

ROLE OF GREEN BANKING IN SUSTAINABLE DEVELOPMENT OF INDIA

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Abstract: Today sustainable development and preservation of environment are recognized globally and for this main focus is on reducing the demand of fossil fuels by implementing the 3 R's viz. Reduce, Reuse and Recycle. Many research studies have also pointed out that increase in carbon emissions and reckless development without paying attention to environment can be a reason of occurrence of natural disasters. All over the world institutions are concerned about the overall impact of depletion of environment. Banks and financial institutions are also playing a major role in optimizing or reducing carbon footprints. Green Banking is also a part of India's mission of "Go Green" and plays an active role to take environmental and ecological aspects as part of their lending principle. Green banking is comparatively a new development in the financial world. Green banking means promoting environmental friendly practices and reducing carbon footprint from banking activities. It is a form of banking taking into account the social and environmental impacts and its main motive is to protect and preserve environment. This paper compiles the concept of Green Banking and also explains how Indian Banks are initiating themselves to enter in Green concept. It explains in a very lucid style the various possibilities that exist in the banking arena to increase energy efficiency and reduce the usage of natural resources. This paper touches on various and simple methods which could be adopted by any bank for educating customers on technology based transactions, saving energy etc. Also highlight the steps taken by RBI to motivate banks to take initiative to contribute in sustainable development of country.

1. INTRODUCTION

Today sustainable development and preservation of environment are recognized globally and for this main focus is on reducing the demand of fossil fuels by implementing the 3 R's viz. Reduce, Reuse and Recycle. Reckless and unimaginative growth is endangering the planet and the adverse consequences are manifest in global warming, climate change, fickle weather, floods droughts, pollution, high green house gas emissions, etc. While still there is no consensus among the countries on sharing the burden of ecological footprint, most of the countries have been taking aggressive measures to tackle global warming and climate change. Banks also contribute to ecological footprint directly and indirectly through investment/lending in their customer enterprises. As such they need to play a key role in optimizing /reducing the carbon footprint. It is said that what is not measured, is not managed.

Green banking is comparatively a new development in the financial world. It is a form of banking taking into account the social and environmental impacts and its main motive is to protect and preserve environment. Foreign banks are practising green banking on a much serious note. Some of the foreign banks have introduced a formal Environmental and Social (E&S) risk policy to govern lending activities way back in 1997. They are also signatory to the Equator Principles (EP), and moved ahead in building on bank's work to measure social and economic impact of lending, reduce annual paper consumption of full-time employees and continue to reduce energy and water consumption, etc. The Indian banks are still taking baby steps into this form of banking. Still, many of

them are keen to actively pursue this strategy. In December 2007, the Reserve Bank of India (RBI) issued a circular (RBI 2007-2008/216) highlighting the importance for banks to act responsibly and contribute to sustainable development and emphasizing the need for Indian banks to establish institutional mechanisms to enshrine sustainability.

2. OBJECTIVES OF THE STUDY

- To understand the role of Green Banking in sustainable development of country.
- To highlight the initiatives taken by Indian banks to make them Green Bank.
- To discuss the various strategies used by different banks in India as a part of Green Banking.
- To find the opportunities available to banks in this area.

3. SIGNIFICANCE OF THE STUDY

Green Banking is an umbrella term referring to practices and guidelines that make banks sustainable in economic, environment, and social dimensions. It aims to make banking processes and the use of IT and physical infrastructure as efficient and effective as possible, with zero or minimal impact on the environment. Enterprises are now increasingly interested in establishing and implementing strategies that will help them to address environmental issues and also pursue new opportunities. The reasons for going green are manifold, and the key among them are: increasing energy consumption and energy prices, growing consumer interest in environmental friendly goods and services, higher expectations by the public on enterprises' environmental

responsibilities and emerging stricter regulatory and compliance requirements. Further, enterprise will increasingly feel the effects of environmental issues that impact their competitive landscape in ways not envisaged earlier. Government agencies, investors and the public are demanding more disclosures from enterprises regarding their carbon footprint and their environmental initiatives and achievements. Banks affect the environment indirectly by financing intermediaries who are the major source of long term funding to various industries that pollute the environment heavily. Hence, it is imperative to understand the need for sustainable practices for banking. Foreign countries have understood the need of green banking and creating many opportunities in their country to develop this but in India, the concept of green banking is catching up and banks are actively looking for ways to portray themselves as a Green Bank. So there is a need to create new strategies to develop Green banking in India and aware the public about the need and importance of green banking.

4. GREEN BANKING

Green Banking refers to the initiative by banks to encourage environment friendly investments, to give lending priority to those industries which have already turned green or are trying to grow green and thereby help to restore the natural environment. This initiative of green banking is mutually beneficial to the banks, industries and the economy. Moreover Green banking will ensure that the asset qualities of banks are improved in future. Contrary to the belief, environmental friendly technologies make economic sense for the industries and actually lessen their financial burden as well. The polluting industries face more resistance and often forced to close down or face massive resistance from the public. This adds to their cost enormously. So adopting environmentally sustainable technologies or modes of production is no more considered as a financial burden, rather it brings new business opportunities and higher profit. Green banking optimizes costs, reduces the risk, enhance banks reputations and contribute to the common good of environmental sustainability. So it serves both the commercial objective of the bank as well as its social responsibility.

5. GREEN BANKING STRATEGIES

Indian Banks can adopt green banking as business model for sustainable banking. Some of following strategies little reflected in their banking business or must be adopted by banks.

a) Carbon Credit Business: Under the Kyoto Protocol, all nations must reduce green house gases emission and reduce carbon to protect our environment. These emission must be certified by Certified Emission Reductions (CERs), commonly known as carbon credit. The Indian Bank may

start this business as in London the business of carbon credit is around 30 billion Euro.

- b) Green Banking Financial Products:** Banks can develop innovative green based products or may offer green loans on low rate of interest. As Housing and Car loan segments are the main portfolio of all banks so they adopt green loans facility. SME loans on the basis of National Environmental Policy and its certification
- c) Paperless Banking:** All banks are shifting on CBS or ATM platform, also providing electronic banking products and services. So there is ample scope for banks to adopt paperless or lee-paper banking. Private and foreign banks are using electronics for their office correspondence but still in PSU banks they are using huge paper quantity.
- d) Energy Consciousness:** Banks have to install energy efficient equipments in their office, use CFL and avoid mis-utilization of these equipments. Banks have to transform this green banking in Hardware, waste Management in office, Energy efficient Technology products. Banks can Donate Energy Saving Equipments to school, hospitals etc.
- e) Using Mass Transportations Systems:** Banks have to provide common transport for groups of officials posted at one office.
- f) Green Buildings:** Banks have their residential houses, branches or ATMs, so bank may adopt green building to protect our environment.
- g) Plantation:** Most of the banks at Jaipur are conducting plantation program in the rainy season to save our environment. They plant trees, grass etc at local gardens, schools or colleges and shows that banks are very careful about environment.



Fig. 5.1 Green Banking Strategies

6. ROLE OF GREEN BANKING

Banks like any other business directly interact with the environment as consumers of natural resources. During their day to day business banks heavily contributes towards the carbon emission in terms of use of paper, electricity, stationary, lighting, air conditioning, electronic equipment etc. even though this is moderate compared to other carbon

sensitive industries like steel, oil and gas etc. In the case of banks, the direct interface with the environment has considerably increased due to rapid growth of the banking industry.

Banks affect the environment indirectly by financing intermediaries that have an external impact on the environment. They are the major source of long term funding to various industries such as cement, fertilizers, nuclear power, steel, oil and gas, paper etc. which pollute the environment heavily.

Being a major source of fund provider, banks can play a crucial role in ensuring environmentally sustainable and socially responsible investments in the economy. Banks should try and reduce the increase in carbon footprint caused by them either directly and indirectly and should play a vital role in ensuring sustainable and environment friendly development. In addition, if the lending decisions of the banks are not done prudently as per the environmental criteria, then it may lead to credit risk, legal risk and reputational risk. It is at the interest of the banks to practice green banking and thereby avoiding the aforesaid risks involved in the banking sector.

6.1. CREDIT RISK

The credit risk can happen indirectly in the case when banks lend to companies whose businesses are adversely affected due to changes in environmental regulation. The costs of meeting new environmental requirements might be enough to put some companies out of business. Credit risk can also arise when a bank had given advances to a real estate firm whose property value fell because of environmental issues. Moreover small and medium enterprises (SMEs) engaged in manufacturing business do not have sufficient capital to shift to clean production methods. Hence there are chances of credit risk in these loan portfolios as well in case government comes out with stringent environment regulatory rules.

6.2. LEGAL RISK

Banks are at a legal risk if they themselves don't comply with the environmental regulations. But more than inadequate environmental practices followed by debtors may lead to legal risk. The banks will be at a legal risk when they take possession of a collateral property (under SARFAESI or due to loan default) which is contaminated or is a pollution causing asset. For example, A company which has taken loan may incur legal liability to clean up the contaminated site which may further lead to bankruptcy. In such a case the bank's ability to recover the loan is stalled and if the polluted site is part of the collateral security, the value of the property intended to set off default losses is also reduced. If a bank has a proactive environment management system put in place then it can reduce this risk to a great extent.

6.3. REPUTATIONAL RISK

Banks should watch out from financing environmentally objectionable projects. Banks are certain to lose their reputation if they are involved in some big projects which adversely affect the environment and causes pollution. In addition if loans are advanced to industries which pollute the environment, those industries will face restriction from public and are often forced to shut down their business, thereby creating over and above the reputational risk causing credit risk as well.

7. THE OPPORTUNITIES AVAILABLE TO INDIAN BANKS

The Green banking, on one hand provides challenges to the banks and on the other hand it provides many opportunities as well.

It is strongly believed that within the foreseeable future carbon will have a price tag attached to it. And it gives banks a role to play in transition to a low carbon economy.

Banks may formulate innovative financial solutions and re design the existing ones so as to incorporate environmental perspectives. Some areas of development could be:

- Green financial products - Loans with financial concessions to companies which undertake environmental friendly projects such as manufacturers of fuel efficient automobiles, solar and wind equipment etc. Banks can also introduce a 'Green Fund' to provide climate conscious customers the option of investing in environmental friendly projects. Besides introducing specific green banking products, banks can incorporate an Environmental Impact Assessment (EIA) in their project appraisal while financing any project to measure the nature and magnitude of environmental impact as well as suggest environmental risk mitigation measures.
- Carbon credit business- Indian banks can involve themselves in carbon credit business, wherein they can provide all the services in the area of Clean development Mechanisms (CDMs) and carbon credits including services of identification and funding of CDM projects, advisory services for registration of CDM projects and commercialization of CERs under different structures to meet the requirements of its customers, acting as an intermediary for buying certified Emission Reductions CERs on behalf of end-users or carbon funds, financing against CERs and CERs receivables, and other related banking services. As India has huge potential for carbon credit business, Indian banks can set up dedicated carbon credit cells to capture a major share of this carbon credit business.

8. ROLE OF GREEN BANKING IN SUSTAINABLE GROWTH

Green banking can help a lot in attaining sustainable development by creating awareness and by imparting education. Awareness can be through communication. The first step would be defining target groups and means of communication. We can divide the whole system into two subsystems that is internal and external sub-system. For internal sub systems means which can be followed to create awareness on the issue can be weekly green news on internet, clearing programmes, high level meetings, bank's news letter, publication etc. and the target groups are managers and other personnel. As far as external subsystems are concerned,

effective means which can be followed are websites, capacity building, road shows, event meetings, bench marking, media etc. whereas clients, subsidiaries and general public are target groups.

9. EDUCATION CAN BE IMPARTED TO RELATED PEOPLE BY

- Interactive E-learning Programs
- Interactive Internet Applications
- Special Fields on the Internet
- Participation in Conferences and Meetings
- Publication of Information Material
- Annual Environmental Report

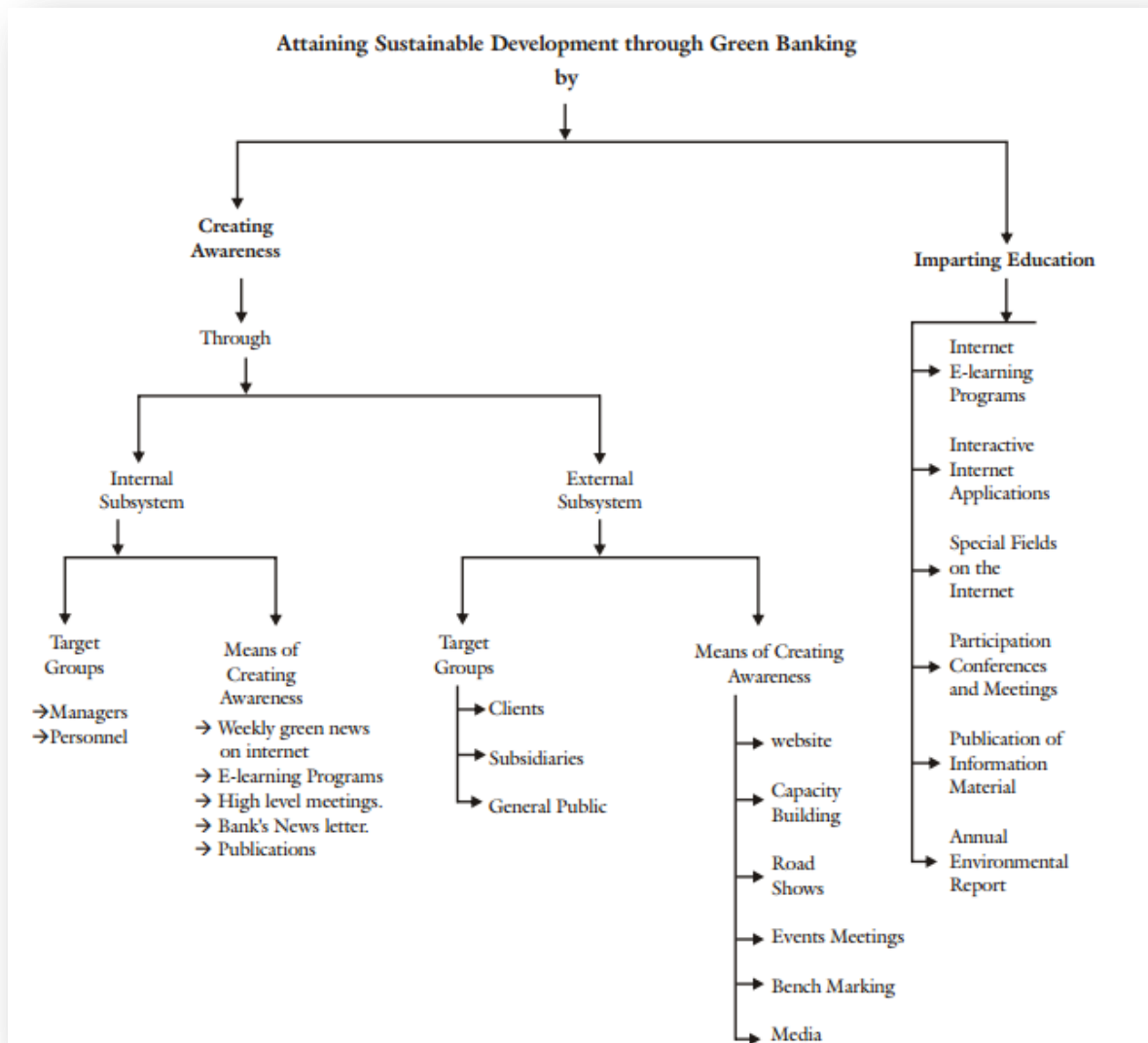


Fig.9.1: Attaining Sustainable Development through Green Banking

10. CONTRIBUTION OF BANKS IN INDIA

Many Indian banks have started to realize the importance and they are taking up various GREEN BANKING initiatives:

10.1. GO GREEN INITIATIVE BY ICICI BANK

The Go Green Initiative is an organization wide initiative that moves beyond moving people, processes and customers to cost effective automated channels to build awareness and consciousness of our environment, our nation and our society.

10.1.1. Objective

ICICI Bank's Green initiative is to make healthy environment in the organization i.e.; to create intrapersonal skills amongst the customer and understanding between employees of the organization.

Broad objectives of the ICICI are:

- (a) to assist in the creation, expansion and modernization of private concerns;
- (b) to encourage the participation of internal and external capital in the private concerns;
- (c) to encourage private ownership of industrial investment.

10.1.2. Green products and services

a) Instabanking

It is the platform that brings together all alternate channels under one umbrella and gives customers the option of banking through Internet banking, i-Mobile banking, IVR Banking. This reduces the carbon footprint of the customers by ensuring they do not have to resort to physical statements or travel to their branches.

b) Vehicle Finance

As an initiative towards more environment friendly way of life, Auto loans offer 50% waiver on processing fee on car models which uses alternate mode of energy. The models identified for the purpose are, Maruti's LPG version of Maruti 800, Omni and Versa, Hyundai's Santro Eco, Civic Hybrid of Honda, Reva electric cars, Tata Indica CNG and Mahindra Logan CNG versions.

c) Carbon Footprint Calculator

Inputs include region, user input of the distance travelled in a particular medium of transport daily, electricity consumed per month and LPG cylinder/piped natural gas used per month. It calculates the net carbon footprint to create awareness and sensitize people about the environment. It also shows the world's and India's average carbon footprint.

10.2 INDUSIND BANK

"Human aur Hariyali" campaign which introduced solar powered ATM's. The banks expects to save 1980 Kwh of

energy annually. They are also supporting environment friendly finance programmes and providing incentives to go green.

10.3. IDBI BANK

Exclusive group for working on climate change and more specifically carbon credits advisory to the clients to deal with clean development mechanism (CDM), carbon credits of Kyoto protocol and voluntary emission reduction (VERs) authority.

Entered into agreements with multilateral agencies and buyers of carbon offer complete range of CDM related services tailor made to suit the needs of the clients.

10.4. SBI

Green home loan scheme which supports environment friendly housing projects and offer subsidy and interest rates reduction.

10.5. AXIS

Facility of e-statement and for each e-statement registration by a customer, Axis bank will donate a note book to the needy and poor.

10.6. SIDBI'S FINANCING SCHEME FOR ENERGY SAVING

The Japan International Cooperation Agency (JICA) has extended a Line of Credit to SIDBI for financing Energy Saving Projects in MSMEs. Under this scheme, financial assistance is provided to MSMEs through SIDBI as well as through refinance to banks/ SFCs and NBFCs to encourage MSME units to undertake energy saving investments in plant & machinery/ production process to reduce energy consumption, enhance energy efficiency, reduce carbon-dioxide emissions and improve profitability in the long run. The interest rates are attractive.

10.7. YES BANK

YES BANK is a first Indian signatory to the Carbon Disclosure Project and has documented its Carbon Footprint. It is also the first Indian Bank from the private sector to become signatory to UNEP Statement by Financial Institutions on the Environment and Sustainable Development. YES BANK also advocates a proactive response to climate change from its peers in the banking community, industries and societies as well.

11. FUTURE OF GREEN BANKING

In future the Green banking will become the order of the day. And we expect a lot of associated green products, green services and green regulations would come into picture.

- Recognize and reward the environment conscious financial institutions- The Reserve Bank of India or regulatory



authority will recognize and reward the environment conscious providers of green loans on an annual basis. By doing this environmentally irresponsible firms may run the risk of hurting their bottom-line as well as their image in the market.

- GRISIL - Green Rating and Information Services of India Ltd - Green rating agencies will be set up to provide green analysis of lenders and users of green loans via different ratings.
- Eco friendly Investment funds - Green mutual funds will be in markets and climate conscious customers can invest in environment friendly projects. Moreover investment in these would attract tax concessions as well.
- Green insurance - The IRDA shall come up with green insurance in which cover is provided for different kinds of environmental risks

12. CONCLUSIONS

The disastrous impact of recent storms, floods, droughts, and excessive heat that many people have experienced around the world, motivate us to think seriously about global warming and its impact and to do whatever we can to address this problem. Governments, enterprises, and people, all have roles to play in combating global warming and building a sustainable environment. A good thing is that there is now greater awareness and a growing commitment to address environmental problems we face. Financial institutions and banks in particular have an important role to play in this context by contributing to the creation of a strong and successful low carbon economy. They should expand the use of environmental information in the credit extension and investment decisions. The endeavour will help them proactively improve their environmental performance and creating long term value for their business. In future, business with a higher carbon footprint would be seen as a riskier business and banks may keep themselves away from financing such business and would look for financing new technology solutions that capture or reduce carbon emissions. The Green Banking is thus the order of the day and it will definitely benefit the banks, the industries and the environment as a whole.

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