Green Banking: An Approach for Sustainable Banking

Green Banking means promoting environmental – friendly practices and reducing carbon footprint from banking activities. It is also called as ethical banking or a sustainable banking.

Green Banking is a process practiced by the banks to make the earth environmentally appeasing and safe habitable for all of the species on the earth. A Green Bank considers all the social and environmental/ecological factors in its normal banking operations with an additional agenda toward taking care of the Earth's environment / habitats / resources. Green Banking involves the tenets of sustainability, ethical investing, conservation and energy efficiency to protect the environment and natural resources.

The banking sector is one of the major sources of financing industrial projects such as steel, paper, cement, chemicals, fertilizers, power, textiles, etc., which cause maximum carbon emission. Therefore, the banking sector can play an intermediary role between economic development and environmental protection, for promoting environmentally sustainable and socially responsible investment. „Green banking‟ refers to the banking business conducted in such areas and in such a manner that helps the overall reduction of external carbon emission and internal carbon footprint. To aid the reduction of carbon emission, the Bank has taken the following initiatives.

Initiatives taken by the Bank:

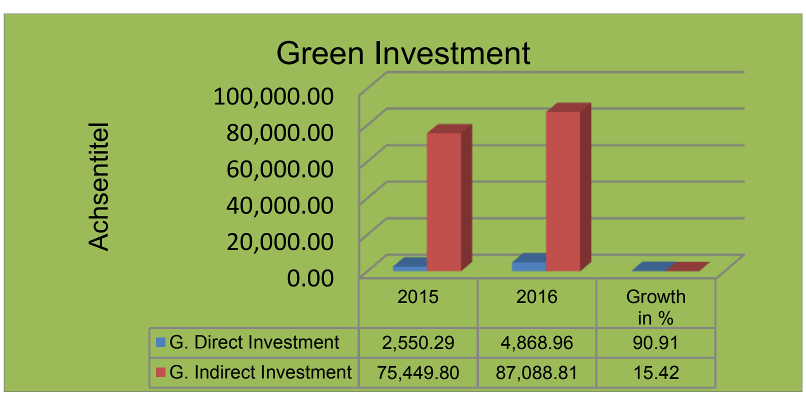
Areas of Green Banking

1. **General banking**
   The Bank uses the state-of-the art technology to provide various banking services on E-commerce platform. These products are like i-Banking, Phone banking, Visa Debit Card, Khidma Credit Card, mCash, Call centre and so on.
2. **Green investment**
   Green Investment implies investment that helps recover the environmental degradations, prevent deterioration of the environment and are not harmful to the environment. Green Investment includes both Direct and Indirect Green Investment.

2(i) **Direct green investment:** Direct Green Investment means investment to the businesses to procure/purchase/set up Green Products, establish Green Industry and transform existing traditional ones to environment friendly ones.

2(ii) **Indirect green investment:** Indirect Green Investment means working capital investment to environment friendly plants /industry/products to carry out their businesses.

The total disbursement in green investment in 2016 and 2015 were respectively Tk. 91,957.77 million and Tk. 78000.09 million, i.e. 17.89% growth in 2016. The following chart presents a brief disbursement scenario of green investments of the Bank for the year 2015 and 2016:



The chart presents that, the growth of Direct and Indirect investment in 2016 was 90.91% and 15.42%

3. Environmental risk management (ERM)

The Bank in its business decision considers Environmental Risk Management alongside the Investment Risk Management system and carries Environmental Risk Rating (EnvRR) of the investment proposals within the following applicable investment limits/thresholds:

- For Small and Medium Enterprises (SMEs), financing > BDT 2.5 million
- For Corporate, financing > BDT10 million and
- For real estate financing > BDT10 million.

In 2016, 2142 number of investment projects were rated out of 2624 applicable investments where as in 2015, 2286 number of investment projects were rated out of 2628 applicable investments.

4. Climate risk fund (CRF)

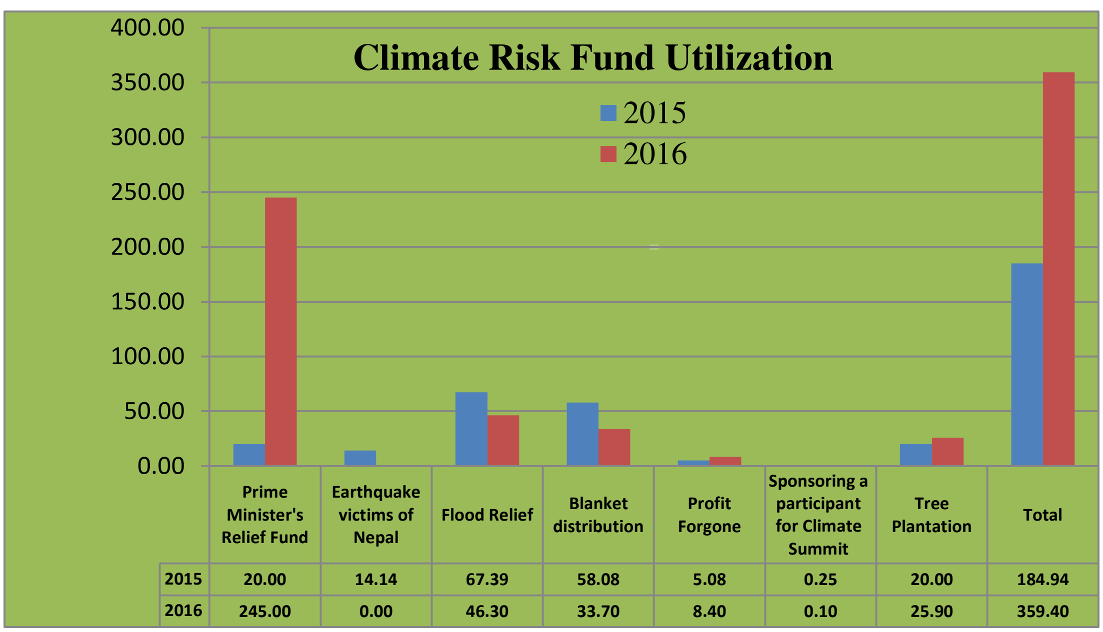
Climate change is the most complicated issue the world is facing. Across the globe there have been continuous endeavors to measure and mitigate the risk of climate change caused by human activity.

as per Bangladesh Bank requirement, CRF as a part of CSR is used under Environment Friendly Banking for the activities related to prevention of environmental pollution and degradation, mitigation and adaptation of climate change issues, reduction of carbon emission rate, disaster management (prevention & rehabilitation) etc.

The fund may be used as donation as well as investment at reduced rate of return (Rate of return is less than the weighted average cost of fund) for the climate change vulnerable people.

The total CRF utilization of 2016 and 2015 were Tk. 670.77 million and Tk. 577.30 million respectively, i.e. 16.19% growth in 2016. The percentage of CRF in 2016 in relation to the total CSR activities was 53.58%. It is to be mentioned that, as per Bangladesh Bank requirement, the Bank is to allocate minimum 10.0% of its annual CSR budget as CRF which is also treated as a part of bank's CSR.

The following chart presents a brief scenario of uses of climate risk fund for the year 2015 and 2016:



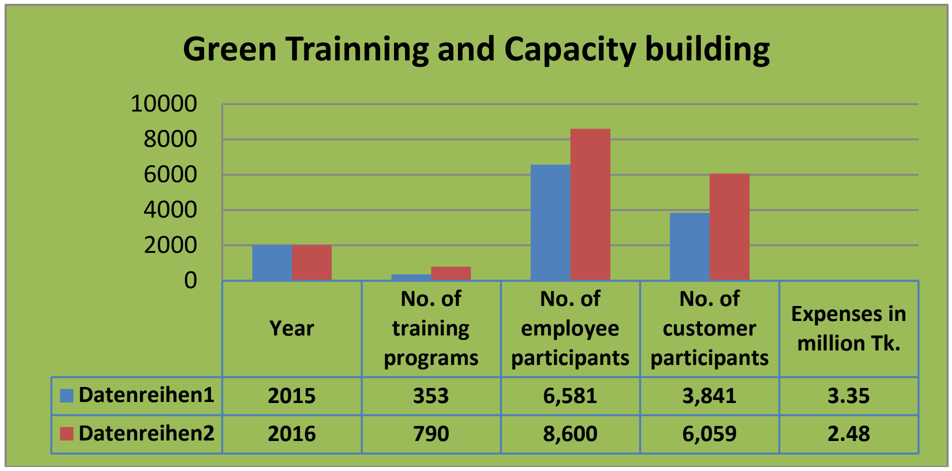
	Prime Minister's Relief Fund	Earthquake victims of Nepal	Flood Relief	Blanket distribution	Profit Forgone	Sponsoring a participant for Climate Summit	Tree Plantation	Total
2015	20.00	14.14	67.39	58.08	5.08	0.25	20.00	184.94
2016	245.00	0.00	46.30	33.70	8.40	0.10	25.90	359.40

The chart shows that the Bank increased its Climate related CSR activities in 2016 in relation to the year 2015. It is to be noted that the Bank sponsored Tk.0.25 million in 2015 & 0.10 million in 2016 for a Bangladeshi Reporter who participated in the World **Climate Summit.**

5. **Green training and capacity building**

Green banking training and capacity building for the employees in the form of (a) Green Events like seminars, symposiums, discussion meetings etc. are arranged by all the operational units, and (b) Academic training and workshops on green banking, environmental & social risk management were arranged by IBTRA and HRD.

The following chart presents a brief scenario of green banking training and capacity building for the year 2015 and 2016. In 2016, the Bank increased its green training and capacity building activities in relation to 2015.

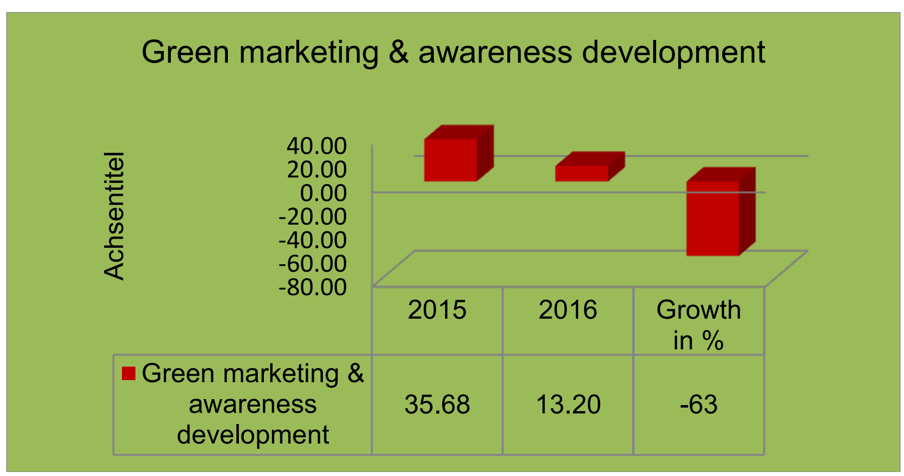


6. **Green marketing and awareness development**

For the marketing of the Bank's green products and awareness development of the clients and public on environmental issues, the following steps were undertaken:

- Motivation: Clients were motivated for making their products, productions & packaging process environment friendly.
- Advertisements: Advertisements were given in both print and electronic media on green banking products/issues.
- Publications: The Bank published various publications exclusively on green banking products and issues.
- Public Events: The Bank arranged events publicly on green banking.

The chart shows the Bank's vigorous efforts for green marketing and awareness development programs and relevant expenses. The growth in 2016 of Green marketing and awareness development programs was (63%) over 2015.

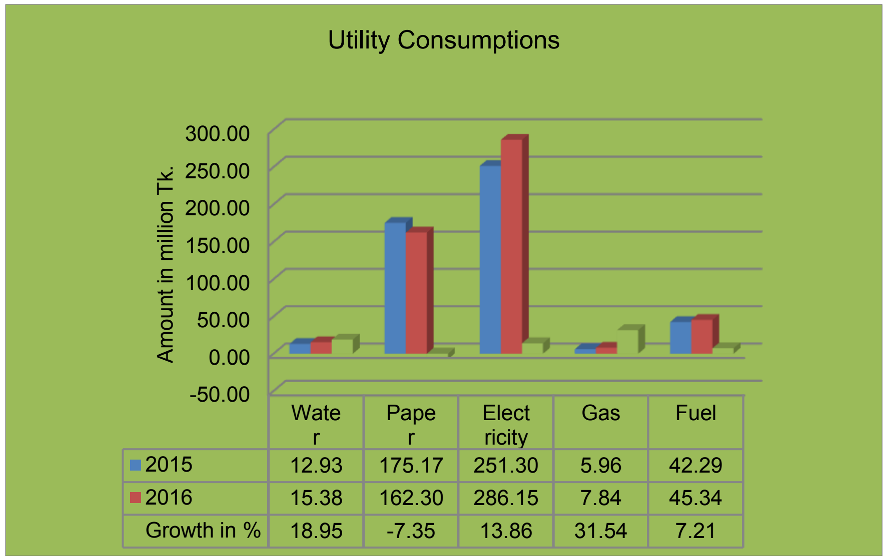


7. **In-house environmental management**

The Bank manages its in-house activities in environment friendly ways to reduce its own carbon footprint by exercising the direction of the Holy Qur'an "And do not spend wastefully. Do not be a spendthrift because the spendthrifts are the brethren of Satan and Satan has been ungrateful to his Lord." Surah Bani Israil-26-27. Different areas of in-house environment management are given below:

A. Utility consumptions

Responsible usage of utilities is a primary commitment of the Bank. The following chart presents a brief scenario of utility consumptions of the Bank for the year 2015 & 2016. Papers consumptions had negative growth, i.e. despite the growth of establishments and business volume, the workforce used it very responsibly. Other cases, due to the growth of offices and business, had positive growth.



	Water	Paper	Electricity	Gas	Fuel
2015	12.93	175.17	251.30	5.96	42.29
2016	15.38	162.30	286.15	7.84	45.34
Growth in %	18.95	-7.35	13.86	31.54	7.21

B. Waste management

The Bank emphasizes in waste minimization of its resources and centrally collects its e-wastes and other solid wastes from every operational unit and disposes centrally through e-tendering that are environmentally friendly and safe. In 2016, the Bank earned Tk.4.50 million from sale of its e-wastes.

C. Renewable energy

The Bank has strong commitment to use renewable energy resources in its operations and as such installed solar panels at Head Office and 50 other branches.

D. Green travel

IBBL always encourages its employees to undertake Green travel for personal as well as business travel and has the arrangements of hybrid autos and car pooling system.

E. Ethical banking

The Bank aims to run in such a way that does not have any negative impact on either society or the environment. The principles of the Bank based on Islamic Shari'ah have a direct impact on how it invests and utilizes its resources. It does not finance enterprises that deal in morally questionable businesses.

The Bank attempts to maximize social welfare, reduce any type of environmental degradation and hazards through its operational activities and protect the nature. Moreover, the Bank's core principle is the protection of resources for the future generation.

8. Green targets, strategic plan and budget

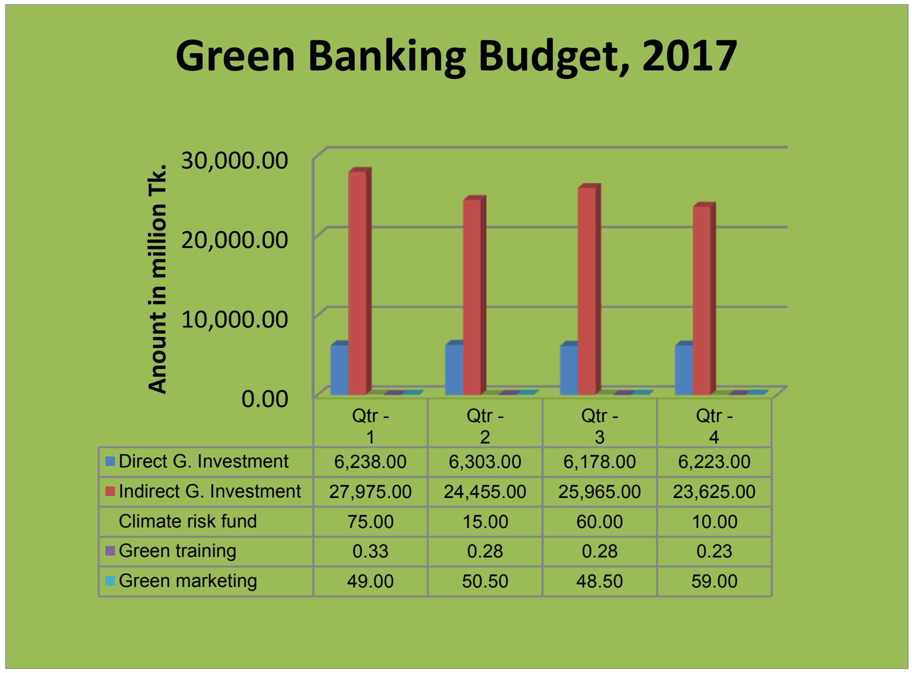
The Green banking requires annual targets, strategic plan and budget at the relevant activities duly approved by the competent authority.

- Targets: Each year the Bank is required to determine a set of green yearly targets.

- ➢ Strategic plan: It includes required means of materializing the actions, supervision, monitoring, evaluating the achievement, training/ awareness development (with numbers and nature) and promotion programs.
- ➢ Budget : Necessary budget for pursuing the strategic plan and the targets will also be drawn.

The green banking budget for the year 2017 covering the related areas of green banking activities of the Bank is presented in the chart.

The quarterly segmented budgets of various areas of green banking show that Indirect Green Investments have the largest budget followed by Direct Green Investment. The Green Training has the smallest allocation, i.e. only Tk. 1.12 million.



	Qtr - 1	Qtr - 2	Qtr - 3	Qtr - 4
Direct G. Investment	6,238.00	6,303.00	6,178.00	6,223.00
Indirect G. Investment	27,975.00	24,455.00	25,965.00	23,625.00
Climate risk fund	75.00	15.00	60.00	10.00
Green training	0.33	0.28	0.28	0.23
Green marketing	49.00	50.50	48.50	59.00

Priorities for 2017

The Bank will pursue all the relevant areas of green banking with the special focus on the following areas of Green Initiatives in 2017:

- 5.0% of total disbursed funded investments in Direct Green Investments.
- Expansion of i-Banking and ADC products coverage.
- Use of Video Conferencing instead of physical movement.
- Lesser paper use and use of on net communication.
- E-tendering and E-recruitment.
- Careful use of paper, water, electricity, gas and other materials to reduce own carbon footprint as well as cost.
- To check the awareness of green banking among bank employees, associates and general public.
- To create more awareness about green banking among the general public and consumers and bank employees.
- Creating awareness to business people about environmental and social responsibility enabling them to do an environment friendly business practices.
- To categorize all the transactions based on their environmental and social risk.
- To conduct environmental and social due diligence.
- To monitor the clients' environmental and social performance.
- To manage a client's non-compliance with the banks environmental and social standards.

Green Banking or Environment friendly banking assures sustainable growth of the institutions and the country. It contributes quality avenues of the banking. The Bank by its morale exercises the environment friendly banking from its very inception. Nowadays it gained a new shape of budget, target and disclosure based on national and international demand. We are to go to the optimum level in the formal manner. The green banking concepts and its practices are to be internalized by the all workforce. So, it is now become imperatives for us to realize and implement the green banking practices to protect the image of the institution as well as to remain compliant of the regulatory guidance.

Imperatives of Green Banking: Green banking is very important in mitigating the following risks involving the banking sector:

i) **Credit Risk**: Due to climate change and global warming, there have been direct as well as indirect costs to banks. It has been observed that due to global warming, there have been extreme weather conditions which affect the economic assets financed by the banks, thus leading to high incidence of credit default. Credit risk can also arise indirectly when banks lead to companies whose businesses are adversely affected due to changes in environmental regulation.

ii) **Legal risk**: Banks, like other business entities, face legal risk if they do not comply with relevant environmental regulation. They may also face risk of direct lender liability for cleanup costs or claims for damages in case they actually take possession of pollution causing assets.

iii) **Reputation Risk**: Due to increasing environmental awareness, banks are more prone to reputation risk, if their direct or indirect actions are viewed as socially and environmentally damaging. Reputation risks emerge from the financing of environmentally objectionable projects.