Green financing and bank profitability: Empirical evidence from the banking sector in Bangladesh

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Abstract

Green financing is a relatively new phenomenon in Bangladesh's banking sector following its introduction in 2011 by the Central Bank of Bangladesh. All 36 scheduled banks in Bangladesh are required to adopt green financing policies as part of the effort to promote environmentally friendly practices in their banking operations. The majority of these banks showed symptoms to set up their own green banking guidelines and green banking officer, although the seriousness to implement all the sections of the policy vary, indicating further motivation is needed to ensure actual implementation by all banks. Being a commercial entity motivated by profit, it would be interesting to investigate the relationship between green financing and profitability of the commercial banks. This paper aims to investigate the relationship between profitability and green financing based on the experience of 18 sample banks in Bangladesh. Several profitability ratios, namely ROE, ROA, AII and ROOD have been used to find the relationship with green financing utilizing funds for three years 2012, 2013 and 2014. The study finds that there is a significant relationship among different banks of Bangladesh such as conventional commercial banks, Islamic commercial banks, state-owned commercial banks and foreign commercial banks in terms of profitability ratios. In particular, the ROA, ROOD and AII have significant positive relationships with green financing at the banks, while the ROE showed a non-significant relationship with green financing at the banks.

Author keywords

Bangladesh, Banks, Green banking practice, Green financing, Profitability

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