

# Moving Towards the Socially Responsible Banking Through Green Banking Initiative: An Investigation on IBBL

Mousumi Sultana

## Abstract:

Bangladesh is one of the climate change endangered countries in the world, having numerous disasters around the year due to its geographical location, low lying landscape, and a high amount of carbon emission. To overcome the adverse climate change impact, Bangladesh bank has directed all the banks sincerely and thoughtfully to adopt green banking practices for the betterment of the country. In particular, Green banking aims to choose environment-friendly banking practices for all banks and sustainable financing for its clients. The ground of the paper is to encourage green banking practice and explore its potentials in commercial banks where Islami Bank Bangladesh Ltd. (IBBL) is considered as an instance. The analysis of the paper is based on secondary data sources. In the data collection process, the last five consecutive years' published data of IBBL's green banking disclosure were taken into account. The study's objective is to measure how effectively IBBL is performing its green banking obligation by analyzing and comparing each year's value to the subsequent year. For the data analysis, the author has used MS Excel and a simple growth rate model. The study found a positive growth rate in direct green investment and CRF utilization of IBBL. However, the growth of the green marketing, awareness program and the bank's utility consumption appeared with a negative growth rate. The study also resulted in IBBL's inconsistent growth in waste management and renewable energy management. The overall performance of the green banking practice of IBBL for 2014 to 2018 was good. Therefore, it is expected that the banks will focus more on green banking issues to attain socially responsible banking to reduce environmental degradation.



IJSB  
Accepted 25 November 2020  
Published 27 November 2020  
DOI: 10.5281/zenodo.4293181

**Keywords:** Green Banking, Socially Responsible Banking, Green Investment, IBBL, Bangladesh.

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## 1. Introduction

Green banking aims to reduce carbon emissions by adopting environment-friendly banking practices. Generally, this concept emphasizes the most effective and proficient use of technology and physical setups in banking industries to minimize paper use to lessen environmental deterioration. More precisely, Green banking is an attempt by the banks to recuperate the natural atmosphere and creating green industries (Biswas 2011). The wellness of the environment is collapsing sharply due to global warming and the ultimate climate change. Therefore, the world is facing different kinds of natural disasters like floods, cyclones, droughts, landslip, melting iceberg, and increased sea level. As a part of low-lying land and downcast region, Bangladesh is more prone to life and environmental damage due to global warming (Masukujjaman & Aktar 2013). If this situation goes along with time, humans, animals, and the whole world may lose its existence. As organized and structured financial institutions, Banks can play a significant role in protecting the environment by applying the Green Banking concept in their everyday business operations. For instance, before sanctioning the loan and advances, they can evaluate their loan projects and businesses considering the future effect on the environment to promote and patronize the green banking approach (Islam & Das 2013). The Shari'ah based feature of Islami Bank Bangladesh Limited (IBBL) ascertains a potent base of wellness for the overall humankind and the earth. IBBL ensures proactive and judgmental arrangements for environmental degradation through its green banking activities. Hence, the banking sector is considered more environmentally friendly now a days, for its internal banking operations for its prudent use of technology, energy, water, and paper (Biswas 2011). The paper aims to determine the role of IBBL in performing its green banking activities to form and keep an eco-friendly environment for future generations. The study also tries to justify the impact of Bangladesh Bank to accelerate the green banking concept among the commercial banks of Bangladesh through its policy guidelines.

## 2. The Rationale of the Study

Banks are the corporate citizens of our economy. Besides human beings, banks are also liable to protect the earth from global warming, environmental deterioration, and carbon footprints as they are one of the sources of capital for environmentally harmful projects such as power, energy, chemicals, and many more. If banks are sensible to distribute their fund in eco-friendly business products or projects, it can ensure socially responsible banking that supports long-term ecological balance. Hence, the study is undertaken to explore the benefits of green banking that directs, motivates, and encourages the banks to practice and adopt this concept within the organizational setup.

## 3. Literature Review

Afroz (2017) concluded that the consequence of environmental deterioration would mostly affect Bangladesh. However, this situation can be alleviated if the banking sector adopts an effective green banking policy and promotes its online banking activities. This study focuses on IBBL green banking activities only for the year of 2014. Thus, the update and comprehensive research on IBBL's green banking initiatives are a need of time now. Masukujjaman et al. (2016) conducted a study with twenty-one branches of seven Islamic Banks' data and found close relevancy between green banking and Islamic banking in Bangladesh. The study advocated that high adoption cost hinders green banking adoption in Bangladesh, which can be reduced if Bangladesh Bank manages fund allotment for this issue.

Ahuja (2015) recommended that every business should care for environmental protection and social awareness, along with profit. The author supported that green banking could be the way to move towards the green economy with the banking industry's help. The author identified ignorant customers and the lack of proper education as the green banking policy's obstacles in the economy. But there is no hard evidence or data-based analysis of how these problems can be minimized to attain the green banking policy to the fullest by the banks.

Shakil, Azam & Raju (2014) pointed out that the green banking initiative of PCBs (Private Commercial Banks) and FCBs (Foreign Commercial Banks) is comparatively good in Bangladesh than SCBs (State-Owned Commercial Banks) and SDBs (Specialized Development Banks) as they lack online banking facilities and proper infrastructures. The study urged for the government and Bangladesh Bank to assist in the creation of the fund and technical support for the SCBs & SDBs to promote green banking practice.

Lalon (2015) has elucidated that the world is relishing some environmental benefits through green banking. The author has supported environment-friendly core banking operations of conventional banks to enhance the green banking concept. The author showed the aggregate scenario of green banking activities of SCBs, SDBs, PCBs, and FCBs together concerning the record of Bangladesh bank but missed how exactly and effectively these different banks are playing their individual role for a green economy of Bangladesh.

Ullah (2014) tried to assess the overall green banking achievements in Bangladesh for the year 2012 and proclaimed that lack of environmental law imposition, one size fits all policy, nescient customers are hindering in the long term goal achievement of green banking policy in Bangladesh. The study emphasized setting a different time frame for the banks' green banking policy attainment considering their size and operational capacity and calling for massive participation of government, banks, and the general public to take green banking to the next level in Bangladesh. Nevertheless, the study did not mention the extent to which the time might be extended by the central bank to accomplish the desired goal.

#### **4. The Emergence of Green Banking in Bangladesh**

Green banking is a prominent type of banking practice for both bank and non-bank financial institutions. This initiative tries to reduce greenhouse gas emissions in their regular banking activities and motivate their customers to adopt an environmentally friendly lifestyle and investment projects. Particularly, under green banking practice, banks embrace automation and online banking services and prefer environmentally low-risk investments or green projects to ensure social security (Lalon 2015). With accountability towards the country, Bangladesh Bank formulated a road map policy guideline to adopt the green banking policy for all the commercial banks in 2011 (Ullah 2013). In the policy, Bangladesh bank clearly stated that banks would get some positive reward in CAMELS rating and new branch opening if green banking practice is high-principled as per the guidance of Bangladesh Bank (Bank, B. 2011).

## Bangladesh Banks Policy Guidelines to Promote Green Banking in Bangladesh

Different Phases of Green Banking Instructed by Bangladesh Bank		
Phase I (Deadline: June 30, 2014)	Phase II (Deadline: December 31, 2014)	Phase III (Deadline: June 30, 2015)
Policy Formulation and Governance	Sector Specific Environmental Policies	Designing and Introducing new 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 Plan and Guidance	
Introducing Green Marketing	Rigorous Programs to Educate Clients	
Online Banking	Disclosure and Reporting of Green banking Activities	
Supporting employee Training, Consumer Awareness and Green event		
Disclosure and Reporting of Green Banking Activities		

Source: Green Banking and CSR Department {(GBCSRD Circular Letter No-05, (September 11, 2013))}

## 5. Green Banking Initiative of IBBL

Along with Shari'ah based banking, Islami Bank Bangladesh Limited (IBBL) offers its customers numerous financial services emphasizing ethical and environmentally responsible principles (IBBL Green Banking Disclosure, 2013). With no delay, soon after getting the policy guideline for green banking from Bangladesh Bank (BPRD circular no.02, 27th February 2011), IBBL instructed all of its concerns to strictly follow and implement the green banking concept as per the direction of Bangladesh Bank (IBBL Green Banking Disclosure report 2013, Afroz 2017).

## 6. Methodology

**6.1 Sample and sampling technique:** Simple random sampling technique is employed in this study. Thus, IBBL is chosen randomly from the scheduled private commercial banks of Bangladesh.

**6.2 Data source:** The study is based on the published secondary data of IBBL. The author has used 5 (five) years of comparative green banking data disclosed by IBBL on its official website.

**6.3 Analyzing methods:** The study shows 5 years of a comparative statement of IBBL's green banking activities. Besides, the following simple growth rate formula has been used to find out the year-wise progress of IBBL's green banking efforts.

$$\text{Growth Rate in \%} = \frac{\text{Final Value} - \text{Initial Value}}{\text{Initial Value}} * 100$$

## 7. Descriptive Analysis, Findings and Discussion:

### 7.1 Green Investment:

Green investment, also known as socially responsible investment, ensures environmentally friendly products or businesses. Generally, green investment either reduces carbon emissions or decreases natural energy consumption (Eyraud et al. 2011). The found that IBBL has a

great interest in green investment financing and the examples of its green investments are solar energy, biogas, recyclable products, environment-friendly brick production, and many more.

**Table 1: Direct Green Investment of IBBL (2013-2018)**

Year	Direct Green Investment	
	Amount (in million Taka)	Growth in %
2014	3595.00	
2015	2550.29	-29.06
2016	3868.96	51.71
2017	3884.00	0.39
2018	10226.28	163.29

Source: Green Banking Disclosure of Islami Bank Bangladesh Limited, IBBL (2013-2018)

The above table shows the year wise direct green investment allotment amount of IBBL along with the comparative performance growth rate. IBBL's performance in direct green banking activities shows inconsistency during the year 2013 to 2018. In the year 2018, IBBL's performance is noticeable compared to the previous year, having an enormous amount of direct green investment and a growth of 163.29%.

### 7.2 Climate Risk Fund (CRF):

As per the instruction of Bangladesh Bank, IBBL has developed CRF (part of Corporate Social Responsibility), which is used for the banking activities minimizing pollution, carbon emission, climate change issues, natural disasters, etc.

**Table 2: Climate Risk Fund (CRF) of IBBL (2014-2018)**

Year	Climate Risk Fund Utilization	
	Amount (in million Taka)	Growth in %
2014	127.03	
2015	182.67	43.80
2016	359.40	96.75
2017	326.47	-9.16
2018	671.72	105.75

Source: Green Banking Disclosure of Islami Bank Bangladesh Limited, IBBL (2013-2018)

The above table indicates the year wise CRF utilization amount along with a growth rate. The data shows that IBBL has a positive upward trend in CRF utilization from 2014 to 2016. However, in the year 2017, the bank has slow performance and negative growth in CRF utilization. In 2018, IBBL has shown a tremendous performance indicating a growth of 105.75%.

### 7.3 Green Marketing & Awareness Development

Green marketing assimilates a wide variety of activities, including modification of the product, changes in the production procedure, product packaging, and reshaping the advertising concept (Polonsky 1994). That is why, IBBL motivates its clients to adopt a green concept in their product, production, and packaging activities. In addition, the bank itself prefers to advertise its banking product and services through online media and arranges different public events on green banking adoption.

**Table 3: Green Marketing & Awareness Development of IBBL (2014-2018)**

Year	Green Marketing & Awareness Development	
	Amount (in million Taka)	Growth in %
2014	18	
2015	35.68	98.22
2016	13.20	-63
2017	22	66.67
2018	2	-90.91

Source: Green Banking Disclosure of Islami Bank Bangladesh Limited, IBBL (2013-2018)

The above table depicts the amount spent on green marketing and awareness programs of IBBL with the growth rate. The data shows too much incompatible nature of IBBL's fund allotment and spending on green marketing and awareness programs throughout the year 2014 to 2018. Specifically, in 2018, the bank has spent only 2 million for this purpose, which is the lowest ever amount in the last 05 (five) years history of IBBL.

#### 7.4 In-house Environmental Management

IBBL is influenced by the Holy Qur'an's direction, "And do not spend wastefully" (Surah Bani Israil), and tries to manage its in-house activities in an eco-friendly way to lessen carbon emission.

**Table 4: Utility Consumption of IBBL (2014-2018)**

Year	Utility Consumption Amount (in million Taka)						Total Growth in %
	Water	Paper	Electricity	Gas	Fuel	Total	
2014	12.32	169.69	255.79	2.73	50.60	491.13	
2015	12.93	175.17	251.30	5.96	42.29	487.65	-0.71
2016	15.38	162.30	286.15	7.84	45.34	517.01	6.02
2017	15.92	154.15	265.20	3.32	46.55	485.14	-6.16
2018	14.63	152.26	261.05	3.49	42.02	473.45	-2.41

Source: Green Banking Disclosure of Islami Bank Bangladesh Limited, IBBL (2013-2018)

The above table shows the year wise utility consumption amount of IBBL along with the growth rate. Instead of the business expansion of IBBL, it has lowered the use of utility consumption in 2017 and 2018, which is a positive move towards the bank's green banking initiative.

**Table 5: Waste Management & Renewable Energy of IBBL (2014-2018)**

Year	Earnings from e-waste (Amount in million Taka)	Growth in Earnings from e-waste in %	Number of Solar Panel Installed Office/Branches	Growth in Number of Solar Panel Installed Office/Branches from e-waste in %
2014	1.14	-	33	-
2015	2.40	110.53	35	6.06
2016	4.50	87.50	51	45.71
2017	1.13	-74.89	55	7.84
2018	3.45	205.31	55	0.00

Source: Green Banking Disclosure of Islami Bank Bangladesh Limited, IBBL (2013-2018)

The above table shows year-wise IBBL's earnings from selling of e-wastes and installation of the solar panel. The data shows that IBBL is conscious of its waste management and has earned a significant amount from selling its wastes. Though in the year 2017, the bank had shown a sluggish tendency but in 2018 it had sold a higher amount of its e-waste. Besides



this, the number of solar panels installed branch is increasing gradually. However, in 2018, the bank has no improvement in increasing the number of solar panel branches, which indicates zero growth for the bank.

## 8. Implications

This study can be used by both the central bank and commercial bank authorities in the policy formulation of their green banking activities. Banks can use the study at the time of their green banking training to the employees and customers. Finally, the paper can play a vital role for future researchers as their green banking literature.

## 9. Limitations & Future Research Direction

The study faced some common limitations, which are indeed the future research direction for the researchers. Firstly, the study is based on the published secondary data, which may be arranged by the accordance of the institution. Sometimes it is difficult to find the desired data from the secondary data. Researchers can perform their future reach on green banking by using some fresh and primary data to overcome the problems of secondary data. Secondly, the study is based only on the IBBL's green banking disclosure only. Researchers can conduct more research on green banking from the point of view of other commercial banks in Bangladesh.

## 10. Conclusion

The banking sector is one of the emergent financing sources of our economy for the most carbon emission sectors like brick, cement, fertilizer, chemical, paper, and so on. If banks can prove their discreet knowledge regarding these sectors' project financing, then carbon emission could be lowered. Most of the time, banks promote green banking practice in different ways and impels them to adopt green investment techniques for all types of business at a regular interval around the year. Banks can also award the best green business ideas just to demotivate carbon-intensive projects in the country.

Bangladesh faces a list of disasters around the year, such as extreme heat, drought, flood, cyclones, storm salinity intrusion surges. Saving mankind over the night is not possible; nevertheless, all the sectors' collective and prudent effort can gradually reduce carbon emissions. In this regard, banks can play a significant role in the creation of a potent and moderate carbon economy by furnishing the financing and investment policies (Bhardwaj & Malhotra 2013). Particularly IBBL should spread the knowledge and benefits of green banking among all its customers, prioritized green proposals against environmentally harmful ones to attain socially responsible banking.

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### Cite this article:

**Mousumi Sultana** (2020). Moving Towards the Socially Responsible Banking Through Green Banking Initiative: An Investigation on IBBL. *International Journal of Science and Business*, 4(8), 146-153. doi: <https://doi.org/10.5281/zenodo.4293181>

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