Tendency to hail faster economic growth
Countries, both rich and poor, have been long pursuing long policies for fast-growing the volume of material goods and services available to their citizens. When growth rates of close to double-digit levels have been recorded, it has been customary to brand such countries as fast-growing nations.

There is validity in such branding since it makes available to the present-day citizens a bigger basket of consumable goods and services. Since bigger is considered better, it has been presumed that the living conditions of people in such countries have also improved.

The objective of any society is to offer better living conditions to its members. Thus, countries that attain higher economic growth rates year after year have been hailed as “achievers” and all other countries have been encouraged to join the club of such achievers.

But unplanned growth may lead to environmental degradation
But economists who were concerned about the long-term development of societies began to question the validity of such a presumption. Nobel Laureate Amartya Sen equated development to freedom in his 1999 book ‘Development as Freedom’. According to him, a society is developed if it offers three types of freedoms to its members: political freedom, freedom of opportunity including right to credit and freedom from poverty.

The UN’s World Commission on Environment and Development, popularly known as the Brundtland Commission, named after its Chairperson Gro Harlem Brundtland, in its 1987 report entitled ‘Our Common Future’ argued that true development should necessarily be a sustainable development.
It argued that development cannot be separated from environment and a true development is one which uses the environment today without forcing those living in the future to sacrifice the fulfilment of their requirements for a safe living. This concept was coined by the Brundtland Commission as ‘sustainable development’ that allows the present generation to have their needs fulfilled without compromising the capacity of future generations to satisfy their own needs. What it means is that if environment is degraded today in the pursuit of a higher material growth, the quality of life of people living in the future will be less pleasant. Countries which ignored this rule in achieving a higher economic growth, such as modern day China, have caused irreversible damage to their environment as well. Poor countries specifically tend to ignore it because the people in such countries live in a pathetic condition and as an immediate priority, fast economic growth has to be achieved to ameliorate their conditions. But they attain their fast economic growth only to regret it later.

Need for addressing the issue at the root
The correct public policy should therefore be designed to address the issue at the root. That is, economic growth should be accompanied by policies, designs and strategies aimed at preserving the quality of the environment as well. This particular economic strategy has been termed as ‘greening the economy’ and economic policies designed to achieve the twin objectives of growth and protecting environment have been called ‘green economic policies’. But it has become difficult for societies to get a firm and sincere commitment from their politicians to follow green economic policies. That is because though the benefit of growth is obvious today, the danger of a degraded environment happening tomorrow cannot be perceived. This has been obvious in the case of many mega infrastructure projects that have been undertaken or completed in the recent past in Sri Lanka.

The bold experiment by the Governor of Bangladesh Bank
In this background, a lone governor of a developing country’s Central Bank has made a bold attempt at greening the economy at source through Central Bank policies. This was revealed by academic turned central-banker Atiur Rahman, Governor of the Bangladesh Bank, in a special lecture delivered to the faculty the students of the Bangkok-based Asian Institute of Technology, popularly known as AIT, last week.
He elaborated in his lecture, among others things, on the green banking policy being implemented by Bangladesh Bank. The technical details of the Bangladesh Bank’s green banking policy were presented in a subsequent seminar conducted at AIT by a team of high officials of the Bangladesh Bank headed by its Executive Director Md Ahsan Ullah on ‘Practice of Financial Inclusion’.

Growth should be quality growth

According to Governor Rahman, the green banking policy was introduced to the banking sector in Bangladesh as a precautionary measure to avoid a greater disaster that may happen in the future. Economic growth brings in better life for Bangladeshis but that better life should necessarily be ‘quality life’.

Quality comes from freedom from diseases and the ability to have a better life continuously without interruptions. So, although basic macroeconomic fundamentals of Bangladesh have improved recently, it is still saddled with a high incidence of abject poverty at around 30% of population. Bangladesh is very often hit by natural disasters that have stunted its economic progress in the past. Hence, unplanned economic growth policies that aim at alleviating poverty will result in degradation of environment, the cost of which will be reinforced on the poor in particular and on the economy in general.

Commercial bankers are the major financiers of commercial projects that are introduced to accelerate economic growth and help alleviate poverty. Hence, banks can exercise their lending powers to finance pollution free projects. To help them grant such green loans, Bangladesh Bank provides funds to them at a lower interest rate. This is what is known as green banking.

Green banking should be started in-house first

Executive Director Ahsan Ullah speaking further about green banking said: “Green banking should be practiced at two levels. First, they should be practised within lending banks. In this, banks should design their buildings, operations and businesses in such a way that they will emit the least volume of pollutants to the environment. This is also an example to their customers. Second, they should grant loans having very carefully selected the projects that have been designed to emit the least volume of pollutants. Thus, the projects that are to be implemented in Bangladesh should be green projects.”

Governor Rahman said that as an example the Bangladesh Bank had gone into greening itself. It has used energy-saving methods in its current buildings and will use solar power in the new buildings that are to come up. In this manner, it will minimise the emission of greenhouse gases to the environment.

Different component of green banking

Khondkar Morshed Millat, Deputy General Manager of the Bangladesh Bank, said that green banking had four components. One is the in-house greening of banks as has been done by the Bangladesh Bank and also highlighted by Ahsan Ullah.

The second is the granting of green loans to customers. The third is green marketing that involves the marketing of green loans, projects and systems by banks as well as their customers. The last is going into green research and development. All these four components, done together, will help produce a green economy in Bangladesh.

Deputy General Manager Md Ashraful Alam justifies the move by Bangladesh Bank to go for a special project on green banking: “Greening the economy is a responsibility of the Government but the Government’s action is concentrated in regulating the use of environment. It has its useful benefits but it is a negative approach. What the Bangladesh Bank has done is to use a positive weapon to green the economy by encouraging banks to grant green loans, thereby motivating entrepreneurs to go for green projects. Hence, the action by the Bangladesh Bank and the Government will complement each other.”

Environment is an essential input for economic activities

The protection of the environment comes under a branch of economics known as public policy. However, the economists’ view of environment differs from those of others involved in protecting the environment.

From the point of view of economics, the environment is an essential input used for all the three major activities in an economy: production, distribution and consumption. Hence, no activity can
be undertaken without the use of environment. It occurs due to the following nature of the economic activities that are being undertaken in an economy for the benefit of mankind.

**Economic activities produce both goods and bads**
Every economic activity gives rise to a desired product demanded by its users as well as an undesired by-product that arises through the activity, but is not demanded by anyone. The desired product which benefits the user is ‘good’ for him, while the undesired by-product which essentially arises by way of waste matter is ‘bad’ for him. Unfortunately, both these goods and bads come as a package and hence it is not possible to accept only the ‘good’ without accepting the ‘bad’ as well. For instance, for a person to live, he should inhale oxygen. But he has to exhale carbon dioxide, an undesired by-product, in the process. Without exhaling carbon dioxide he cannot use oxygen. Hence, his life depends on consuming a good as well as producing a bad.

The rejection of the ‘bad’ would, therefore, mean the rejection of the ‘good’ as well. The undesired by-product can take the form of solid matter, gaseous emissions, liquids, noise or any other micro-organisms not desired. Since the waste matter is a bad and not desired, it is necessary to dump it somewhere. In this context, the best available dumping ground is the environment.

**Environment is used as the dumping ground for bads**
Accordingly, the environment is used as a dumping ground for the bads that are essentially produced in all economic activities. In this sense, the environment can be classified as the fifth factor of production, since its use as a dumping ground is a sine qua non for mankind to produce, distribute or consume the wide range of goods that are desired.

**Free use of the environment leads to its overuse**
There is, however, a fundamental difference between the other factors of production and the factor called environment. In the case of the first category, there is an owner of the factor holding property rights over it and, therefore, the owner can charge a price for its use from prospective users.

For instance, in the absence of slavery, labour is available for use by an employer, only if he is prepared to pay the agreed wages. Similarly, other factors of production too have their corresponding prices, namely, interest for capital, rent for land and profits for entrepreneurship. However, the environment is not owned by anybody and therefore no one holds property rights over it. The corollary of this is that no one will be able to fix a charge for it. Hence, it is available to everyone free of charge as a dumping ground. Therefore, there is no incentive for the users to use the environment economically and they will use it until it becomes a nuisance to him. Thus, there is a tendency for overusing the environment as a dumping ground.

**Overuse of environment does not necessarily lead to pollution**
The overuse of the environment does not necessarily lead to environmental pollution. That is because there is nature’s assimilative capacity to convert waste matter to beneficial matter. For instance, the carbon dioxide emitted by people in exhalation will be used by plants to produce nutrients in its photosynthetic process.

But in that process, they discharge their waste which is called oxygen and that oxygen is used by people for inhalation. Thus, pollution occurs when nature’s assimilative capacity is overstretched due to several reasons. First, population increases raise the level of dumping of waste matter and it is further complicated by economic growth that demands more and more use of resources generating greater and greater volumes of waste matter.

Second, man’s own unplanned way of disposing of waste matter in selected areas will overstretch the natural assimilative capacity leading to an excessive accumulation. Third, man’s own action that destroys nature’s assimilative agents, creating an imbalance in the environment, will halt the assimilative process leading to pollution.

Fourth, nature’s own eruptions such as volcanoes, earthquakes, land slips, forest fires, etc. will discharge waste matter in high volumes overstretching nature’s assimilative capacity. Fifth, natural processes such as marshy lands, explosion of animal populations, etc. will emit pollutants in very high volumes, causing an imbalance in nature. Hence, contrary to the popular view, man
alone is not responsible for the so-called current sad state of the environment.

**No voluntary action to conserve environment**
A pertinent question at this stage is why man, having learnt of the adverse impact it would make to his own survival, does not volunteer to economise on the use of environment or discharge waste matter in a planned manner.
This happens because of a problem called externality that arises when waste matter is discharged to the environment. Though the dumping of waste matter over and above the assimilative capacity leads to pollution, its cost is being borne by others and not by the perpetrator alone. Hence, the polluter exerts an external cost on the rest in society. As long as this externality is present, he has no incentive to curtail his activities voluntarily.
The corollary of this is the failure of the market system in generating the optimal level of waste matter discharge by all those concerned.
The solution to the problem is collective action through public policy. Hence, the environmental control, management and protection are produced and supplied by governments through collective action in the same way they produce and supply public goods.

**Bangladesh Bank’s public policy intervention**
Thus, the intervention of Bangladesh Bank through its green banking initiative is a public policy measure to incentivise banks and businessmen to select projects that discharge acceptable levels of waste matter to environment.
It can also be used to generate new projects that will simulate nature: That is, projects that convert waste into benefits such as using waste for generating electricity or recycling plastic waste for producing new plastic products. Thus, the scope available for banks under the green banking initiative is unlimited.
The Bangladesh Bank, headed by Governor Atiur Rahman, is the first and only Central Bank which has gone into a challenging experiment like greening the economy through a credit policy. It is thus an eye-opener for other central banks.

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