Green Finance

Subjects: Business, Finance
Contributor: Abu Bakkar Siddik

The concept of green finance, also known as green investments, is widely employed in academia and business, and have a variety of meanings. Green finance (GF) is a developing concept that lacks a clear and universal definition. However, the goal of GF is to balance the advancement of monetary events, environmental stability, and ecological protection to accomplish long-term development.

green finance sustainability performance Bangladesh

1. Introduction

Green finance (GF) has gained significant prominence in the economic discourse among international groups and state governments since its inception[1]. This interest in GF has similarly risen among academics, scholars, researchers, and practitioners [2][3], and now represents a new financial approach that emphasizes green investment to protect the environment and simultaneously promote economic prosperity [4]. GF is considered an essential element of sustainable banking, with a massive impact on the development of a sustainable economy and business in general [2][5][6]. According to the European Commission, the idea of GF in financial services encompasses investment decisions that integrate environmental, social, and governance principles to ensure the satisfaction of clients and society as a whole (Retrieved from https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en; accessed on 5 January 2021). GF is a comprehensive method that blends various approaches for the improvement in the economic, social, and environmental performance of the monetary system, which is assessed via environmental, social, and governance (ESG) criteria, i.e., factors which are essential parts of sustainable economic development and finance (Financing Sustainable Development: Key Challenges and Prospects, 2019). The major activities of GF include green bonds, microfinancing, sustainable funds, investments in impact, active ownership, credits for sustainable developments, and improvement in entire financial systems in a more viable way [7]. According to the EU high-level expert group on sustainable finance (2017), GF could be broadly described as a financial system that provides and addresses the challenges of sustainable development, sustainable housing, retirement, infrastructure, technological development, climate change mitigation, and other long-term educational and societal issues.

2. Dimensions of Green Finance

Various past studies defined GF as the promotion of economic, social, and environmental influences on financial services [8], with a general impact on the development of a sustainable economy and business [5]. The term “green finance” is the combination of a set of three dimensions regarded as the “Triple Bottom Line,” comprising social, economic, and environmental aspects [2][9]. Notably, most studies uniquely identify GF dimensions. However, only a few studies explore the connectivity of GF dimensions—social, economic, and environmental—in the context of banking sector [2][5][10]. More recently, Zheng et al. [2] examined the GF development in the Bangladeshi banking sector, particularly in private commercial banks (PCBs), and discovered that the level of awareness, beliefs, and understanding of the major dimensions of GF (social, economic, and environmental) and sources of green financing among PCB bankers were satisfactory for the successful implementation of GF in Bangladesh to facilitate the country's long-term economic development. The study also identified the "economic dimension" as the most important dimension driving GF, followed by the "social" and then "environmental" dimensions. In addition, Rashid [11] examined the impact of green financing by financial and non-financial sectors on the overall economic development of Bangladesh. The investigation revealed that the growth pattern of sustainable financing of the financial sector is marginal compared to the overall credit disbursed and remains below the threshold set by the Bangladesh bank. Although GF has huge prospects for the sustainable economic development of Bangladesh, financial institutions including banks have also identified some of the major challenges of its practices, which include the lack of policy formulation, lack of standardized guidelines for reporting, incorporation of environmental issues, etc. In another study [12], it was stated that the enforcement of clear guidelines by the Bangladesh Bank would result in the successful adoption of sustainable banking in Bangladeshi banks. The study also revealed that the lower growth of technological improvement, innovations of financial products, and a lack of social and ecological consciousness of the general community in the banking enterprises could constitute a hindrance to green growth. Therefore, GF can be said to play a crucial role in the improvement in banks' sustainability performance through the financing of eco-friendly projects, and also the achievement of sustainable economic development of the country.

References

1. Zhang, D.; Zhang, Z.; Managi, S. A bibliometric analysis on green finance: Current status, development, and future directions. Financ. Res. Lett. 2019, 29, 425–430.
2. Zheng, G.-W.; Siddik, A.B.; Masukujjaman, M.; Fatema, N.; Alam, S.S. Green Finance Development in Bangladesh: The Role of Private Commercial Banks (PCBs). Sustainability 2021, 13, 795.
3. Zhang, D. Energy Finance: Background, Concept, and Recent Developments GUEST EDITOR'S INTRODUCTION. Emerg. Mark. Financ. Trade 2018, 54, 1687–1692.
4. Wang, K.; Tsai, S.-B.; Du, X.; Bi, D. Internet Finance, Green Finance, and Sustainability. Sustainability 2019, 11, 3856.
5. Akter, N.; Siddik, A.B.; Mondal, M.S.A. Sustainability Reporting on Green Financing: A Study of Listed Private Sustainability Reporting on Green Financing: A Study of Listed Private Commercial Banks in Bangladesh. J. Bus. Technol. 2018, 12, 14–27.

6. Hoque, N.; Mowla, M.M.; Uddin, M.S.; Mamun, A.; Uddin, M.R. Green Banking Practices in Bangladesh: A Critical Investi-gation. Int. J. Econ. Financ. 2019, 11, 58–68.
7. Lancet, R. Reports of the Advisory Scientific Committee No 6/February 2016 Too Late, Too Sudden: Transition to a Low-Carbon Economy and Systemic Risk; European Systemic Risk Board: Frankfurt, Germany, 2017.
8. Zhou, X.; Tang, X.; Zhang, R. Impact of green finance on economic development and environmental quality: A study based on provincial panel data from China. Environ. Sci. Pollut. Res. 2020, 27, 19915–19932.
9. Malsha, K.P.P.H.G.N.; Anton Arulrajah, A.; Senthilnathan, S. Mediating role of employee green behaviour towards sustain-ability performance of banks. J. Gov. Regul. 2020, 9, 92–102.
10. Raihan, M.Z. Sutainable Finance for Growth and Development of Banking Industry in Bangladesh: An Equity Perspective. MIST J. Sci. Technol. 2019, 7, 41–51.
11. Rashid, M.H.U. Green Financing for Sustainability: Challenges and Prospects of Bangladesh. In Proceedings of the International Conference on Finance for Sustainable Growth and Development; Jahur, M.S., Uddin, S.M.S., Eds.; Department of Finance, Faculty of Business Administration, University of Chittagong: Chittagong, Bangladesh, 2018; pp. 129–147.
12. Zhixia, C.; Hossen, M.M.; Muzafary, S.S.; Begum, M. Green banking for environmental sustainability-present status and future agenda: Experience from Bangladesh. Asian Econ. Financ. Rev. 2018, 8, 571–585.