Chapter 18

How Green Is the Green Banking Investment in Bangladesh? A Paradox of Green Banking Practices

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ABSTRACT

The banking sector plays a critical role in economic development while its activities are also equally responsible for social and environmental damage such as violation of human rights, loss of biodiversity, and climate change in Bangladesh. A careful examination of investing and financing activities disclosed in annual reports of 35 selected banks suggest that, while banks are taking several in-house and external green initiatives, many of them are also actively investing and funding projects like shipbreaking that threaten environmental sustainability and are prone to human rights violation. This chapter urges the government, policymakers, and central bank in developing policies and regulating banks; stakeholders in understanding banks’ commitment and actions to safeguard the environment and human rights; and managers in measuring, reporting, and mitigating the social and environmental impact through their current and future lending policies.

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INTRODUCTION

The banking sector has been playing a critical role in economic development while their activities are also equally responsible for social and environmental damage such as violation of human rights, loss of biodiversity, climate change in Bangladesh. Internal operations of the banks may not be a significant contributor to the human rights violation and environmental damage, but the external impact on the society and environment through their customers’ activities could be substantial. Banks are the primary source of finance for many projects with potentially significant adverse social or environmental impacts (Wendt, 2015). Stakeholders are concerned about business activities that have adverse impacts on society and the environment (Mia et al., 2018). Stakeholders are urging organisations, including banks, to take responsibility to improve their social and environmental performance. They are demanding more about the social and ecological effects of the financing activities of the banks. Hence, socially responsible banking has become a well-established notion, and the concept of green banking is evolved (Chen et al., 2018; Climent, 2018; Kiliç, 2016).

Green Banking generally refers to “eco-friendly or environment-friendly banking system to stop environmental degradation to make this planet more habitable” (Masukujjaman & Aktar, 2013). Green banking is also frequently referred to as socially responsible and a sustainable banking or ethical banking practices that take initiative to do its daily activities as a conscious being in the society by considering in-house and external activities on socio-environmental development (Chen et al., 2018; Chew et al., 2016; Wendt, 2015). Banks as financial intermediary hold a unique position in an economic system that can influence organisations through their financing activities and thus may contribute to better social and environmental performance (Masukujjaman & Aktar, 2013). Banking sector around the world and also in Bangladesh has initiated green banking practice and committed to protecting socio-environmental wellbeing.

Despite being committed to improve social and environmental performance, it has been reported that many banks are financing in projects such as shipbreaking, brickfield, steel mills, paper mills, cement factories, power sector which cause maximum environmental damage and responsible for human-rights violations (Chen et al., 2018; Ullah, 2013; Yadav & Pathak, 2013). It has been reported that the banking sector is playing a crucial role in financing in the shipbreaking industry, particularly in a developing country like Bangladesh. Shipbreaking industry has a significant impact on the environment and also responsible for the loss of precious lives and severe violation of laborers rights (Rahman, 2017). However, government and financing institutions in Bangladesh patronage this industry due to being a profitable business activity with an essential source of raw materials of scrap iron and steel industries (Rahman, 2017).

Hence, the objective of this chapter is to explore the sustainable investment practices of the commercial banks in Bangladesh to ascertain how green is the green banking initiatives. In particular, this study reviews whether there is any loan or investment in one of the country’s highest environmental damaging industry, namely, the shipbreaking industry, by the commercial banks in Bangladesh.