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LEADING THE REVOLUTION FOR SUSTAINABLE DEVELOPMENT OF ENVIRONMENT THROUGH GREEN BANKING

S. K. SHARMA

Department of Commerce,

HNB Garhwal Central University Campus-Badshahithaul, Tehri Garhwal-249199 (Uttarakhand)

E-mail- drsksharma.in@gmail.com 9412987466 (M)

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ABSTRACT

'Green Banking' is a concept, accepted the world over, whereby the banks and financial institutions integrate economic and environmental concerns in their business operations. They follow environmental standards for lending, which is really a good idea and it will make business owners to change their business to environmental friendly. Environmental impact of banks is not physically related to their banking activities but with the customer's activities. Therefore, environmental impact of bank's external activity is huge though difficult to estimate. Banking sector is one of the major sources of financing investment for commercial projects such as steel, paper, cement, chemicals, fertilizers, power, and textiles etc., which cause maximum carbon emission. Environmental impact might affect the quality of assets and also rate of return of banks in the long run. The banking sector can play an intermediary role between economic development and environmental protection for promoting environmentally sustainable and socially responsible investment. "Green Banking" will be mutually beneficial to the banks, industries and the economy. Thus the banks should go green and play a pro-active role to take environmental and ecological aspects as part of their lending principle, which would force industries to go for mandated investment for environmental management, use of appropriate technologies and management systems. By adopting innovative technologies, banks and financial institutions have been mitigating the carbon emission directly or indirectly. Keeping in view the most recent concern about climatic change and global warming the present paper is an attempt to understand the concept of green banks and the status of green initiatives by Public, Private and Foreign banks in India. It also identifies the environmental risks faced by Indian banks. The information is collected through personal investigation and questionnaire schedule techniques have been followed in support of it. The study gives some suggestions to manage / mitigate such kinds of environmental risks as well as the challenges.

Key Words: Green Banking, Sustainable development, Environmental Liabilities of Banks Corporate Social Responsibilities (CSR), Green Channel Counter (GCC)

INTRODUCTION

Banks being important economic agents play a crucial role in maintaining sustainable economic development in India. The primary goal of sustainable development is to achieve a reasonable and equitable distribution level of economic well being that can be perpetuated continually for the future

human generations. Implementing the climate change agenda may appear to entail additional resources. Banks in India can carefully evaluate which areas would be most complementary to their inherent organizational structure and ideology. As soon as banks can capitalize on the inherent opportunities which are now available, the concern over costs will diminish. Climate change mitigation and adaptation is becoming increasingly important to the Indian banking sector. It is also going to get harder for banks to neglect or delay action.

The world has seen much focus on economic progress and mankind has made giant steps in its journey through time. The side effects of the development process have, however, also been equally enormous – loss of biodiversity, climatic change, environmental damage, etc. Social issues such as, poverty alleviation have also become more important as the world has progressed economically. We have realized, although a bit late, that development needs to be sustainable and equitable. Sustainable development denotes development that does not reduce the possibilities and choices for the future generations, at the same time ensuring continuity of economic progress for the present generation. It requires that decisions taken today do not compromise options for the future - this issue is central to any serious commitment to sustainability. It also involves balancing economic interests with the communities' social aspirations and minimizing environmental impacts.

A number of acts have been enacted by the Indian government to ensure the protection of natural and environmental resources. Article 51A of the Directive Principles of the constitution of India requires that every citizen of India shall protect and improve the natural environment including forests, lakes and wild life and to love living creatures. In 1991, Government of India stated that every company shall in the Reports of its Board of Directors' disclose briefly the particulars of compliance of with environmental laws, steps taken or proposed to be taken towards adoption of green and clean technologies for prevention of pollution, waste minimization, waste recycling and utilization, pollution control measures, investment on waste reduction, water and other resource conservation (Parmanik, 2002). 'Green Banking' is a concept, accepted the world over, whereby the banks and financial institutions integrate economic and environmental concerns in their business operations. They follow environmental standards for lending, which is really a good idea and it will make business owners to change their business to environmental friendly. Environmental impact of banks is not physically related to their banking activities but with the customer's activities. Therefore, environmental impact of bank's external activity is huge though difficult to estimate. Banking sector is one of the major sources of financing investment for commercial projects such as steel, paper, cement, chemicals, fertilizers, power, and textiles etc., which cause maximum carbon emission. Environmental impact might affect the quality of assets and also rate of return of banks in the long run. The banking sector can play an intermediary role between economic development and environmental protection for promoting environmentally sustainable and socially responsible investment. Public sector banks account nearly 80 % of the market share in India, offering quality product and services to a diverse clientele and

doing well under core business as well as earning. While the scale of activities has gone up, this has also resulted in a lot of additional requirements. Skilled manpower, modern and innovative technology, operational efficiency, improvement in profitability, soundness and achieving competitive advantage, are the basic requirements of a successful bank. The banking and financial institutions should prepare an environmental risk and liability guidelines on development of protective policies and reporting for each project they invest or finance. Banks can also have an environmental assessment requirement. The cost of pollution is rising with more awareness about eco- friendly issues all over the world. Environmental friendly technologies also make economic sense for the industries and can actually lessen the financial burden. Therefore, it is of importance to the banking sector to follow certain environmental evaluation of the projects before financing. There are studies showing positive correlation between environmental performance and financial performance (Blacconiere and Pattern, 1993 and Hart, 1995). Thus, it is imperative for the financial institutions in the present context to consider environmental performance in deciding whether to invest in companies or advise clients to do so. In the recent years, the International Organization for Standardization (ISO) has issued as ISO 14000 series of comprehensive guidelines for incorporating environmental protection and pollution prevention objectives into industrial activity worldwide. Green banking strategies involves two components (1) managing environment risk and (2) identifying opportunities for innovative environmentally.

Environmental Liabilities of Banks

India, the world's fourth-largest greenhouse gas emitter, though still low on per-capita emissions, is under pressure to cut emissions to battle climate change. Environment is no longer the exclusive concern of the Government and the direct polluters, but also the other partners and stakeholders in the business like financial institutions such as banks, can play a very important role in boosting sustainable economic development and caring for environmental protection. Green banking not only saves cost and minimize risks but also contributes to the common good of sustainable development .So it serves both, the commercial objective as well as social responsibilities of banks. Banks also have a direct liability to act in accordance with the related environmental regulations while conducting businesses. The direct impact including carbon emission of all the activities if not taken care of may lead to environmental degradation. Every single decision, if not as per the criteria may lead to various risks. Green Banking is very important in mitigating the following risks involving in the banking sector.

Credit Risk

It has been observed that due to global warming there have been severe weather conditions which severely damage both the financial as well as physical assets of banks. Extreme weather conditions also affect economic assets financed by banks, which may lead to a high incidence of credit default. It can arise indirectly where banks are lending to customers whose businesses are adversely

affected by the cost of cleaning up pollution or due to changes in environmental regulations. The cost of meeting new requirements on emission levels may force the polluting companies to close down. Considering environmental concerns on priority some countries are contemplating the imposition of carbon taxes on import of environmentally sensitive products. The enactment of The Comprehensive Environmental Response Compensation and Liability Act (CERCLA) in USA in 1980s has resulted in huge loss to the banks in USA as banks held directly responsible for the environmental pollution of their clients and made to pay the remediation cost.

Legal Risk

Banks like other business entities face legal risks if they do not comply with relevant environmental legislation. They may also face a risk of direct lender liability for cleanup costs or claims for damages if they have actually taken possession of contaminated or pollution causing assets. An environmental management system helps a bank to reduce risks and costs, enhance its image and take advantage of revenue opportunities.

Reputation Risk

Due to increasing awareness about environment, banks are more prone to lose their reputations if they are involved in projects, which are viewed as socially and environmentally damaging. Reputation risks involved in the financing of environmentally and ethically objectionable projects. Besides these risks other important related issues need to be discussed.

The small and medium enterprises (SMEs) on account of their financial constraints may not be easily able to install the necessary equipment to meet the emission standards prescribed by the competent authorities. Also because of their small scale of operation, the SMEs escape from the eyes of the concerned authorities. SMEs constitute India's manufacturing base and do not have the capital to quickly shift to clean technology. Similarly the industries like cement steel, which are more carbon intensive, could come under stress. The stage of energy consumption is an important issue in banking sector. Various studies show that high-energy consumption for lightening, air conditioning and electronic equipments etc. contributes more to internal carbon emission in banks.

The biggest environmental issue for banks is waste of papers. Banks especially public sector banks (PSBs), annually use huge quantity of paper. With the adoption of information technology on a large scale, Indian banks can now switch over to paper less banking, which saves cost, time and storage space. Some studies show that demand for information technology has been more in the recent time. Paper waste caused by ATM receipts, paper checks, bank statements, tax returns, and much more pollute the environment every day. Due to climatic changes, there have been various issues like droughts, cyclones, raising the sea levels etc. Generally, such issues have negative effect on the economic assets financed by the banks, which may lead to the risk of default.

The Important Guidelines for Credit Appraisal in Green Banking

The International Financial Corporation (IFC) and Asian Development Bank (ADB) and other apex institutions have already formulated the guidelines for appraising the projects from environmental perspective. The guidelines on environment risk grading, to ensure that the business is eco-friendly, are as under.

- The most important consideration is to find whether the type of industry or the line of activity bears any potential hazard to the environment. The major polluting industries as identified by Government of India are (1) primary metallurgical industries namely zinc, lead copper, steel, aluminum etc. (2) paper & pulp (3) pesticides/insecticides (4) refineries (5) plastic (6) rubber (7) fertilizers (8) tanneries (9) sugar (10) textiles (11) chemicals/pharmaceuticals etc. The banking operation and investment by financial institutions should take care of environmental management of these polluting industries by improving the overall environment, the quality of life, level of efficiency in using materials and energy, quality of services and products. So banks should take special care for appraising investment projects coming from these sectors before financing.
- The International Organization for Standardization (ISO) has issued as ISO 14000 series of comprehensive guidelines for incorporating environmental protection and pollution prevention objectives into industrial activity worldwide. The banks should strictly follow the guidelines of ISO-14000.
- The production process should be examined keeping environmental issues in mind, such as level of carbon emission, whether any toxic by products are generated, whether any prohibited material is used, what is effluent disposal system, etc.
- During the site visit the bank should also inspect the nature of land and its habitants, possibility of contamination, noise pollution etc. and encourage the projects to use natural gases for boiler and to adopt recycling of biodegradable waste.
- Bank may incorporate environmental audit for appraising a loan proposal, which derives the viability of the project through a cost-benefit analysis of each operation having potential to affect the environment. It is equally important for banks to guard themselves against the conversion of the now performing assets into non-performing one in the future.

Green Banking in India

The adoption of Information Communication Technology (ICT) by banking sector enables banks to facilitate the frequent use of E-banking, Mobile banking, Internet banking, ATM, Point of sale (POS), Real Time Gross Settlements (RTGS), National Electronic Fund Transfer (NEFT), paper less banking, Core Banking Solution (CBS), credit/ debit card, text banking or Interactive Voice Response System (IVRS) etc. to their customers. It has not only increased the ease of transactions but also reduced time and cost of those transactions. Most importantly all the means of electronic banking, as

above, contribute in mitigating the carbon emission directly or indirectly. In order to achieve the objective, banks have undertaken certain measures. By now, almost all branches of major banks are with CBS facility. Hence payments are mostly through computer software and authorized online in order to avoid the use of paper-the resource most consumed at banks. Banks are providing the information related to any transactions with banks through e-mail /sms to their clients. Banks have also taken steps to save electricity within their premises. Installing solar heater in the banks offices and residential buildings is being undertaken for use as an alternative resource of energy. Use of recycled paper in chequebooks, official notes/ memos, and in postal correspondence is being done by banks is not only conserve environment but also control deforestation.

With respect of promoting green banking, Indian financial institutions are lagging behind their global counterparts. Except one or two private sector and foreign banks, no PSB or private banks are participating in the 'Financial Times Sustainable Banking Awards' initiated since 2006. These awards had drawn 165 entries from 117 institutions in 42 countries during 2009, but included only Yes Bank, NABARD and Small Industries Development Bank of India (SIDBI) from India. In recent times, some Indian banks have adopted measures either for reducing carbon emission or for public awareness. For example, IDBI Bank is providing various services in the field of Clean Development Mechanisms (CDM) to its clients. States Bank of India (SBI) has launched a new home lone product especially for Indian Green Banking Council rated environment- friendly residential projects, by offering financial concessions. ICICI Bank is encouraging its customers to use more environmental-friendly vehicles by offering a 50 percent concession on processing fees for fuel-efficient car models. Some banks have launched 'Go Green' initiatives and campaigns, including 'Plant a Tree' and 'Van Mahotsav' campaigns and have undertaken maintenance of parks as part of their Corporate Social Responsibility initiatives. But none of the Indians banks so far adopted green banking as a business model for sustainable banking. Till today no Indian bank is among the signatories of the United Nations Environment Programme's (UNEP) Statement by Financial Institutions on the Environment and Sustainable Development. There are a lot of opportunities and challenges for Indian banks in adopting 'Green Banking' as a profitable business proposition. Let's take a look at a few of the positive efforts by banks in India towards sustainable development of environment through green banking.

PUBLIC SECTOR BANKS

State Bank of India (SBI)

The State Bank of India (SBI) as parts of its green banking policy has set up windmills to generate 15 MW of power in Tamil Nadu, Maharashtra and Gujarat for its own consumption. The State Bank of India (SBI) launched its "Green Banking Policy" in the Bengal circle. Aiming at paperless banking, the SBI has selected four of its branch in Kolkata and Howrah to introduce point-of-sales (POS) terminals. It will also run 50 ATMs out of 850 ATMs in Bengal by solar energy by March 31,

2011. The plan to introduce POS terminal is to ensure paperless banking. Customers can deposit as well as withdraw cash from these terminals. SBI will also run more and more ATMs by solar energy to reduce our power consumption. The SBI has planned to introduce five lacs POS terminals across the country in next three to five years. The largest lender of the country, State Bank of India is planning to spread its green banking operation across the country in as fast pace as possible. It aims to bring 700 of its branches under its Green Channel Counter (GCC) in the upcoming few months. GCC's working mechanism is based on SBI debit card. When the card is swiped on a point of sale terminal (POS), the transaction takes place and acknowledgement received on a small paper note. The bank has more than 318 GCC branches all over India. SBI is also promoting 'Green Housing' projects, which reduce carbon emission and promote renewable energy by offering them financial benefits such as concession in margin, interest rate and waiver of processing fees on new loans. There are exceptions, though. The new Green Home Loan Scheme from SBI, for instance, will support environmentally-friendly residential projects and offer various concessions. These loans will be sanctioned for projects rated by the Indian Green Building Council (IGBC) and offer several financial benefits - a 5 per cent concession in margin, 0.25 per cent concession in interest rate and processing fee waiver.

IDBI Bank

The bank has an exclusive team working on clean development mechanism (CDM) advisory services. It has entered in to formal arrangements with the agencies and buyers of carbon credits. It also implemented a refinance scheme for energy saving projects for micro, small and medium enterprises sector. Bank has recognized renewable energy projects such as solar power, wind energy, biomass-based power, hydel projects and carbon sequestration projects like forestry etc. as CDM projects for providing the finance facilities.

Union Bank of India

Union Bank of India under takes electrical energy audit annually. Energy audit helps in optimizing energy costs and controlling pollution. The bank has also installed solar water heaters at their premises. It also finances SMEs projects which are energy efficient.

Private Sector Banks-

Indus Ind. Bank

On December 18, 2009 Indus Ind Bank Ltd., inaugurated Mumbai's first Solar powered ATM as part of its Green Office Campaign - 'Hum aur Hariyali'. It is also cost-effective compared to regular power based ATMs. This is first of its kind in India and revolutionary concept in Green Banking. The energy saved will be 1980 KWhrs every year and will be accompanied by a simultaneous reduction in CO2 emissions of 1942 kgs. In terms of costs the saving will be INR 20,000 approx. per year in case of a commercial user with grid supply and INR 40,200 every year if solar power supply

replaces diesel generators. By creating awareness to business people about their environmental and social responsibility, bank is enabling them to do environmental friendly business practices. Bank has introduced supporting finance programmes with incentives to go green.

ICICI Bank

The Corporate Environmental Stewardship Programme with the Bombay Natural History Society (BNHS) was pioneered by ICICI Bank to sensitize various corporate bodies, financial institutions/banks and government agencies involved in project planning on issues regarding biodiversity, wildlife habitats, various environmental laws and conventions. As part of the programme, BNHS has institutionalized a "Green Governance Award" to recognize the efforts of companies and other organizations that promote biodiversity conservation of habitats, flora and fauna. ICICI Bank has been assisting various organizations to undertake clean energy and environmentally sustainable projects/initiatives. ICICI Bank has assisted projects that would specifically promote energy efficiency, renewable energy, biomass co-generation, biomass gasification, demand side management (by utilities), waste heat recovery, energy service companies (ESCOs) that demonstrate substantial savings in energy on a shared savings basis as well as projects that lead to pollution prevention and waste minimization at source. ICICI Bank has assisted ESCOs to facilitate various urban local bodies and manufacturing companies in reducing their energy bills. ICICI Bank introduced the municipal shared saving ESCO model for the first time in India.

ICICI Bank's Support for Clean Technology

In the area of coal technologies, ICICI Bank has been responsible for introducing innovative concepts like deep beneficiation of coal (coal washeries) and coal bed methane for the first time in the country. Through a demonstration project ICICI assisted the first coal washery in the country for providing a solution to Indian coal, which has high ash content and is highly polluting, via the process of deep beneficiation of coal. ICICI Bank also assisted the first company to successfully demonstrate the concept of coal bed methane in India. The replication potential of this demonstration project has been significant.

Zero Emission Vehicles

ICICI Bank has taken steps to promote a cleaner urban environment by providing concessional assistance to projects that endeavour to manufacture vehicles with zero emissions. The project that designed and built the first passenger electric car in the country and that developed electric drive systems to manufacture electric three-wheelers in India, were assisted under this initiative.

Finance for Innovative Products

ICICI assisted a company for the development of a product which provides an eco-friendly air-conditioning alternative to conventional air conditioners (ACs). This product works with indirect

evaporative cooling technology by incorporating a wet plate and a cross flow heat exchanger in its design. It provides 100% filtered cool fresh air and consumes about 35% power compared to an AC making it about 65% more energy efficient. Besides, it also does not need chlorofluorocarbons (CFC) as it does not run on compressor-based technology. The company is currently working on improving the product's heat exchanger efficiency, minimum offer temperature and product miniaturization.

For reducing the carbon footprints, bank brings together all the alternate channels under one umbrella and gives customer the convenience of banking. It offers 50% waiver on processing fee on car models which make use of alternate mode of energy i.e. of LPG, CNG and Solar batteries versions. It also provides incentive to customers purchase homes in 'Leadership in Energy and Environmental Design' (LEED) certified buildings. It conducts green themed events during festivals and celebrates the World Environment Day on June 5 on every year. Bank is encouraging energy conservation practices within the organization and providing car pool transport facility for up and down to its employees. Bank has initiated a programme to sensitize corporate bodies, institutions, banks and government agencies involved in project planning on issues like biodiversity, wildlife habitats and environmental laws.

Yes Bank

The bank is incorporating community development initiatives such as clean and green drives, energy efficiency practices, workplace health and safety and the development of local disaster management plans through its "Yes Community" initiatives. Yes Community engages with the local communities surrounding our bank

branches in India through micro-events under the aegis of 'Planet Earth' on the sub-themes of:

- a. Pollution Prevention
- b. Recycling and Minimizing Waste
- c. Conserving Energy
- d. Conserving Water
- e. Improving Sanitation and Cleanliness

Foreign Banks

ABN AMRO (now Royal Bank of Scotland)

It launched the Indian Sustainable Development Fund, opening up a new emerging market for socially-responsible investors. Bank provides funds to the organizations that fulfill the global standards of environmental, social and corporate governance issues.

Citibank

The "Equator Principles" serve as a backbone for Environmental and Social Risk Management (ESRM) policy of Citibank. The ESRM policy, applies a rigorous environmental and social review of

certain financial transactions where the use of proceeds is known and places the transaction in the risk category of the policy. On the basis of categorisation the bank extends project finance.

Future Prospects

India ranked 10th among G-20 nations in 2009 with clean- energy investments of \$2.3 billion. Over the next decade it is projected to rise to number four with a projected investment of \$118 billion to \$169 billion. 'Green banks' finances only those enterprises which add social, environmental value- in fields such as renewable energy, organic agriculture, environment technology, social housing and nature conservation projects. Indian banks must immediately adopt green banking strategies i.e. carbon credit business, green banking financial products and carbon foot print reduction etc. With increasing environmental awareness enforcement of environmental legislation the environment market is rapidly increasing. The Ministry of Environment and Forests has allocated an outlay of ₹6.17 billion for ecology and environment in the 11th Five Year Plan. Many green field projects are likely to come under Kyoto Protocol and CDM. Industries are now in favour of adopting cleaner and energy efficient technology. Projects related to renewable energy such as solar energy, wind energy, hydropower, biomass, and alternative fuels are getting high priority. A new concept of green building has also emerged in real-estate sector. Managing carbon emission is one of the fastest growing segments in financial services in the world wide and carbon will be world's biggest market overall. As banking sector is one of the major sources of financing investment for commercial and domestic projects there exists great potential for banks. Between 2009 and 2011 UNEP estimates that a minimum of US\$750 billion is needed to finance a sustainable economic recovery by investing in the greening of five key sectors of the global economy: buildings, energy, transport, agriculture and water.

Conclusion and Suggestions

"Green Banking" will be mutually beneficial to the banks, industries and the economy. Thus the banks should go green and play a pro-active role to take environmental and ecological aspects as part of their lending principle, which would force industries to go for mandated investment for environmental management, use of appropriate technologies and risk management systems. In addition to mitigating risks, Green banking has opened the doors for entrepreneurs and it totally depends on them to how they can go, making use of green banking and lead the revolution for sustainable growth of environment. It is vital for employees to be properly trained on the new green products and services that an institution may be offering. Having a knowledgeable staff will sustain customer confidence and heighten the institution's level of credibility as it makes the green transition.

As India has committed to cut its carbon (CO₂) intensity by 20-25 percent from 2005 levels by 2020, banks have an important role towards developing a strong and successful low carbon economy. In a low carbon economy, there will be many challenges and opportunities for Indian banks. Green banking will be at the forefront of this drive to harness banking expertise and build the post carbon economy. For effective implementation of green banking in India, the Reserve Bank of India (RBI)

and Government of India should set targets for the banking sector. Banks should also include green guidelines in their credit policies to raise the green loan portfolio. CSR supporting measures should be dealt with strictly and implemented. There is a need for adoption of complex risk management techniques and global green banking standards and procedures. Strategically initiatives towards green policy are essential to help banks to proactively improve their environmental performance and to create high value for their businesses. Being a major source of fund provider, banks can play a crucial role in ensuring environmentally sustainable and socially responsible investments in the economy. Therefore, banks should be proactive and prompt in identification of new green business opportunities to be a dominant entity in conserving green and clean environment. Much effort to drive a green agenda in the country, the Government of India should come forward to make it mandatory for financial intermediaries/ institutions and firms to disclose “green initiatives” in their annual reports.

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