. Home mortgage, home equity loan, auto loan, credit card, etc. are common products found globally. In Bangladesh, solar home system, solar irrigation pumping station, biogas plant, effluent treatment plant, green credit card, etc. are already in the offering. Recommendations such as building awareness, incorporating green banking consideration in bank lending decisions, developing green reporting and rewarding frameworks were suggested.

Keywords: Green banking, ethical banking, sustainable banking, Bangladesh

1. Introduction

The term *Green Banking* has transformed into a catchphrase in global contemporary issues of banking. It is often used interchangeably with terms such as 'ethical banking', 'sustainable banking' and 'socially responsible banking'. Green banking is a general term covering a wide area of ac-

1 Associate Professor, Independent University, Bangladesh

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tivities. It is an effort by the banks to make the industries grow green and in the process restore the natural environment (Sahoo and Nayak , 2007) . A green financial product or service may be defined as one, which reduces environmental damages, conserves natural resources and mitigates negative direct or indirect impact of banking activities. Green banking and green financial products stress on environmental aspects.

On the other hand, the concept of *Sustainable Banking* stems from *Sustainable Development* which refers to efficient use of resources without causing harm to the society and the environment. In order to incorporate sustainability in banking, banks should integrate environmental and social considerations in its core businesses (lending, borrowing, product design, etc. ,) , and pursuit environmental and social responsibility in its own operation (efficient in energy and waste management, charitable donations, etc. ,) (IISD , 2011) .

Also, we frequently hear the term *Socially Responsible Bank*. The United Nations' Principles of Responsible Investment (UNPRI) identified some duties in order to be a socially responsible institution. According to UNPRI " As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios ". In order to be Socially Responsible, a bank should be environmentally conscious, socially responsible and efficient in governance.

In summary, we can say that there are many common factors among the terms ' Green Banking ', Sustainable Banking ', ' Socially Responsible banking ', which are, environment, society and governance. By becoming environmentally conscious, socially responsible and good in governance, a

bank can be known as a green bank, an ethical bank, a socially responsible bank, or a sustainable bank (Habib , 2010) .

Institutional investors, such as, banks are rapidly extending beyond their goal of maximizing shareholder wealth. They are increasingly expected to become green by having goals of environmental consciousness, social responsibility, and good governance. Promoting green banking is not just philanthropy and obeying the laws rather is an attempt to ensure their own sustainability (Wanless , 1995) . Environmental degradation, social irresponsibility and bad governance will not only invite public criticism and negative customer reaction, but also might make regulations more stringent which can impair the bank profitability by curbing market for the products of their customers. Also lenders can even be held responsible for their clients' environmental impacts. Thus banks have strong prudential reasons to be green. In light of this growing responsibility of banks, the objective of this paper is to explain the global perspective of green banking, status of Bangladesh and way forward.

2. Global Perspective

In the global financial sector various regions and countries are promoting green banking practices through various policies and guidelines which are still largely voluntary in nature³ . “ A Statement by banks on the Environment and Sustainable Development ” signed by 30 banks under the auspices of United Nation Environment Programme (UNEP) in Rio Earth Summit 1992 , provides the basic guidelines to incorporate environmental issues and promote green banking in lending decisions. Currently, a total of 200 finan-

3 Such as UNEP-FI, UPI-FINANCE 2000 , Equator Principles, etc.

cial institutions, out of which 138 banks in 47 countries are signatories of UNEP- FI (UNEP-FI , 2011) . Among the existing guidelines, the Equator Principles launched on 2003 received wide acceptance in recent years which is based on the environmental and social policies and guidelines of the International Finance Corporation (IFC) . Currently , 73 financial institutions⁴ operating over one hundred countries are committed to using the EPs to manage environmental and social risk in their project finance businesses (EP , 2012) .

In the regional level North America and Europe are considered as precursor adopting green banking practices. Enactment of Comprehensive Environmental Response Compensation and Liability Act (CERCLA) 1976 in US and Canadian Environmental Protection Act (CPEA) 1988 in Canada, paved the foundation for promoting green banking practices not only in this region, but also globally. Currently, five US banks, including Bank of America and Citi group are the signatories of UNEP-FI (UNEP-FI , 2011) . Also five big banks in U.S.A. have adopted Equator Principles⁵ . Seven Canadian banks, including Royal Canadian Bank and Bank of Montreal, are the signatories of UNEP-FI (UNEP-FI , 2011) . Also, seven financial institutions in Canada have adopted Equator Principles (EP , 2012) .

Compared to the American counterpart, banks of the European Union member countries were not that much exposed to environmental liability. In 1991 , Advisory Committee on Business and the Environment (ACBE) started to address the issue of contaminated land during industrial revolution. Currently, fifty five European banks are the signatories of UNEP-FI (UNEP-FI , 2011) . Also, thirty five financial institutions in Europe, includ-

4 Including Bank of America, Citigroup and JP Morgan Chase from U.S.A

5 Bank of America Corporation, Citigroup Inc. , Ex-Im Bank, JP Morgan Chase and Co. and Wells Fargo Bank, N.A.

ing six from Netherlands and four from U.K. have adopted Equator Principles (EP , 2012) .

In South America, Africa and Asia majority of the green banking initiatives are initiated by the multilateral development banks like World Bank and International Finance Corporation (IFC) . A list of the signatories of UNEP-FI and Equator Principles from this and other regions are provided in Table 1.

Table 1: Green banking legislation and signatories

Region	Legislation	EP Signatories	UNEP-FI Signatories
Europe	Advisory Committee on Business and the Environment (ACBE) , 1991	35	55
North America	<ul style="list-style-type: none"> ● Comprehensive Environmental Response Compensation and Liability Act (CERCLA) 1976: USA ● Canadian Environmental Protection Act (CPEA) 1988: Canada 	12	12
Asia	National Environmental Policy 2006: India	4	17
Bangladesh	Policy Guidelines for Green Banking 2011	0	1

Various green financial products and services are offered in different countries around the world. Majority of these products are offered in North America and European region. Common products include home mortgage, home equity loan, auto loan, credit card, etc. A list of green banking products offered in different countries is provided in Table 2 .

Table 2: Available green financial products or services around the globe

Product or Service	Description	Found in Region/Country
Home Mortgage	Financing energy efficient houses or invest in green power	Netherlands, UK Australia, USA, Canada
Commercial Building Loan	Projects demonstrating innovations in water, air, energy and waste management.	North America
Home Equity Loan	Designed to promote consumer adoption of home solar electric systems	USA, Canada, UK, Australia
Auto Loan	Loan for hybrid or low emission car	Canada, Australia
Fleet Loan	Offered to truck companies to finance fuel-efficient technologies.	USA
Credit Card	A percentage of card payment is donated to organizations that are dedicated to improving the environment	USA, Canada, UK, Netherland, Bangladesh
Deposit	Collected deposits are lent to reduce environmental damages and conserve natural resources .	USA Australia
Sales	No financial gains, but may improve customer loyalty and acquisition	Europe

3. Bangladesh Perspective

In Bangladesh the term “Green Banking” has developed into a buzz word. However, the achievement of banks in incorporating environmental risk in lending decisions is not satisfactory. This is largely due to inadequate existence and poor enforcement of existing laws and inadequate pressure from civil society and interest groups.

3.1 Policy Guidelines

In June 1997, Bangladesh Bank (BB), the Central Bank of the country, directed all commercial banks (BRPD-No-12 dated 8.10.1997) to undertake necessary steps for implementing the provisions of Environment Conservation Act 1995 (ECA). Commercial banks were asked to ensure that steps have been undertaken to control environmental pollution before financing a

new project or providing working capital financing to the existing enterprises. Later on, a Guideline on Corporate Social Responsibility was circulated by Bangladesh Bank in 2008 in order to encourage the practice of social responsibility among banks and financial institutions. As a continuation in April 2010, BB published annual review of CSR practices by the scheduled banks operating in Bangladesh and emphasized on socially and environmentally responsible banking practices (BB, 2010). Table 3 provides a list of the relevant green banking regulations in Bangladesh.

Table 3: Relevant legislations promoting green banking in Bangladesh

Year	Events	Purpose/Effect	Impact on Banks
1995	Environment Conservation Act by <i>Department of Environment (DOE)</i>	Provisions regarding environmental conservation	The first regulation related to environment in Bangladesh
1997	Environment Conservation Rules, 1997 by <i>Department of Environment</i>	Made Environmental Clearance Certificate mandatory	Based on this rule, Bangladesh Bank initiated environmental good practices
1997	Circular on Environmental Compliance by <i>Bangladesh Bank</i> (BRPD Circular No. 12, 1997)	Directive by the central bank (Bangladesh Bank) to adhere to Environment Conservation Rules 1997 and control environmental pollution in financing	The first circular directing banks to be environmentally responsible
2011	Policy Guidelines for Green Banking by <i>Bangladesh Bank</i>	The policy was divided into three phases and set three-phased time lines to promote green banking	No directions were provided to quantify environmental risk in CRM

Sources: Compiled and rearranged from Bangladesh Bank (1997) and Bangladesh Bank (2011a and 2011b)

In the follow-up pursuit to encourage green banking process, Bangladesh Bank (BB) almost simultaneously published and circulated “Policy Guide-

lines for Green Banking ” and “ Environmental Risk Management Guidelines ” in 2011 . By publishing these guidelines, Bangladesh Bank has claimed to be the only central bank which has issued an indicative guideline for green banking (Rahman , 2011) . As shown in Table 4 , these have greatly emphasized on the adaptation of a comprehensive green banking policy by commercial banks within December 2013 (TDS , 2011) . Some incentives were declared for banks promoting green banking such as higher

Table 4: Green banking policy guideline

Phase	I	II	III
Timeline	Dec 31 , 2011	Dec 31 , 2012	Dec 31 , 2013
Policy	Policy Formulation & Governance	Sector-specific Environmental Policies	Designing and Introducing Innovative Products
	Incorporation of Environmental Risk in CRM	Green Strategic Planning	Reporting in Standard Format with External Verification
	Initiating In-house Environment Management	Setting up Green Branches	
	Introducing Green Finance	Improved In-house Environment Management	
	Creation of Climate Risk Fund	Formulation of Bank-specific Environmental Risk Management Plan & Guidelines	
	Introducing Green Marketing	Rigorous Programs to Educate Clients	
	Online Banking	Disclosure & Reporting of Green Banking Activities	
	Supporting Employee Training, Consumer Awareness & Green Event		
	Reporting Green Banking Practices		

Source: Reconstructed from Bangladesh Bank , 2011

points in CAMELS rating, priority in opening new branches, separate treatment in capital adequacy calculation, and positive publicity by inclusion in the list of topten green banks, etc.

3.2 Green Financial Products

In Bangladesh various green financial products or services are making their way to the market. Solar home system, solar irrigation pumping station, bio-gas plant, effluent treatment plant, green credit card, etc. , are common green financial products seen in the market. Among the new Bangladeshi banks, one became the member of The Global Alliance for Banking

Table 5: Green Financial Products in Bangladesh

Products	Bank (s)	Amount/Quantity (in Million BDT)
Solar Home System	Mutual Trust Bank	59.3
	AB Bank	3.5
	Al Arafah Islami Bank	20
	National + Uttara + Rupali + Jamuna Bank	8.5
Solar Irrigation Pumping Station	Mutual Trust Bank	3.8
Bio-gas	Trust Bank + Mutual Trust Bank + National Bank	51.5
Effluent Treatment Plant	Prime Bank + Mercantile Bank	10.7
Hybrid Hoffman Kiln (HHK) brick field	Sonali Bank	Refinance
Solar Powered ATM booth	Al Arafah Islami Bank	1
Planet Card	BRAC Bank	

Source: Rahman (2011)

on Values (GABV) - a network of the world's leading sustainable banks including Vancity of Canada. It has also become the regional winner of " Asian Emerging Markets Sustainable Bank of the Year 2010 ". It has launched ' Planet Card ' in 2010 to help create a green fund and mobile phone banking named *bKash*, expected to reduce physical and paper-based transactions. Banks in Bangladesh are providing greater emphasis on providing banking services thorough mobile phones as mobile penetration rate is very high. Twelve banks already got licenses and are on the way to deliver the service in near future. Table 5 summarizes the green financial products and initiatives by the banks as on June , 2011.

3.3 Signatories

Currently, only one financial institution, IDLC Finance Limited is the signatory of UNEP-FI (UNEP-FI , 2011) . There are still no banks and no other financial institutions signing the Equator Principles (EP , 2012) .

4. Challenges

Given the current scenario of developments in Bangladesh in promoting green banking, the following challenges can be summarized:

First, implementations of various existing guidelines by banks are largely voluntary in nature. Given the nature of bank management practices in Bangladesh, these will get less priority as they are not considered as mandatory.

Second, the credit assessment and management framework prescribed by Bangladesh Bank and currently followed by all the scheduled commercial banks i.e. Credit Risk Management (CRM) does not include any risk criteria for considering environmental, social and governance aspects of a particu-

lar loan project. Banks are asked to launch their own environmental risks assessment framework and no clear direction is provided regarding quantification and inclusion of environmental risk in CRM.

5. Recommendations

Given the current status of green banking the policy makers can be guided by the following policy recommendations:

The first and foremost step to promote green banking would be building awareness of the relevant stakeholders such as bank management, credit risk analysts, borrowers, investors and also regulators. No policy measures will work effectively without the support and understanding of the concerned parties.

Appropriate techniques should be suggested for quantification of environment, social and governance factors and incorporate them into credit risk grading of lending decisions. Current Credit Risk Grading Manual (CRGM) needs to be revised.

In order to be green banks should promote environmental consciousness, social responsibility and good governance by themselves. They should ensure efficiency in using space, water, energy, paper, etc., in its offices and branches. Online communication, energy efficient lighting, automatic shut-down of lights, computers, fans and AC, use of energy efficient vehicles, solar powered branches and ATM booths, recycling of office equipment and materials, efficient waste management, etc., should be encouraged.

A standard uniform reporting format should also be developed under the leadership of the Bangladesh Bank to disclose and report green banking practices and lending risk exposure of individual banks. These reports

should be disseminated to public through annual reports and web sites.

Finally, positive green banking performance or initiatives should be rewarded. Green rating index like Dow Jones Sustainability Group Indices (DJSGI) might be developed in Bangladesh. This will motivate the banks to be more conscious as they will have direct impacts on their performance evaluation.

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