

Role of Banking in Sustainable Financing: Impact on Achievement of Sustainable Development Goals in Bangladesh

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Abstract

Banking is considered as a fundamental element to carry on different modern economic activities both in developed and developing nations all over the world. In the case of emerging nations like Bangladesh, implementing sustainable financing projects to provide maximum access to different sustainable financing commodities are difficult for various reasons. Without the better financial environment, it would be very difficult to implement any energy-related projects domestically. The main objective of this paper is to discuss how banking institutions can provide assistance for implementing sustainable banking projects in Bangladesh effectively.

Keywords: Sustainable Financing, Development, Bangladesh.

Introduction:

Bangladesh, a country from South Asia is one of the fastest growing economies in the world. The county achieved the tag “New Asian Tiger” and also considered as one of the “Next Eleven Economies (N-11)”. The Government of Bangladesh (GoB) has precise goals for development. Two of the most ambitious goals are vision 2021 and 2041 in which Bangladesh wishes to become upper middle income and developed country respectively. To fulfill these objectives, different financial institutions of Bangladesh’s role is important because without the financial support different energy projects may not be able to meet the demand for the objectives. Our primary objective will be to discuss effective roles of these institutes as well as recommending

policies. The rest of the paper has the following structure. The next section provides the brief literature review. The sequent section discusses the importance of financing energy projects followed by the role of financial institutes, challenges, and case studies. The last section provides a conclusion and policy recommendations.

One such element is the financial institutes’ role towards energy-related issues. In an economy, banks or other financial institutes occupy a unique and noteworthy place. These institutions can influence different economic activities, for example national output, expansion of business, ensuring sustainable investment environment and many more. These actions eventually assist to enhance the further

development process. On the other hand, a weak collaboration of financial institutes with other sectors can hamper the ongoing sustainable development process. As the significant portion of the gross domestic product (GDP) of the emerging countries is backed by the manufacturing sector which is highly energy intensive, the role of financial institutes is more critical in this case. Therefore, for emerging nations, it is important to fix a policy guideline for the role of the monetary institutes regarding energy projects to avoid any sudden distortions.

Background of the study:

Historically banks have been viewed solely as financial institutions, which should concern themselves with all things financial. Morality has not entered the equation. This public view has allowed banks significant leeway with concern to ethical standards. This is because they have not been associated with the actions taken by the businesses they lend to. Banks have also stated that a reason for not mounting the new challenges that sustainability presents is that such inspection would require interference in the activities of clients. However with changing social demands, and as more is known about the effects that banks can have through their lending policies, banks have begun to feel pressure from the general public, NGOs, governments, and the like to go beyond conventional business management. For example in the mid-1990s the Cooperative Bank asked 6,000 customers what their thoughts were on ethical banking; 84% responded that it was a good idea. In fact the cooperative bank was formed in response to the growing consumer base looking for ethically oriented banks.

Sustainable Financing concept has been developed by the modern banking approaches. Being part of society, a bank has to work for society's people. They have to think about the society as well as our environment because as part of society banking institutions must work for the environment's wellbeing and society's progressions. So green banking has been actually derived from the ethical banking.

Objectives:

At this backdrop the proposed research is an attempt to focus the role of Banking in Sustainable Financing of Bangladesh. Moreover, in the study, efforts were made to identify the benefits of sustainable banking for the banking sector to achieve Sustainability Development Goals (SDGs).

Methodology:

The study is based on both primary and secondary sources. In order to know the current prospects of sustainable financing, a primary survey on 100 entry level bankers was conducted. The facts have been presented after the discussion with colleagues. The secondary data were collected on perusal of the selected available research work, text book, articles, journals, newspaper analysis, related websites and analysis of reported case decisions. The data are tabulated and analyzed by the researchers afterwards.

Literature review:

Alice Mani (2011) mentioned that as a socially responsible corporate citizen (SRCC), there is a major role and responsibility for the increase in government initiatives for substantial reductions in carbon emissions. For sustainable development, banks can implement and initiate green banking. The authors reviewed and compared the green loan policy by the Bangladesh Bank in the light of their acceptance and commitment to environment and environment friendly projects.

Davidson Kathryn (2011) has conducted the study on "Reporting Systems for Sustainability: What Are They Measuring?" This study discusses whether sustainability indicators in the Australian context are derived from an epistemologically consistent [9] framework. It is argued that the validity of current sustainability reporting systems is contestable.

Douglas (2008) found four key findings: (a) banks are discussing the opportunity to trade climate change in their annual report, (b) many banks calculated their greenhouse gas emissions; (c) demand for climate-friendly financial products and services are increasing, and (d) investment banks support a trading system of emissions and play a leading role in introducing new risk management products. In other side results indicate that monetary policies contribute to long-term sustainable investments.

Khan, M. T. (2015) finds that banking sector in Bangladesh responds relatively late in case of sustainability reporting. There is this common perception among the bankers that banks are in general relatively environment-friendly entities, in terms of emissions and pollution. But, given the bank's detail analysis of safety of their investor's and depositor's money, the banks are surprisingly slow to analyze the environmental footprint of their clients. A stated reason behind this was such that in doing sustainability reporting and including their clients in it meant "interference" in the clients' activities.

Nieminen and Niskanen (2001) in his voluntary environmental report mentioned about which was mostly limited to the agency from the high environmental impact industry in the industrialized countries. In KPMG's report in 2002, it has been found that recent reporting methods show that environmental communications are becoming common in non-industrial sectors and in different regions of the world. However, environmental reports are still exist in the United States, Japan, Germany and the UK. And chemicals, pharmaceuticals, electronics and automotive industries are among the lowest positions in industries. Similarly, the size of the company is also determinant of environmental disclosure.

Smith (2007) and Alrazi (2009) described that the disclosure of environmental data is not a priority for the companies in Malaysia. However, the company expresses environmental concerns for the creation of a "good corporate citizen" image. Studies in Boniyamin (2010) shows that companies operating in environmentally sensitive industries are fewer than the volume of environmental disclosure and low quality and large-scale environmental data and environmental data released.

Jones (1998) opined that the popularity of the Internet and the World Wide Web has encouraged more organizations to use them for environmental disclosure.

Thompson (2004) concluded that although banks might seem to occupy a privileged informational position, they might be supportive of extensions in environmental disclosure practice, whether it is voluntarily or required by legislation.

Strandberg (2005), from January to March 2005, fifty international corporate social responsibility finance thought leaders were interviewed for CSR's future opinion and stability of money and investment. According to the report, they mostly believe that the moral consumer market will increase and will be driven by product awareness, assessment and social and environmental degradation. Human resource management benefits derived from CSR are an important way to improve financial performance.

Seuren (2009) and Hoepner (2010) highlighted the importance of risk management, social issues, environmental problems and moral problems for the performance of banks and other financial institutions. Studies generally indicate that the banks follow the rules in Western European countries and take initiative for their sustainable development. They gave three indicators of society, environment and economy almost the same value. The RARE organization research shows that most of the

European banks did not measure the performance of indirect aspect (customer and financial products). Vigano (2006) concluded that the OECD-Europe region was developed on environmentally friendly products and services. The sustainable evaluation results of six UK banks show that most banks have reached the prevention banking level when the two banks reached the high level of objectionable banking.

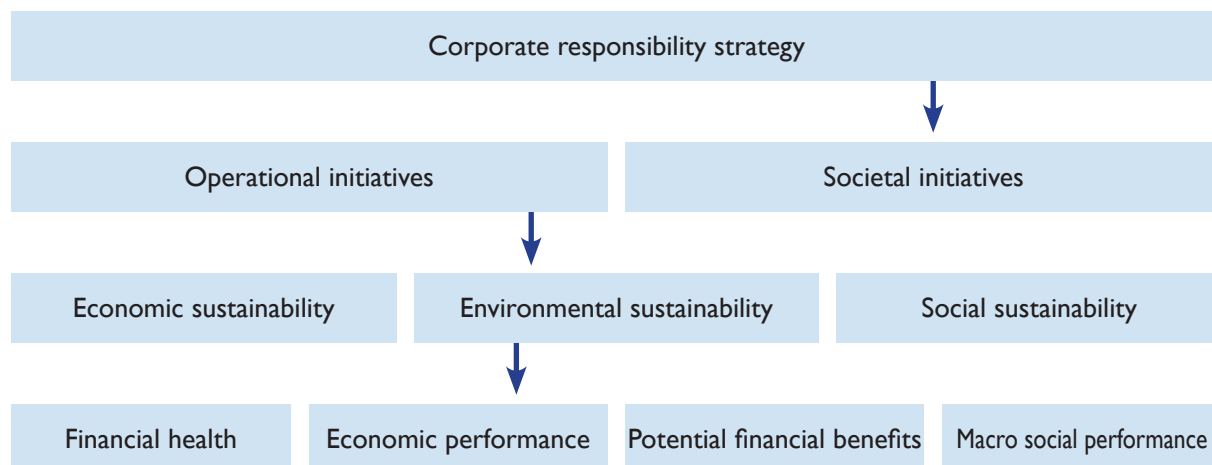
Yadav (2016) observes that the sustainability reporting scenario is still in primary stage. He conducts a research on Indian commercial banks on the basis of the state of their sustainability reporting. He concludes that in India, sustainability reporting is in nascent age. There is lack of policy support and guidelines. Although many of the corporations are coming forward to include sustainability reporting in their reporting practices, trying to follow the GRI guideline, most of them lack consistency and comparability. This commendable initiative is in need of proper legislative support.

Conceptual Framework:

Many different criteria frameworks that aim to address the concept of sustainable development in different sectors are available in the literature. From an analysis of the different approaches, a framework has been introduced (Labuschagne et al., 2005b) that focuses on large-scale resource-oriented technologies (see Figure 5). The framework emphasizes that the operational initiatives in industry must be evaluated separately in terms of internal and external economic, social and environmental performances. However, the internal operational sustainability must also be ensured, e.g. technology management practices, and a fourth dimension of sustainable development has been suggested (Labuschagne et al., 2005b; Mulder and Brent, 2006). Therefore, it is proposed that technology management, as it relates to sustainable development, should be conceptualized as a triangular-based pyramid (see Figure 6). The three conventional dimensions of sustainable development form the base or foundation of the pyramid, and supports sustainable technology management practices at the top of the pyramid. The conceptual framework indicates two planes of influence. First, technology management practices (at the firm level) influence other internal operations, but sustainable development aspects, e.g. economic forces, natural resource constraints, and social behavior, may also influence internal operations. In turn, internal operations do exercise influence on different sustainable development aspects. Similarly, there is

interaction between internal operational Phase -out & disposal Product Usage Operations/ Maintenance

Resource Provision Product life cycle De - commissioning Construction Process/technology life cycle 630 IAMOT Proceedings 2007.



Components of Sustainable Finance:

- a) **Financial Inclusion:** The concept of financial inclusion caters more scopes to the wide range of unbanked people to avail tailor made banking facilities at a considerable low rate which is expected to lead the way towards financial literacy among the people and in long run result into a sustainable financial system. Though banks operate to offer financial services still its CSR activities for financial inclusion increases the efficiency to understand and compare financial products and markets.
- b) **Energy Conservancy:** This indicates the ecologically responsible activities that include identification and management of process to reduce direct and indirect impact of different activities on the environment, reduce energy consumption and also efficient utilization of energy resources.
- c) **Waste Management and Recycling:** Encouraging work flow automation to minimize use of paper and also use biodegradable papers produced from recycle and also policy formulation towards paperless activities and also encouraging e-mail based communication, web-based activities and less printed documents.
- d) **Green Banking:** Green Banking covers a wide area of banking activities that have positive impact on society and environmental protection and finally leads towards sustainable banking.
- e) **Green Finance:** A total amount of BDT 548.6 billion (USD 6.61 billion) was disbursed during FY 2017 by 50 banks and Non-banking financial

institutions (NBFIs) involved in green finance. However, as per contribution of total green finance signifies that the major contribution by private commercial banks (PCBs) which is 77.64% whereas the contribution of foreign commercial banks (FCBs) is 18.51% follows by NBFIs is 2.54% and state-owned commercial banks is 1.32%. The following Table-1 shows the direct & indirect green finance by banks of Bangladesh and Table-2 signifies the green finance by the banks and financial institutions in different products in the financial year-2017 respectively.

- f) **Energy conservancy:** This indicates the ecologically responsible activities that include identification and management of process to reduce direct and indirect impact of different activities on the environment, reduce energy consumption and also efficient utilization of energy resources.
- g) **School Banking:** In November 2010, Bangladesh Bank instructed to all commercial banks in Bangladesh has to open school banking branches to bring students under the umbrella of banking services which will help the economic activities of the nation and will have contribution towards sustainable development. The primary aim of school banking program is to inspire savings and encourage the savings habit among the students as future citizen. Till December 2017, number of total school banking accounts in Bangladesh raised to 1,46 million having a deposit amount of BDT 13629.60 million (USD 164.81 million).

Need for the Study:

In Bangladesh, currently, the power generation capacity has reached 15,773 MW. Within 2021,

2031 and 2041, the goal of GOB wants to reach the power generation capacity of 24,000 MW, 30,000 and 60,000 MW respectively to meet the per capita demand. The following table shows the amount of investment needed in the energy sector.

Table 1: Three Phase Investment Plan

Year	Investment in Generation	Investment in Transmission	Investment in Distribution	Total Investment Required
2017-2021	USD 10 Billion	USD 7 Billion	USD 4 Billion	USD 21 Billion
2022-2031	USD 13 Billion	USD 6 Billion	USD 5 Billion	USD 24 Billion
2032-2041	USD 20 Billion	USD 10 Billion	USD 10 Billion	USD 40 Billion
			Total Amount:	USD 85 Billion

Source: Power cell (2017)

From the table we can see that until 2041, an estimated total amount that needs to be invested in the energy sector for generation, transmission and distribution purpose is USD 85 billion. However, only USD 22 billion has been acquired so far. To reach the goal, GOB is on the search for different investment options. On the other hand, the energy sector has intended to start energy efficiency program to reduce the extra usage of different energy commodities. Sustainable and Renewable Energy Development Authority or SREDA has prepared a master plan (2015) for energy efficiency and conservation up to 2030. According to this master plan, Bangladesh wishes to save 15% and 20% of the primary energy consumption per capita and by 2021 and 2030 respectively. The Baseline for this project is the primary energy consumption of FY-2013-2014. Besides, there is a plan to reduce the energy intensity by 20% within 2030 compared to the value of energy intensity value in 2013. To overcome the goals of the master plan, different programs have been designed. However, implementing different programs need high budgets and government alone cannot provide assistance. Thus, alternate options for financing are important to widen the inflow of funds. Such alternatives can be commercial banks, capital markets, non-bank financial institutes etc.

Bangladesh Bank's Green Banking Initiatives:

Green Banking covers a wide area of banking activities that have positive impact on society and environmental protection and finally leads towards Sustainable Banking. Therefore all the activities that cover principled banking activities like Energy Efficient Mortgages, Green Credit Cards, Green Loans, Green Savings accounts, Green Checking

Accounts, Green Money Market Accounts, Green Mobile Banking Accounts, Online Banking, Remote Deposit, Waste Management, Roof Gardening and Green Financing are come under the umbrella of Green Banking.

The main objective of BB's refinancing scheme is the promotion of renewable energy and protection of the environment. The refinancing program includes 39 banks and other 19 financial institutions. These institutions are in agreement to disburse loans regarding different renewable and environment-friendly projects all over Bangladesh. These institutes are ordered to allocate 5% of the loan portfolio for green energy projects. On the other hand, banks and other financial institutions are required to utilize 10% of the Corporate Social Responsibility (CSR) budget for climate risk management. Table 2 Shows the loan disbursement scenario during April-June quarter of 2016.

Table 2: Product-wise Disbursement

Item	BDT in Million
Biogas	20.154
Effluent Treatment Plant (ETP)	31.56
Solar Home Service (SHS)	6.65
Vermicompost	0.25
Total Amount	58.61

Source: Bangladesh Bank, 2016

Furthermore, BB with the help of Asian Development Bank (ADB) has established the Financing Brick Kiln Efficiency Improvement Project. In 2016, BB has released USD 16.21 million to five chosen financial institutes to carry one of their projects (Bangladesh Bank, 2016). BB also gave guidelines to banks on educating the borrowers on environmental regulations so that there is no scope of asymmetry information between two parties.

Major findings and observations:

In order to know the current prospects of sustainable financing, a primary survey on 100 entry level bankers was conducted and some important findings are given below:

It has been found that about 95% respondent bankers are aware of sustainable financing with only 5% remaining ignorant of the issue. Out of the respondents, 94% bankers think that public should be made aware of sustainable financing as people may be misguided by the alluring amount of profit and, eventually, incur loss.

Fig 1: Are you familiar with sustainable financing?

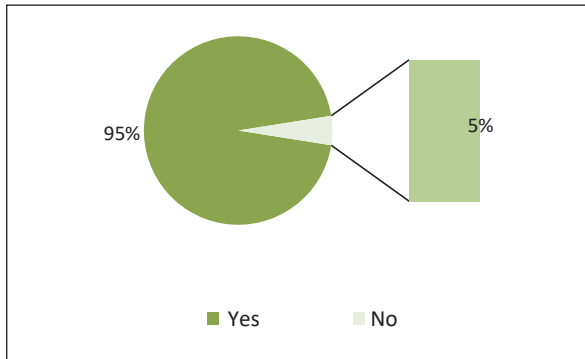
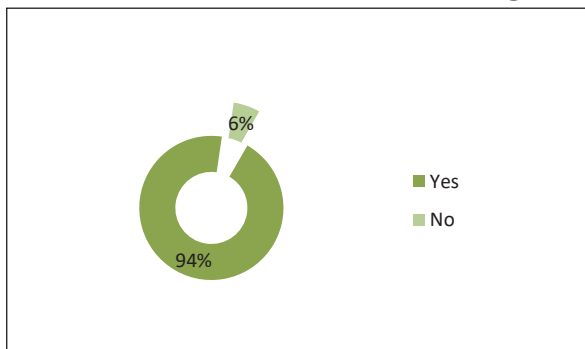


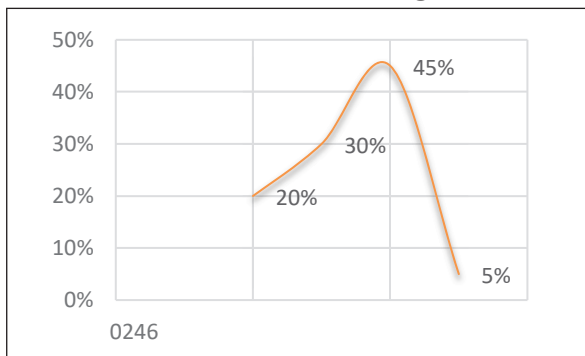
Fig 2: Do you think that public awareness is needed about sustainable financing?



Source: Survey Data

The survey also illustrates that; 20% interviewed bankers came to know about sustainable financing one year of its existence while 30% of them learnt within the following year. Moreover, 45% of the interviewees became aware of sustainable financing within three years of its existence and the rest 5% are still ignorant of sustainable financing.

Fig 3: For how long do you know about sustainable financing?




Source: Survey Data

Conclusion and Policy Recommendations:

The study is based on discussing the current sustainable banking practice in Bangladesh Bank as well as its future prospect in socio-economic development in our country. It is a complex study

and its complexity is also a major limitation. Since the independence, Bangladesh has walked a long way. The nation was once considered a bottomless basket but now considered as one of the most successful nation in terms of economic prosperity and socio-economic development. In the upcoming decades, the country wishes to achieve her desired development goals with efficiency. Energy is a crucial constituent in this regard. Access to energy and how efficiently energy is being used will determine the speed of the development.

Now-a-days sustainable banking for sustainability reporting practices has become the best practice across the world today. With a focus on sustainability, organizations can manage their environmental and social impacts while improving natural resource stewardship and operational efficiency and letting it remain a critical component of employee, stakeholders and the relation with them for going the extra miles and the banks understand that the sector will play a critical role in achieving the Sustainable Development Goals (SDGs). From the research study, it has been observed that while all of the SDGs can be inspirational for organizations, focusing on those that align best with the business strategy and existing corporate responsibility priorities likely will be most impactful for the banking industry. Banks in Bangladesh are mapping business activities through sustainable & green banking process adopting sustainability reporting under GRI method to achieve key SDGs. 

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