Sustainability in Banking Industry: Which way to move?

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Abstract

Sustainable development is a constitutional obligation for Bangladesh and sustainable banking is the front line frontier of sustainable development through sustainable Banking. Banking industry holds a unique position with regard to sustainable development because of there intermediation function between depositors and borrowers. This paper examines the current initiatives taken by the regulatory authorities of banking industry in the context of Bangladesh. The study is partially exploratory in nature and includes desk research on existing literature and content analysis, to appropriately develop an understanding of the concepts and the role of banking industry towards sustainability with special reference to Corporate Social Responsibility (CSR), Green Banking (GB) and Financial Inclusion (FI). The study revealed a positive response in implementing the sustainability issues by the banks in various capacities under the guidance of the Central Bank. The outcome of the paper is expected unveil the position of the bank practitioners and policy makers about the sustainability concepts and current status sustainability initiatives taken by the regulatory authority in the banking industry of Bangladesh.

Keywords: Sustainable development, Sustainable banking management, Environmental and social risks, Bangladesh

Introduction

In recent days, the banking sector widely includes commercial and investment banks, leasing companies, microfinance institutions, and other related institutions. All these forms of financial institutions are united by the fact that they intermediate financial flows by borrowing funds from individual depositors or a wider range of organizations and channel these financial resources to individual and corporate borrowers, mainly in the form of business and commercial lending. Institutions that usually offer financial services to their customers on a short term basis and charge fees for providing their financial resources, are doing more intensive intermediary role for the economy as compared to institutions that invest in the equity of companies. For deposit taking financial institutions, minimizing risk and finding new ways to attract customers are major business goals that guide the entire flow of their operations.

Commercial banks are the most important financial intermediaries in the economy in most countries, as they link savings and investments between savers and borrowers. In recent years,

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commercial banks have converged with the functions of other financial service providers, such as investment banks, leasing companies, and microfinance institutions, and have broadened their lines of business to become more competitive. Commercial banks now engage in money market operations, project finance, insurance business, leasing operations, mortgage finance, securities trading, priority sector finance, and financial advisory work. Several years ago, the main part of the banks did not consider the social and environmental problems relevant for their operations; which happen to be the central theme of sustainable development.

Banking industry holds a unique position with regard to sustainable development because of there intermediation function between depositors and borrowers. Sustainability is now increasingly recognized as central to the growth of emerging market economies. For the banking sector, this represents both a demand for greater social and environmental responsibility as well as a new landscape of business opportunity. Recently, the banks began to realize the major impact of the sustainable development over the way of ulterior development of the society and, implicitly over the way of creating the banking value in the future.

Banks across the globe have received the considerable amount of pressure from its diverse stakeholders including shareholders, investors, media, NGOs and customers (Bhattacharya et al., 2004; Jeucken, 2001; 2004; Coupland, 2005) to carry out business in a responsible and ethical manner. As a result, increased consciousnesses with regards to sustainability issues for financial institutions have been observed across the globe during the last decade. Researchers (Hopkin and Cowe, 2003; Ian, 2005) contend that socially irresponsible operation can have a negative impact on share prices and brand reputation of a bank and more customers now a days increasingly inquire on the bank's social responsibility position. In effect, socially responsible investors (see Carbon Disclosure Project on its own website: www.cdpproject.net) collectively have voiced concern on corporations to take into account contemporary global issues such as corporate responsibility on climate change in recent years. Similarly, the other powerful stakeholders that have significantly shaped the issues and brought these to public sentiment are the state regulatory bodies, media's, NGOs in addressing social responsibility issues in banking sector (Jeucken, 2001; Bhattacharya, 2004; Decker, 2004) and these stakeholders' strong engagement have the likely impact to be a main driver to revolutionize in CSR and CSR reporting practice.

In Bangladesh, with the tremendous increased need of time, banks especially, commercial banks play an important role in case of overall economic development of any country. From this timely realization, commercial banks are relentlessly trying to develop innovative financial products and provide better services to their clients in order to ensure higher profitability. Commercial banks need to find a sustainable way to get high profitable venture to satisfy its shareholders. Banks are already familiar with some of the sustainable products & services like green banking, environmental risk rating in the process of credit appraisal, diversified deposit & credit base for banks through the financial inclusion, technological advancement in the banking operation, mobile banking service, agent banking etc. Banks can also improve their internal cost savings strategies, which can foster the sustainability. Banks can set up internal guidelines and management systems to prevent losses due to sustainability issues in financing. When sufficient

investors, consumers, and businesses want to invest in sustainability, banks develop products that meet their requirements (Jeucken, 2004). In this context, the development of a banking management system, based on sustainable principles represents one of the provocations of these days.

Literature Review

Bouma, Jeucken, and Kilkers (2001) wrote a book, "Sustainable Banking – The Greening of Finance" with ground breaking impact on banking activity in the context of sustainable development. In order to understand the banks towards sustainability, authors identified four stages of banking: defensive, preventive, offensive and sustainable banking; they also highlighted important differences between regions, countries and banks with regard to sustainable banking. The book covers the perspectives and case studies on how various changes in the financial sector directs banks to move along with the direction of sustainability. The authors approach five central themes in their book: the policies of banks, transparency and communication, environmental investment funds, environmental risks and their consequences for banks' products, and the role of governments, NGOs and multilateral banks.

The results of the sustainable assessment of six UK banks by Amacanin (2005) indicated that majority of the banks had reached the preventive banking phase in Jeucken's model while only two banks had reached the higher phase of offensive banking. In Spain, it was shown that in the presence of a positive valuation of social responsibility practices by consumers, a firm may obtain a better strategic position, along with higher margin, demand, and profit, an empirical analysis confirmed that consumers significantly value other features apart from price in making deposit and mortgage decisions, particularly a financial institution's social responsibility (Callado, 2006).

IFC (2007) found that: (a) individual banks had to devise their own business case for sustainable banking, (b) reputation and branding had become the top reason for many banks to integrate sustainability, (c) the benefits outweighed the costs, and social and environmental risk management improved the quality of a bank's portfolio and lowered insurance liabilities and compensation claims.

One of the most known publication in this field is "The dos and donts of sustainable banking" wrote by Jan Williem van Gelder member of BankTrack in 2006. The manual provides an overview of actions which the banking sector can do and which don't to become more sustainable through achieving a performing sustainable banking management. It also, presented the methods and guidelines for implementing the principles and commitments of sustainable banking in practice. Douglas (2008) found four key findings: (a) banks are increasingly discussing climate change business opportunities in their annual reports, (b) twenty eight of the forty banks have calculated and disclosed their greenhouse gas emissions from operations, (c) growing demand for climate friendly financial products and services is leading banks into new markets, and (d) investment banks have taken a leading role in supporting emissions trading mechanisms and introducing new risk management products. Other findings indicated that the Equator Principles contribute to long term sustainable investment (Seuren, T. 2009). Hoepner,A.(2010) highlighted

the importance of social, environmental and ethical issues for the risk management, reputation and performance of banks and other financial institutions.

David & Laurie (2012) set the principles of sustainable finance and sustainable banking for the Global Alliance for Banking on Values (GABV), which described as: (a) Triple bottom line approach at the heart of the business model. (b) Grounded in communities, serving the real economy and enabling new business models to meet the needs of both. (c) Long-term relationships with clients and a direct understanding of their economic activities and the risks involved. (d) Long-term, self-sustaining, and resilient to outside disruptions. (e) Transparent and inclusive governance. (f) All of these principles embedded in the culture of the bank.

The Central Bank of Nigeria (CBN) is set to implement the Nigerian Sustainable Banking Principles (NSBP) and the accompanying three sector guidelines on Agriculture, Power, Oil and Gas were introduced in July 2012. The NSBP consists of 9 Principles: (a) Managing environmental and social risk in business decisions; (b) Managing the bank's own environmental and social footprint; (c) Safeguarding Human Rights; (d) Promoting women's economic participation/empowerment; (e) Promoting financial inclusion of communities and groups with limited or no access to the formal financial sector; (f) Meeting the imperatives for good governance, transparency and accountability; (g) Supporting capacity building in the sector; (h) Promoting collaborative partnerships to accelerate sector progress and (i) Reporting to take stock of sector progress and attendant needs.

In Nigeria, a recent paper identified self-induced vices, regulatory laxity, inauspicious macro-economic environment, and corruption in the economy, as the constraints to the discharge of CSR in the banking system (Achua, 2008). Tsele, et. al (2007) identified that the fundamentals of sustainable banking existed in the South African banking market. The study of Lloyd (2008) pointed the importance of trust to an American financial institution although it would be a mistake to attribute the success of Canandaigua National Bank & Trust, which is a community bank in New York, wholly to its policies of corporate social responsibility. In the growing economy of Brazil some points for improvement were identified: (a) to reinforce the awareness of employees and other stakeholders on the subject of sustainability, (b) to upgrade the tools used by institutions, (c) to improve the transparency in disclosing socio-environmental information (Lins, 2008). While the adoption of CSR reporting is linked to higher reputation indices, it is not necessarily adopted as a strategy by members of the Australian banking industry to address questions of legitimacy (Bartlett, 2005). The business case appeared to be a major motivation in New Zealand banks for reporting on CSR issues along with industry influences and motivations related to increasing image and reputation (Thien, 2010). As per the green banking concern, the bank should go green and play a pro-active role to consider environmental and ecological aspects as a part of their lending principle, which would force industries to go for mandated investment for environmental management and to use appropriate technologies along with management systems (Hayder 2012). Verma (2012) stated that Indian banking is gradually coming to realize that there is need from a shift from the 'profit, profit and profit motive to 'planet, people and profit'.

In the context of Bangladesh, the findings by Khan (2009) were: (a) the selected banking companies did some CSR reporting on a voluntary basis, and (b) the user groups were in favor of

CSR reporting, and would like to see more disclosure. Another study by Khan et. al (2011) examine the tendencies of sustainability reporting by major commercial banks in Bangladesh in comparison with global sustainability reporting indicators outlined in the Global Reporting Initiatives (GRI) framework based on the GRI G3 guidelines to investigate banks' reporting in five broad areas of sustainability, such as environment, labor practices and decent works, product responsibility, human rights and society. The results show that information on society is addressed most extensively with regard to extent of reporting. This is followed by the disclosures prepared on decent works and labor practices and environmental issues. Furthermore, the disclosures of product responsibility information and the information for human rights are rather scarce in banks' reporting; on the subject of financial service sectors (FSS)-specific disclosures. Masukujjaman & Akter (2013) conducted a study on green banking to examine the commitment towards the global initiatives by the Bangladeshi banks and draw a conclusion that Bangladesh is far behind their counterparts from the developed countries. However, the general picture presents a transition to green banking in a consistent manner for most banks. By taking care of its infrastructure development and accelerating its existing green movements, banks can ensure sustainability for itself and greener world for communities. Maruf Ullah (2013) studied on green baking and it is found to be a mere attempt to describe the green banking initiatives taken by the central Bank of Bangladesh. Another study by Shafiqual & Das (2013) concludes that the concept of green banking is relatively new in Bangladesh and yet to get momentum, but in the developing countries it is passing through a mature stage, although not yet a satisfactory stage at all.

All these studies have covered the partial issues of sustainable banking practice in Bangladesh. In recent study by Millat (2014), which probably the first complete attempt to cover all the Sustainable Banking initiatives taken by the Bangladesh Bank in a very comprehensive manner. Sadly, it failed to suggest any strategy for creating long-term value through sustainable banking. The current study will reveal all the relevant issues of sustainable banking through an extensive secondary literature review, which will provide an incentive to the future researches for enriching the field/area. Furthermore, the study is going to propose the Social and Environmental Management System (SEMS) adopted from IFC (2007), which is definitely added a newer insight in the area of sustainable banking in the context of Bangladesh.

Objective and Method of Investigation

The proposed study on sustainable banking is a modest attempt to shed light on the objective of reviewing policies and evaluation of performances of some of the programs of sustainable banking in the context to Bangladesh. The scope of the study is limited to some particular issues of Corporate Social Responsibility, Sustainable Green Banking, and Financial Inclusion Process since 2008 which the Central Bank pursued through its wide network of commercial banking system. To ensure the research quarries, an attempt was made by the researchers to collect secondary data by applying content analysis method through looking into the documents, brochures, research reports, journal articles etc. related to sustainable banking since 2000. This is a new area for the researchers and little amount work is available at the disposal of the researchers. So to collect primary data, it was difficult for the researchers who did not have enough time, fund and other logistic supports to complete the work. In spite of that researches' personal observation, knowledge of experience gained through intensive study helped to enrich

the quality of data for the study. However, as the study was based on qualitative information, it would be more fruitful if qualitative analysis could be added. Still, the findings of the study would help the policy planners to draw conclusion on the sustainability issues in Bangladesh banking industry.

Theoretical Concepts Related to Sustainability and Sustainable Banking

Sustainability is about ensuring long term business success, while contributing towards economic and social development, a healthy environment and a stable society. IFC's (2005, p.19) definition of sustainability, used in this report as applied to financial institutions, encompassing four dimensions of good business performance:

- The financial sustainability of the financial institution and its client-companies, so that they can continue to make a long-term contribution to development
- The economic sustainability of the projects and companies the financial institution finances, through their contribution to host economies
- Environmental sustainability through the preservation of natural resources
- Social sustainability through improved living standards, poverty reduction, concern for the welfare of communities, and respect for key human rights.

A Forum for the Future (2002) defines "*sustainability as building a successful business today and delivering value over the long run*." According to the African Institute of Corporate Citizenship (2004), *"Sustainability is about ensuring long term business success, while contributing to society's present and future social, environmental and economic needs. This approach requires ethical, environmental, social and economic considerations to be integrated into all aspects of the business, reflecting the principles of sustainable development."*

There are three broad components of sustainability. They are sometimes referred to as '*people*, *planet* and *prosperity*', or the 'social, environmental and economic' dimensions. The need for businesses to address all three has been encapsulated in the concept of the 'triple bottom line'. Sustainability in banking is about meeting the financial needs of the present without compromising the ability of future generations to meet their related needs. It is not only about pre-serving the environment and biodiversity for future generations, but also about guaranteeing human rights and a life in dignity, free from want and poverty for all people living today.

Sustainable finance is defined as the provision of financial capital and risk management products to projects and businesses that promote, or do not harm, economic prosperity, environmental protection, and social justice. According to Bouma et. al (2001, p.101), Sustainable banking can be defined as a decision by banks to provide products and services only to customers who take into consideration the environmental and social impacts of their activities. The various approaches adopted by banks worldwide towards sustainability have been analyzed and modeled. Four stages of recognition of and response to sustainability issues can be identified. Banks can be classified according to their stage of awareness, and most will pass through the four phases on their journey towards 'Sustainability Finance'. They will move from:

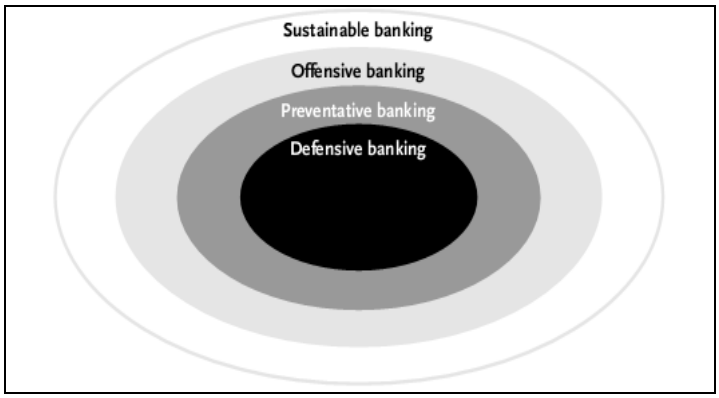


Fig-1: A typology of banking and sustainable development.
Source: Jeucken, 2001, p.71

- ***A defensive phase*** of basic environmental risk management, where broader sustainability issues are overlooked or ignored, through to
- ***A protective or reactive phase*** where there is more systematic management of environmental and social risk, to
- ***A more proactive or offensive phase***, where there is strategic management of environmental and social risk, and even, limited environmental and social value added, to
- The ultimate ***sustainability banking phase***, where the triple bottom line approach (people, planet and prosperity) is integrated into the bank's core business strategy, and is no longer limited to risk avoidance, but is now seen as a potential part of every type of financial risk management and decision making process. Sustainability related issues are recognized as drivers for developing new products and services, generating additional revenue and increasing market share, and consequently the organization becomes environmental value driven.

The roles of financial sector in sustainable development

In the economic system, the financial sector invests capital to other economic sectors such as manufacturing, logistics and consuming etc., which will produce the indirect impacts on environment by producing wastes (unless recycling, it has detrimental impact on environment), social and economic development (by efficient use of resources, otherwise adverse to economy). Meanwhile, resources/energy consumed by the financial enterprises will have direct environmental impacts, which can be minimized by reducing energy consumption, conservation of water, procurement of green supplies etc. Comparatively indirect impacts are much more significant than direct ones for the financial sector to pursue the sustainability. Therefore, it is easy to understand the grave role of financial sectors in sustainable development.

If one takes a closer look at financial sector, specially, commercial banks, the significance could be more explicit. For example, once commercial banks provide a loan for a polluting project (like

tannery industry in Hazibag, Dhaka), they might suffer environmental risk and consequently lose money due to increasingly stringent environmental regulations. On the contrary, if banks could strengthen their environmental risk management that will help to improve their environmental performance and ensures profit. Interestingly, at the higher level, the driving forces, like market opportunities from cleaner production and renewable energy, competitive advantages from new products etc. will urge banks to carry out the strategy of green financing with corporate social responsibility (CSR), which will achieve win-win positions for banks, while benefiting the environment and society.

Observation and Discussions

Bangladesh Bank (BB) Initiatives on Sustainability Issues

The Constitution of the People's Republic of Bangladesh in its Article 18A: Protection and Improvement of Environment and Biodiversity proclaims "*The state shall endeavor to protect and improve the environment and to preserve and safeguard the natural resources, biodiversity, wetlands, forest and wildlife for the present and future citizens*". Sustainable development is thus a constitutional obligation of Bangladesh and sustainable banking is the front line frontier of sustainable development through the sustainable businesses.

Bangladesh bank (BB) as central bank of the country worked as a custodian of the nation's financial resources and diverted these resources for the socio-economic development in diversified areas since independence. In line with it's on going policy framework environmental conservation and social protection issues in the banking sector got momentum since 90's to meet needs of the global fields. Since 2008, BB started to formulate policies and regulations for promoting sustainable banking on the basis of three major issues of sustainable banking i.e Corporate Social Responsibility (CSR), Green Banking (GB) & Environmental Risk Management (ERM), and Financial Inclusion (FI).

BB has been pursuing the implant of a ***socially responsible financing*** culture in the corporate goals and objectives of banks and financial institutions in the financial sector. BB's facilitation and support measures include refinance lines and financial sector and IT infrastructure modernization to enable off branch, mobile phone/smart card based financial service delivery, that helped country's financial sector in their CSR initiatives; but it is the motivational thrust of enforcing a socially responsible financing culture that has played the key role in drawing all banks and financial institutions into spontaneous engagements in CSR initiatives. In the mean time, BB started publishing annual reports on Bangladesh financial sector's CSR initiatives, to help banks and financial institutions learn from each other's initiatives. With a view to bring discipline in the CSR allocation by banks and NBFIs Bangladesh Bank is now in the process of introducing a new CSR guideline. As per the new guideline, banks and NBFIs will have to spend at least 2.5 percent of their net profits for corporate social responsibility purposes in three key fields – concessional loans, donation fund and allocation for developing internal (banks and NBFIs) job environment and gender equality. The marginal and the landless farmers of the

remote areas will be able to receive the concessional loans. A bank or NBFI will have to frame its own CSR policy and its board of directors will have to approve & review it periodically. Banks and NBFIs will have to publish an annual CSR publication, illustrating their CSR activities on a regular basis.

Progress so far achieved on this venture is appreciable as per the view of BB. CSR initiatives of banks and financial institutions have expanded several fold over the past few years, for providing direct support for socioeconomic empowerment of the less well off people with extensive schemes in areas of humanitarian & disaster relief (Tk.788.37m), education (Tk.983.69m), health (Tk. 435.43m), sports (Tk. 183.85m), art & culture(Tk. 213.31m), environment (Tk. 140.23m), others (Tk. 301.81m). As per the record of BB, Tk. 3046.69 million was disbursed in CSR activities taken the banking sector in Bangladesh up to 2012. (Source: Millat, 2014).

BB's Green Banking and Environmental Risk Management (ERM) Initiatives

To foster green banking practices in the country, BB formulated the 'Green Banking Policy and Strategy framework' and 'Environmental Risk Management Guidelines' in a consultative manner. Many banks are now financing environmental friendly projects as per the guide line. It is found that following are some of the steps that already taken for going green banking:

a. Online banking
- Paying bills online,
- Remote deposit/ bKash. Ucash etc.
- Online fund transfers
- E statements
- Automated clearing house
- Online Credit Information Bureau (CIB) facilities
- Enterprise Data Warehouse (EDW) for an electronic data bank
- E-tendering system
- E-Recruitment
- E-commerce (At present 2 banks are offering the services)

b. Green Accounts (ATM Service)
c. Green Financing
d. Power Savings Equipments
e. Green Debit Cards/ Credit Cards
f. Save Paper
g. Mobile Banking
h. Agent Banking

Green Banking requires thorough *due diligence* under Environmental Risk Management (ERM) Guidelines. Energy efficiency has received significant attention of Bangladesh Bank in recent years. All banks and financial institutions, local and foreign owned, private and public sector, have engaged enthusiastically in the thrust initiatives. In green financing, lenders routinely take

up environmental impact assessment of investment proposals, factoring in environmental risks in their financing decisions; and denying financing for environmentally risky undertakings lacking in adequate mitigation measures. Besides this environmental screening of borrowing proposals, green financing promotes adoption of new energy efficient, Greenhouse Gas (GHG) emission minimizing output processes and practices are also added. Banks in Bangladesh have been advised by BB to finance solar energy, bio-gas plant, ETP and Hybrid Hoffman Kiln (HHK) in brick field under refinance programs. BB introduced Taka 2.0 billion refinance line in FY 2010 against bank loans for investments in solar energy, ETPs and biogas plants from BB's own fund. For efficiency improvement of the brick kilns of the country and for setting up environment friendly brick kiln, BB constructed another refinancing window for banks and FIs amounting to $50 million supported under Asian Development Bank (ADB) fund facility in 2012. All these BB's initiatives helped to conserve the nature through saving tons of paper and lot of working hours of the employees those are involved in the paper works in the banks of Bangladesh.

Table: Annual Allocation & Utilization of funds in banking industry of Bangladesh

Types of Banks	Annual Allocation of Fund (in million Taka)				Utilization of Funds, December-13 (in million Taka)			
	Green Finance	Climate Risk Fund	Marketing, Training and Capacity Building	Total	Green Finance	Climate Risk Fund	Marketing Training and Capacity Building	Total
SCBs	3,915.00	94.70	86.20	4,095.90	1,251.27	11.14	3.80	1,266.21
SDBs	5,000.00	433.20	40.10	5,473.30	1,394.75	0.00	0.00	1,394.75
PCBs	275,024.34	540.22	273.69	275,838.25	85,970.58	151.18	27.18	86,148.93
FCBs	79,990.62	128.04	126.34	80,245.00	17,355.06	13.31	19.48	17,387.85
Total	**363,929.96**	**1,196.16**	**526.33**	**365,652.45**	**105,971.66**	**175.63**	**50.46**	**106,197.74**

Source: As quoted from Quarterly Review Report of Bangladesh Bank, 2013.

Up to December 2013, Out of Tk. 365,652.45 million for green banking activities, banks have allocated Tk. 363,929.96 milion for green finance, Tk. 1,196.16 million for climate risk fund and Tk. 526.33 million for Marketing Training and Capacity Building. This allocation has been made on annual basis. 38 banks have utilized Tk. 106,197.74 million in the reporting quarter for green banking activities. Out of which, Tk. 105,971.66m for green finance, Tk. 175.63m for climate risk fund and Tk. 50.46m have been utilized for Marketing Training and Capacity Building. 39 banks (out of total 47 banks) have pursued disclosure on green banking in their annual report, 35 have put green banking disclosure in their website. 19 banks have disclosed their green banking activities in the media and 4 banks have prepared Independent Report on green banking activities.

BB's initiatives of Financial Inclusion in Bangladesh

Bangladesh Bank (BB) notifies financial inclusion as one of the major tools for fostering sustainable inclusive growth and reducing poverty in Bangladesh. In the recent years BB and the Government of Bangladesh (GOB) have adopted several remedial and promotional measures to accelerate the situation of inclusive growth, those are briefly mentioned below:

- Credit for agriculture, SME, women entrepreneurs and renewable energy. Refinance line for sharecroppers, Cluster Approach has been introduced so that SME credit can be targeted to a particular region with vantage points.
- BB believes that development of SME sector will ultimately develop the women entrepreneurships. That is why BB allocated 15% of the SME sector refinance fund for women entrepreneur only. By now, Tk. 447 crore has been financed to 6,365 women entrepreneurs under this refinance scheme (Bangladesh Bank, 2012).
- 1:1 policy for new branch licenses to banks: In issuing new branch licenses to banks, BB has been following a policy of requiring one in every new branch to be in rural locations; with a view to pushing banking services physically closer to the rural population.
- Ten taka account: In January, 2010 BB has advised to commercial banks to open bank accounts for farmers at free of charge with initial deposits of only Taka 10; already opened 9,637,145 accounts for farmers as of November, 2013. These accounts are being used to disburse government input subsidies to the farmers, also facilitate small savings, revolving loans, remittances etc. This facility also extended for freedom fighters and those are covered under the social safety network programs, up to May, 13 over 3.5 million accounts were opened. Besides the regular banking activities these accounts are being used to receive government allowances to the beneficiaries. And about two hundred thousand accounts were opened under the school banking programme.
- A total of 794,791 *school banking* accounts have been opened and maintained by the 56 different banks and the amount of total deposit was Tk. 611.74 crore, up to September, 2014.
- Mobile financial services: Mobile banking service is also introduced with a view to providing financial services to the people of remote areas of the country by BB in 2010, till date about 19 commercial banks are operating this service by involving 1,88,647 agents over the country. There are 13.18 million account holders transected Tk.170crores daily, which accumulated figure was Tk.50.96 billions up to 11 November, 2013 through this channel (www.bb.org.bd). Under this innovative service, remittance is transferred to the recipients swiftly coming from home and abroad. As a result of such technology-consolidated, banking industry of Bangladesh is going join to the paper less banking system soon.
- Hundred taka account: In 17 & 26 September, 2013 BB has circulated two separate circulations for all scheduled banks, about the opening of bank accounts for readymade garment workers and shoe & leather products workers/makers under the leather sector business promotion council (LSBPC) respectively at free of charges/fees with initial deposits of only Tk. 100. These accounts are being used to draw salaries and other

payments of the workers with no minimum balance requirements. The transactions can be made through these accounts by the vouchers in case of shortage or no cheque books.

- Latest plan: Lastly BB takes the initiatives for "*Agent Banking*" to serve people in the rural or remote area, where no bank branches are operated their operation.

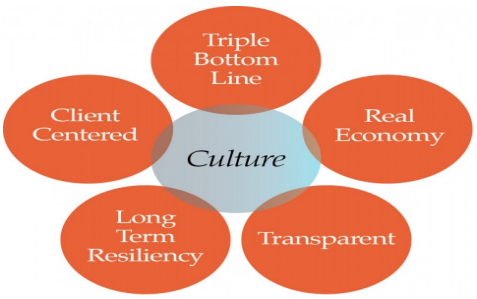
On the basis of the above discussion, it is obvious that the banks of Bangladesh are already complied with the policy suggested by the central bank in the line of sustainable banking issues. The banks should harness the ways or possible steps to be taken to continue the ongoing initiatives in future. In the following section, the study was tried to discuss some of the issues, which can help the banks to foster the sustainability.

Strategy for creating long-term value through Sustainable Banking: the pathway ahead to sustainable banking

Compliance with government and regulatory agency's regulations, although important, is no longer the top driver for sustainable banking. Instead, other incentives include increased value to share holders, lower risk and better returns, and client demand are critical factors to be a sustainable bank. According to the IFC (2007), individual banks must devise their own unique business case for sustainable banking. This is determined by their business goals combined with the sustainability trends and factors in the markets and sectors in which they operate.

According to Bouma, et al, (2001) in the stage of *sustainable banking*, all bank's activities are sustainable. Banks will not look for the highest financial rate of return, but for the highest sustainable rate of return, while being profitable in the long run. Such banks require that their stakeholders have the same vision and ambition. Unfortunately, the current situation and demand for sustainability in society is not enough to reach the level of sustainability banking for most banks. Such policies would lead to a loss of profit, just as the majority of their activities could not be financed in time. However, once such preconditions are sufficient, i.e. integrated price system with all environmental costs, higher demand for sustainability in society etc., the goal of sustainable banking will be achieved in the long run.

According to the Global Alliance for Banking on Values (GABV, 2009), "All of these principles of sustainable finance and sustainable banking (mentioned in the figure) embedded in the culture of the bank", i.e. there should be a well set operational management team to pursue the principles set by the banks.



Source: http://www.gabv.org/about-us/our-principles

In this aspect, IFC (2007) proposed an integrated systematic approach named social and environmental management system (SEMS), which a management system is sometimes referred to as an environmental management system. An SEMS must become a part of a bank's overall management system. It extends to organizational structure, planning activities, responsibilities, practices, procedures, processes, and resources for developing, implementing, achieving, reviewing, and maintaining that system. Such a system offers a more strategic approach, with defined objectives, formal policies, action plans, allocated resources, and trained and expert staff. At the core of an SEMS is the ability of a financial institution to decide what services it will offer to which clients, what impacts of the client's business/projects are to be taken into account, and what terms of business, advice, and support it will offer.

Building and operating an effective SEMS entails several processes that must occur in parallel (see Fig-3). A number of initiatives may be required to bring policies into action, such as *capacity building in training*, *setting measurement and evaluation standards*, *implementing incentive schemes*, and *carrying out reporting initiatives* that target both bank shareholders and a wider group of stakeholders. These processes should be tailored to fit banks' own business goals and organizational culture. Although implementing an SEMS is not without costs, banks will overwhelmingly report that the benefits will outweigh the costs. Social and environmental risk management improves the quality of a bank's portfolio and lowers insurance liabilities and compensation claims. Pursuing innovative financial solutions and products generates direct profits in new markets with new clients. All these elements contribute to improving a bank's brand value.

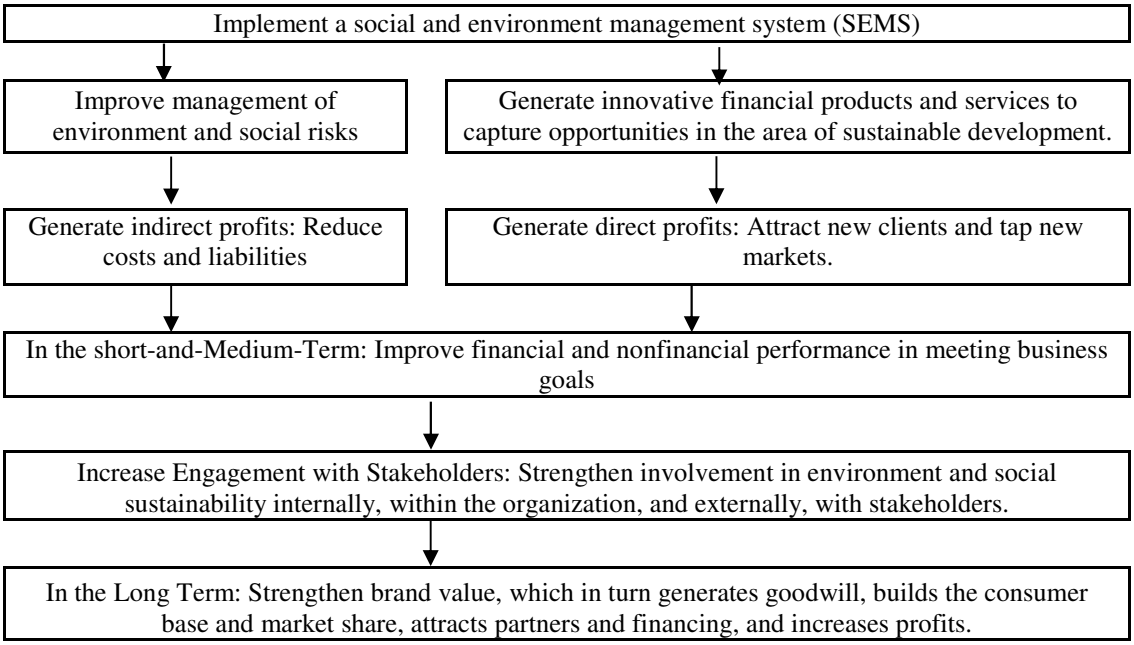


Fig-3: Strategy for creating long-term value through Sustainable Banking

Source: IFC (2007).

The main motivation for implementing SEMS is to generate more sustainable business. With the improved management of social and environmental issues the banks can generate a stronger portfolio with projects that achieved:

- Cost savings through such means as process efficiency and waste minimization
- Reduction of polluting emissions
- Benefits from switching to raw materials or processes with lower environmental impacts
- Reduction in insurance premiums, permit fees, or other costs because of improved environmental performance
- Improved lost time accident record and/or number of injuries
- Positive attention from the media and NGOs
- Citations and awards

In Bangladesh, to enhance the capacity building through training in different issues of banking Bangladesh Bank Training Academy (BBTA), Bangladesh Institute of Bank Management (BIBM) and the training institutes of different commercial & specialized banks are working together by conducting a lot of training courses, seminars and workshops since inception. Only BBTA conducted a total of 152 training courses/ workshops/ seminars during FY13, A total of 6787 participants took part in the courses. 1019 officials of Bangladesh Bank have been imparted overseas training in different programs up to February, 2012. 93 officials participated in a training course on econometrics conducted by Bureau of Economic Research, Dhaka University. BIBM arranges special training programs for banks in response to the requisition of the member banks. Since inception till 2013, BIBM trained a total of 71,108 officials of banks and financial institutions. Also, since inception till 2013, a total of 668 MBM graduates passed out from BIBM and almost all of them are placed in the banking profession. (BIBM, 2013)

Still there is a shortage of skill manpower in the core banking sector, especially the shariah based Islami banking sector is suffering from the scarcity of manpower with shariah knowledge or having degree from the field of Islami finance & banking. There is limited or even no opportunity for pursuing such type of program in the higher education curriculum in Bangladesh.

On the core banking context, all banks have their general credit policy for the lending sectors. But the nature of the different sectors is different from the environmental perspective. For example polluting industries like tannery differs from the investment in poultry. So, preparing sector specific environmental policy guideline for the banks is a big challenge. Quantifying environmental risk rating is another challenge. Hence capacity building on environmental issues for both the central and the commercials bankers for structured green banking practices and Global Reporting Initiatives (GRI) is required. 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.

Conclusion and Future Research Directions

Conclusion

The study analyzed current policies and implementation status of sustainability in the banking industry of Bangladesh with special reference to Corporate Social Responsibility (CSR), Green Banking (GB) and Financial Inclusion (FI). The study revealed a positive response in implementing the sustainability issues by the banks in various capacities although a little research was done by others on this line. Thus the proposed study is a modest attempt to shed light on the mostly concerned issues of the current time, i.e. sustainability issues in banking industry in Bangladesh. Banks are already instructed to follow some of the policy guidelines from the central bank and at the same time banks are also familiar with some of the sustainable products & services like green banking through technological advancement in the banking operation, environmental risk rating in the process of credit appraisal, diversified deposit & credit base for banks through the financial inclusion etc.

In Bangladesh, as in many low income countries, there are serious gaps in understanding basic financial concepts and an understanding of the benefits and risks associated with particular financial decisions, including spending, borrowing and saving. Due to lack of appropriate basic financial knowledge/literacy and various regulations of government and law enforcing agencies, people have difficulty in learning about new innovative financial products & services as well as the consequences of violating the rules and regulations related to the financing, social & environmental aspects. Bangladesh Bank has a financial literacy program using radio, TV and internet to point out some of these knowledge gaps and helped to build awareness in the underprivileged segments of the society. It is proposed that other banks and financial institutions should work under the leadership of Bangladesh Bank to accelerate the process of activities related to sustainability in this sector.

However, the study emphasized on the proposed effective Social and Environmental Management System (SEMS) in the banking system to integrate all the sustainability issues under the leadership of central bank. It may be mentioned here that the central bank of Nigeria (CBN) has already introduced the Nigerian Sustainable Banking Principles (NSBP) from July, 2012 and adopted by the Bankers' Committee. Bangladesh Bank as Central Bank, can also introduce a National Policy Guideline on sustainability in the socio-economic context of Bangladesh and all banks and other stakeholders can also participate through the process.

Limitations and Future Research Directions

The findings of the study were the outcome of a specially designed purpose, and hence, these were not necessarily expected confirmed results obtained in different context. However, the major limitation of the study was confined only to secondary sources of information collected from various documents, which should have been verified by other Studies/researchers with that of primary sources of information. That will be the main motivation for the future researchers to conduct exploratory studies on different issues (policy issues, environmental risk rating, sustainability indexing etc.) in the field of sustainable banking, which is an emerging concern in the context of Bangladesh.

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