



**TITLE OF THE PAPER: “AN ANALYTICAL STUDY OF
GREEN BANKING IN INDIA”**

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ABSTRACT

‘Go Green’ has been the mantra since recent years with environmentalists becoming active and taken a center stage for better lives. People too are getting environment conscious with experiencing and observing the ill-effects of environmental damage. They have realized that though industrialization and globalization has got along with it a lot of advantages to people but has also lead to an alarming situation of huge environmental degradation incorporated with all the involved activities. Each and every sector in the economy is under wrath and is compelled to think of the environmental problems and how their activities can deal with it and banking sector is no exception. It is the concern for environmental sustainability that has given mass recognition to the concept of corporate social responsibility. And this CSR has given rise to the concept of Green Banking.

In the present paper researcher tried to find out the awareness of this concept among youth, faculty of Commerce and Economics and bank officials and to know their views on Green Banking, and whether or not they would be interested to deposit their money in such banks. The researcher also tried to understand the concept of Green Banking and tried to find out the activities which come under the ambit of Green Banking especially in the Indian context. The paper also discusses about the importance of Green Banking and problems which could be faced by green banks. An attempt has also been made to suggest measures to improve the performance of Green Banks.

Key Words: Ethical Banking, Traditional Banking, Corporate Social Responsibility, Environmental Sustainability, Triple Bottom Line

Green Banks

Banking business all over the world is centuries old. In general banking involves activity of accepting and safeguarding money owned by individuals and entities and then lending them out in order to earn profit. With growing demand for CSR and Ethical Business Practices, banks too have awoken to involving in activities that lead to environmental sustainability. The world witnessed the beginning of Green Banking in 1990's when world grew aware of the harmful impact of chlorofluorocarbon (CFCs) which were harmful to the ozone layer. There was pressure from various fronts to curb the use of CFC. And banks complied with ensuring that they are not lending to the enterprises involved in production and usage of CFCs. The pressure went on building up from the general public, NGOs, governments and regulatory bodies to consider their social and environmental impact. Capitalizing upon the growing public sentiment for the environment, in the mid-2000's many banks started claiming to offer a "Green Banking" option for their customers. But these generally amounted just a little more than a green-masked marketing campaign for a product that the big banks already had, i.e., paperless banking. It did work but it was just a small pie of the whole lot. Green Banking is much more than paperless banking.

Green Banking is also called as an Ethical Banking, Sustainable Banking, Eco Banking, Socially Responsible Bank, Social Banking, Community Investment Banking, Alternative Banking, Civic Banking. As the various names suggest, Green Banking is like a normal banking which undertake banking business but with an additional agenda of considering the social and environmental and ecological factors with the aim of protecting the environment, habitants and conserving natural resources. Banks which are in green banking i.e., Green Banks involves the tenets of environmental sustainability, ethical lending, conservation and energy efficiency. These banks are controlled by same authorities which control traditional banks.

India has been witnessing industrial growth and with it the related environmental issues. Government of India has been trying to address the issue by framing environmental legislations to ensure that industries follow environmental technologies and practices, it was

found that they were not enough given the poor track records of enforcement and growing public awareness.

It was now time to turn to banking sector which is one of the major financing sources to the industries, assumes high importance. Green Banks are the best option to restrict lending to environmentally harmful industries.

In spite of the advantages Green Banks offer for environmental sustainability, as far as India is concerned, the banking sector is running behind the schedules compared to global trends. The concept of Green Banking is still in the stage of infancy. In spite of the importance of Green Banking not many banks are going beyond paperless banking. Also, no much concrete and comprehensive study has been undertaken in India and abroad on this issue. This drove the researcher to undertake the present study.

Objectives of the Study

1. To understand Green Banking and activities undertaken by Green Banks for environmental sustainability.
2. To find out the awareness of green banking among Commerce and Economics Faculty, youth, and bank employees.
3. To analyze the problems of Green Banking, if any, and suggest measures to overcome them.

Hypothesis of the Study

H0: Green Banking will be successful to achieve environmental sustainability.

H1: Green Banking will be successful to achieve environmental sustainability provided certain measures are taken to overcome hurdles in the success.

Research Methodology

- i) **Data Collection:** The study is based on primary as well as secondary data. Primary data is collected for finding out the awareness level and view of the sample selected on Green Banking. For this structured questionnaire and interview with open ended questions were used and analyzed by using percentage technique. Since this is a new

concept and popular in western countries, secondary data, i.e., various literature relating to Green Banking are referred to for fulfilling the objectives of understanding the concept of Green Banking and the various activities under its domain.

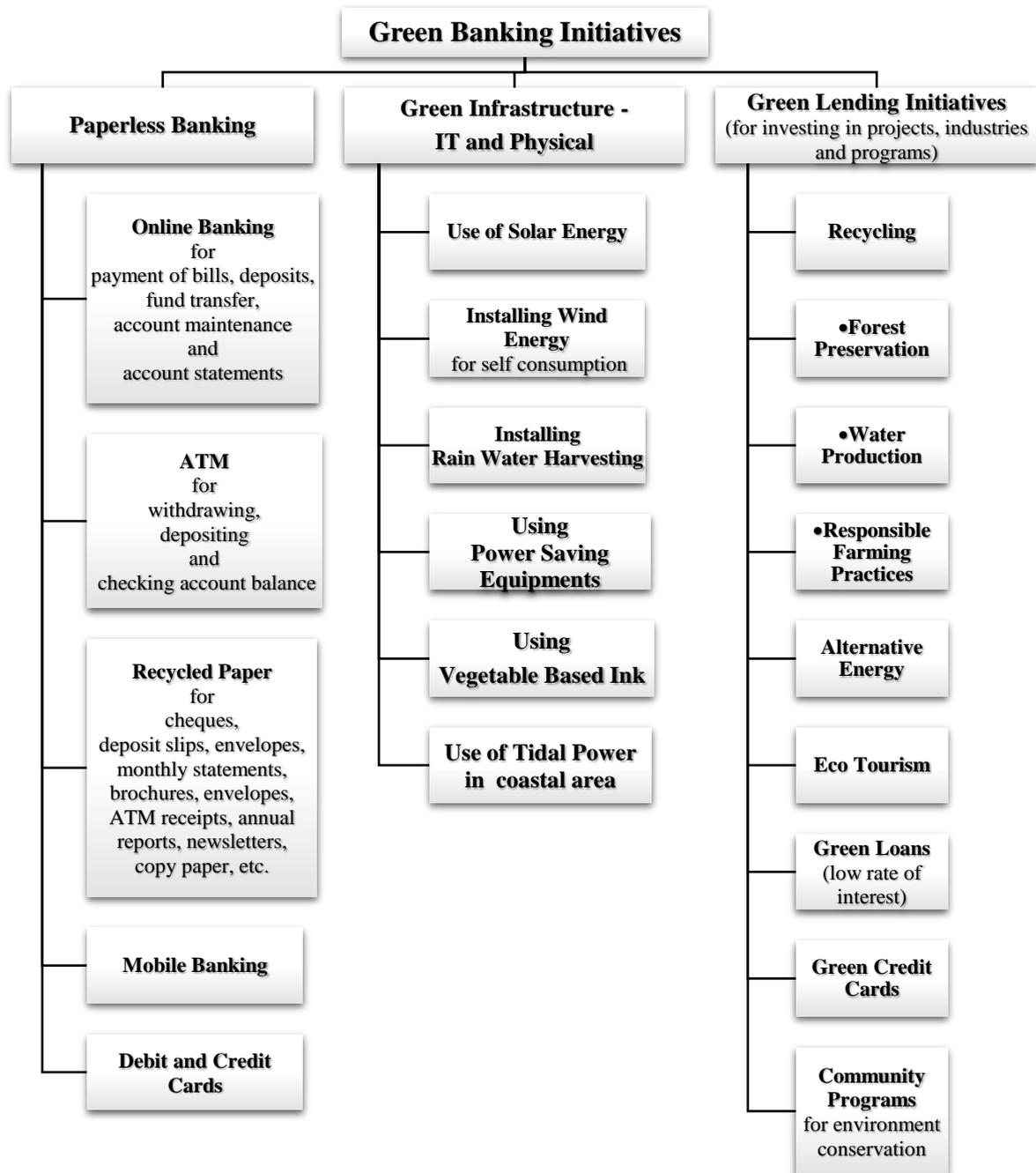
ii) Research Area (Sample Area): The study was undertaken in Bhusawal city, which is a small town coming under semi-rural area.

iii) Sample Size and Method:

S. No.	Respondents	Number of Respondents	Sampling Method
1	Commerce and Economics Teachers (working on permanent basis)	25 (100%)	Census
2	Post Graduate Students (of Commerce and Economics Faculty)	100 (25%)	Random Sampling
3	Bank Managers: (i) from Nationalized Banks (ii) from Private Banks	5 5	
4	Bank Employees	20	

Data Analysis

Understanding the concept of Green Banking involved understanding the various green initiatives undertaken by it. From the study of various literature available on Green Banking, the various initiatives which Green Banking takes or could take is listed in the chart given below.



The above chart shows that just encouraging paperless banking is of no use when the same bank goes ahead and funds dirty coal operations or deforestation projects. It has not only to go paperless, but also set an example by itself by promoting green IT infrastructure and physical. And mainly to see that the public money kept in its custody is used for green and robust clean energy activities. Banks act as Money Multiplier to stimulate growth. It thus makes necessary in 21st century that banking institutions become sensible while lending in ensuring that the project they are lending are not grossly harmful for the Environment. It must make all attempts to reducedepositors and its own carbon footprint from banking activities and increase carbon credit.

Awareness of Green Banking

The following was the reply from the respondents when asked whether they were aware of Green Banking:

S. No.	Respondents	Number of Respondents	Awareness of Green Banking	
			Yes	No
1	Commerce and Economics Teachers	25	0	25
2	Post Graduate Students	100	0	100
3	Bank Managers			
	(i) from Nationalized Banks	5	2	3
	(ii) from Private Banks	5	4	1
4	Bank Employees	20	2	18

It was surprising that none of the teachers who are in Commerce and Economics field were aware of such type of banking concept. Students too belonging to these faculties were not aware. Regarding bank managers and employees those who had recently attended some training program or were transferred from big cities were aware but not about the details. When asked how they would interpret Green Banking, they answered – paperless and cleanliness.

But when Commerce and Economics Faculty teachers were asked whether they would be ready to deposit their money in Green Banking all were ready but when said that they might

have to forgo some percent of their interest as Green Banks cannot be at par with conventional banks 55% of them backed out and the remaining 45% were ready but were concerned about the genuineness of such environmental practices by banks.

On the website of banks all talk of green initiatives but they are mostly related to paperless banking and banks' green infrastructure. Private banks are more reactive to Green Banking concept but their nomenclature is not Green Banks yet. Lending with green policies is yet far with single bottom line analysis, i.e., financial performance.

Problems of Green Banking

Since not much of Green Banking is practiced in India, study of experiences of Green Banking in western countries was made. Following are the issues relating to Green Banking which need to be tackled, if they have to have an impact for sustainable environment in India.

1. **Lack of Incentives:** Green Banks are regulated by the same authorities as traditional/conventional banks and have to abide by the same rules. There is no direct incentive for the bank for being green in its practices and lending policies.
2. **Operating Costs:** Green Banks have to work extra than the conventional banks. They are required to incur extra administrative and professional costs to establish and regular follow-up if the proposed enterprise is environment friendly or not. This increases their operating costs. They thus at times have to work with lower budgets and narrower profit margins than traditional ones, and therefore they may have few offices and operate mostly by phone, internet, or mail.
3. **Lossing of Business:** It is experienced that the Green Banks' exclusion of unethical borrowers often results in the borrowers going to other banks who do not screen so strictly.
4. **Green Washing:** Green Banks wish to appear more environmentally oriented than they really are to take leverage of environmental consciousness among the people. This is viewed as green washing.
5. **Interference in Clients' Business:** Green Banks assess the extent of environment concern of their clients in detail which is seen as an interference in the client's business. But one cannot deny that such an interference is required for assurance to the bank that the client is functioning as per and within the environmental norms..
6. **Fears of Green Banking:** If any project invested in by the banks turn out to be environmentally hazardous, there is a fear of rage and probe from the society.

7. **Screening Process:** Depositors are interested in knowing how Green Banks measure or qualify their ethical/environment friendly policies. Just making ambiguous statements by the bank that they are 'green conscious' does not satisfy them that as they do not tell potential depositors how the bank evaluates or uses these statements. Even though depositors get to go through the accountability report, it becomes difficult for them to understand fully and properly what screening process the Green Banks have applied.
8. **Lack of Code of Legal Standards:**In western countries many of the Green Banks join other regulatory bodies concerning ethics and environment and abide by the rules and regulations framed by them as members. In the US it is the Food and Drug Administration. In India, there is no such regulatory institution of which such banks could become members and guarantee abiding by the rules of such institution. Since there is no regulatory institution framing minimum acceptable standards in India, depositors' confidence is not gained to the fullest extent possible.
9. **Lack of Coordination:**Effectiveness of adherence to codes of performance and accountability depends upon the synchronized working among those forming rules and regulations, monitoring, and methods of enforcement. This is deficient. Success of Green Banks depends on people who are ready to sacrifice a bit for environmental sustainability. But there is an extent to which people are ready to sacrifice. After a limit additional initiatives will reduce the banks' earnings and thus will deter the bank from following them.
10. **Different Laws of Different Countries:** This problem arises to those banks who have branches in many countries. They cannot just rely on any one legal system to take a decision as to whether the client has followed or will follow ethical norms or not as different laws prevail in different countries. Moral standards too differ from one nation to another. Both laws and moral standards may not be the same as the country in which the bank was incorporated. Taking the instance of laws relating to environment and labour they are different and less stringent in lesser-developed countries.
11. **Equator Principle:**Neither the banks or financial institutions in India have adopted equator principle even for the sake of records nor any of them are signatory to the UNEP Financial Initiative statement.

Recommendations

From the analysis of data and problems discussed above, it is observed that when it comes to paperless banking and banks using green IT and physical infrastructure, they are easy to

implement by the banks. Major issues relate to costs of going green, green lending policies, commitment of society towards green initiatives in society, etc. The following are a few practical measures which could be adopted to make Green Banking a success:

1. **Incentives:**Green Banking needs to be streamlined. Banks may be incentivized for promoting Green Banking which would reduce their cost burden. In addition, governmental support through policy measures and initiative to promote green banking in India will be beneficial. Strict laws should be imposed by Government to make sure that Green Banks adhere to strict lending policies and they should abide by business ethics and ensure that the businesses they lend abide by it too. These laws could be applicable to all banks in general too.
2. **Industry-wide Regulations:**To overcome the threat of unethical borrowers approaching traditional banks, industry wide regulations are of utmost importance. NGOs and the common man together could put pressure on banks to introduce regulations applicable to all industries. In the absence of such laws it is not possible to restrain companies following unethical business to get finance from other banks. Stringent laws that discourage environmentally endangering businesses to deter from such practices is the need of the hour. In a globalized economy, the industries and firms are vulnerable to stringent environmental policies, severe law suits or consumer boycotts.
3. **Emphasis on Green Lending:** Just by banks being paperless and having a green infrastructure should not be called as Green Banks. Its lending policies have to be looked into before labelling it as Green Bank. Government must initiate strict action against such banks who do not lend ethically yet call themselves Green. Better portfolio management practices on the part of the big banks, who can afford to go green due to their reputation, and slowly disentangling themselves from decade-long partnerships with nefarious environmental profiteers would be required.
4. **Triple Bottom Line Analysis:** It has been a practice of banks to undertake single bottom line analysis. For Green Banks performing a triple bottom line analysis (an analysis that takes into account environmental (planet), social (people), and financial performance (profit)) would be more authentic evaluation of project to be lent though it might be seen as more intrusive. Borrowers must be made to realize that it required under green policies and law and not undertaken with an intention of intrusion.
5. **Clear Screening Process and Environmental Standards:**Green banks should adopt and implement clear environmental standards for lending which is easily understood by

depositors to build up their confidence in the banks. The banks have to design proper environmental management systems to evaluate the environmental risks involved in the investment projects. They should undertake environmental audit, regular physical inspection, get quarterly environmental compliance certificate from the independent third party and also from the government. Transparency in procedures of screening and follow-up will protect them from social rage in case misfortune happens.

6. **Agencies to Work with Green Banks:** Pollution control agencies are required to play an important role by supplementing the banks efforts to control pollution. National Environmental Policy (NEP) in 2006 brings out clear policies, principles and also rules to implement environmental rules and regulations, though it does not include banks. These could be used by banks for itself in its lending policies and principles.
7. **Coordination:** To ensure that code of performance and accountability is effective, the regulatory bodies, the inspectors, and methods of enforcement require proper coordination or else the efforts will go in vain. There is poor track record of enforcement. The government should look into it seriously and penalize responsible for lack of coordination. Regular meetings of law makers, enforcers and regulators with follow-up reports should be made compulsory.
8. **Adherence to Equator Principles:** It is time now that India takes some major steps to gradually adhere to the equator principles-guidelines that use environment-sensitive parameters, apart from financial, to fund projects. Maybe the "Financial Assistance" from Developed Countries to Developing Countries under the equity principle of in Climate Change Negotiations can be partially directed for interest subvention for eco-friendly projects.
9. **Differential Policy:** Banks could deploy the good old 'carrot-and-stick' approach to ensure social sustainability by charging less interest than the market rate on borrowings to businesses following healthy environmental practices and the others be made to pay a much higher interest rate. Banks could evolve sustainable products, such as Environmental Investment Funds for furthering environment friendly programs. Banks should promote green checking by giving some incentives to customers by giving higher rate of interests, waiver or discount in fees etc. Moreover, bank can withdraw itself from financing high-risk projects. By way of environmental screening at the lending stage and follow-up stages, banks could promote socially conscious companies and deal severely with those who function against these standards.

10. **Awareness Programs:** People are profit oriented. Green banking means combining operational improvements and technology, and changing client – depositors and loan-seekers habits which are difficult change but not impossible. Advertisements of benefits of Green Banking will do wonders. Education of common man is required for the long term benefits to be derived from Green Banks through its ability to achieve sustainable environment. They should be made ready for low interest for green initiatives. Environmentally inclined clients will turn towards Green Banks and instead of giving prominence to interest rate would be happier that their deposit is used for the environmental sustainability. Companies/industries should be educated and made aware as they too are a part of the society. An attempt could be made to label Green Banks as Green Banks or mark them with Green Colour for them being identified as such.

Conclusion

....no matter how small you may feel in this massive ocean of banking even the smallest bank account can work for you, the planet, and the sustainability of your own community.

As far as green banking in concerned, India's banks and financial institutions are running behind time. With growing concern for environment they need to realize future of exports and product market are going to go through stringent environmental rules and eco-friendly product will have better market, increased demand for pollution controls equipment will require more financial assistance from banks, Reserve Bank of India (RBI) may be forced to frame environmental guidelines for the banks in the lines of IFC and Asian Development Bank, etc., recent announcement of the government to use economic instruments for environmental control may include Banks in future, big investment projects supported by international organizations like the World Bank and ADB require Environmental Impact Assessment (EIA).

Banks form an important sector of the economy and act as an important source finance to industries. Since banking sector is one of the major stake holders in the Industrial sector, it can find itself faced with credit risk, liability risks, legal risk and reputation risk. By Going Green, Banks' every small 'GREEN' step taken in the present would go a long way in building a greener future and ensure environmental sustainability. Green Banking if implemented sincerely will act as an effective *ex ante* deterrent for the polluting industries

that give a pass by to the other institutional regulatory mechanisms. The H1 that ‘Green Banking will be successful to achieve environmental sustainability provided certain measures are taken to overcome hurdles in the success’ is accepted.

It is time for ‘Wake Up India’ to Green Banks.

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