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Green Banking

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Abstract

The category includes measures for converting office building and branches into resource efficient (Green Buildings), adopting modern infrastructure and reducing printing and papers (paperless banking). A number of terms share meanings/ concepts implied by 'green banking' and most popular, among these, are 'Environmental, Social & Governance (ESG)', 'Corporate Social Responsibility (CSR)' and 'Sustainable Banking'. The core objective of these concepts is to capture non-financial performance and understand its bearings on the financial performance of an organization. A plethora of research studies over the years have shown that governance, social, and environmental performance directly affect financial performance and viability of an organization as a going concern. The CSR is a management concept whereby companies achieve a balance of economic, environmental and social imperatives, while at the same time addressing the expectations of shareholders and stakeholders. The CSR perfectly correlates with the ideas of Corporate Citizenry implying responsibilities of businesses to their countries. The importance of corporate governance in the performance of a company leads to the evolution of term ESG (Environmental, Social and Governance). ESG has emerged as an all encompassing measure of performance of a company on non-financial parameters. Dr. KatrinKäufer of MIT has succinctly put this forward: "If banking 1.0 is characterized by a focus on high profitability, and banking 2.0 is characterized by regulations that respond to the negative externalities of banking 1.0, then banking 3.0 is characterized by the potential of banks to leverage their position in an economic system to address societal challenges. To deal with the challenges of this century more effectively, economic institutions will need to move from a 2.0 to a 3.0 approach". The adoption of green banking is basically a cultural shift within a bank and is, by definition, supposed to affect all aspects of doing business. The green banking activities may be grouped under four categories.

Introduction

A number of terms share meanings/ concepts implied by 'green banking' and most popular, among these, are 'Environmental, Social & Governance (ESG)', 'Corporate Social Responsibility (CSR)' and 'Sustainable Banking'. The core objective of these concepts is to capture non-financial performance and understand its bearings on the financial performance of an organization. A plethora of research studies over the years have shown that governance, social, and environmental performance directly affect financial performance and viability of an organization as a going concern.

The CSR is a management concept whereby companies achieve a balance of economic, environmental and social imperatives, while at the same time addressing the expectations of shareholders and stakeholders. The CSR perfectly correlates with the ideas of Corporate Citizenry implying responsibilities of businesses to their countries. The importance of corporate governance in the performance of a company leads to the evolution of term ESG (Environmental, Social and Governance). ESG has emerged as an all encompassing measure of performance of a company on non-financial parameters.

Sustainable Banking, which is derived from the definition of Sustainable Development given by "Brundtland Commission Report", is a broad term encompassing sustainability issues material to a vast range of stakeholders including social economic and environmental. The term green economy and its adjunct green banking have also been used broadly but the more popular lexicon implies green banking as a means to promoting environmentally friendly practices that aid banks and customers in reducing their carbon footprint.

The motives for adaptation of green banking exists both from the perspective of the regulators and the banking industry itself. For the banks, reasons for going green include economic benefits (green measures like on-site electricity generation, resource efficiency, paperless banking are supposed to reduce costs), imparting corporate responsibilities, avoiding negative reputation among potential clientele and compliance with the regulations. The improvements in lending practices also help to reduce credit, legal and reputational risks. From the regulators' perspective, green banking helps to banks more vibrant/ sustainable reducing systemic risks. On the climate front, Green Banking is considered a key component of international efforts for transition to resource-efficient and low carbon industries i.e. green industry and green economy in general. From Pakistani perspective, green banking may help to address the energy crisis by supporting government efforts to change energy mix and promote electricity generation from renewable sources.

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***Objectives of the research-**

1) To Study the concept of Green Banking.

2) To Study the Environment under Green Banking.

4) Toassess the work environment under Green Banking.

***Hypothesis of the Research –**

Green Banking enhanced the efficiency of banking sector.

*Explanation ---

DEFINITION OF GREEN BANKING

The term 'Green' has a wider usage and covers social responsibility of banks as corporate citizens and the term 'green banking' means developing inclusive banking strategies which will ensure sustainable economic development. There are a number of terms with overlapping meanings/ understandings with the term 'green banking'; most popular of which are Environmental, Social & Governance (ESG), Corporate Social Responsibility (CSR), Sustainable Banking. These terminologies have direct bearing on the kind and scope of initiatives/ activities undertaken by the banks. These terms are briefly explained below with a view to set context and scope of term Green Banking used in this Concept Note.

The oldest and broadest of all these terms is the CSR (Corporate Social Responsibility) and its related term of Socially Responsible Investing (SRI). The origins of Socially Responsible Investing (SRI) dates back to the 1950s as investors started using screening to restrict investments in 'non-ethical' businesses in line with religious beliefs (later on concerns on war in Vietnam and apartheid movement in South Africa further intensified use of screening). The SRI eventually evolved a separate breed of an investment strategy incorporating environmental, social and corporate governance factors into investment decisions. SRI Strategy uses a mix of negative (values-driven) and positive (risk and return driven) screening techniques to maximize financial return. The SRI ultimately encompasses triple bottom approach of ecological, social and economic criteria. The CSR may be considered as the corporate side of SRI and is driven by a combination of civil society, government, NGOs, investors and voluntary efforts of companies themselves. Mercer (2007) defines CSR as an 'approach to business which takes into account economic social, environmental and ethical impacts for a variety of reasons, including mitigating risk, decreasing costs and improving brand image and competiveness. […..] Often policies and procedures encompass a wide range of practices related to all levels of business activity including corporate governance employee relations supply chain relations, customers relationships, environmental management, philanthropy and community involvement'. A related concept is that of the corporate citizenship which gained popularity in USA in early 1980s and 1990s.

The United Nation's Industrial Development Organization defines **Corporate Social Responsibility (CSR)** as a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives (also called People, Plant and Profit Approach or Triple-Bottom-Line- Approach), while at the same time addressing the expectations of shareholders and stakeholders. The Tripe Bottom Line approach is used as a framework for measuring and reporting corporate performance against economic, social and environmental performance. It is an attempt to align private enterprises to the goal of sustainable global development by providing them with a more comprehensive set of working objectives than just profit alone. The perspective taken is that for an organization to be sustainable, it must be financially secure, minimize (or ideally eliminate) its negative environmental impacts and act in conformity with societal expectations.

The key CSR issues include environmental management, eco-efficiency, responsible sourcing, stakeholder engagement, labor standards and working conditions, employee and community relations, social equity, gender balance, human rights, good governance, and anti-corruption measures.

The importance of corporate governance in the performance of a company lead to the evolution of term ESG (Environmental, Social and Governance).The term traces back to the initial work of United Nations Global Compact on financial markets and sustainability issues and now is widely used in capital

*__Greening of banking operations & infrastructure:__

The category includes measures for converting office building and branches into resource efficient (Green Buildings), adopting modern infrastructure and reducing printing and papers (paperless banking).

*__Conforming/ Complying regulatory and society expectations:__

This category implies passive approach primarily to comply with regulatory requirements or avoid negative publicity of societal groups. This category also covers risk mitigation measures to avoid investments in potentially environmentally hazardous businesses through lending etc and capturing business opportunities in high potential business segments like renewable energy & energy efficiency. The measures may include incorporation of Environment & Social Assessment in financing and developing energy financing and other green products (Environmental Index linked investments & deposits, Social Responsibility deposit accounts and services, Charity Contributions etc).

*__Proactive green Banking initiatives:__

The banks may go a step ahead and implement products and services that may be distant ideas viewed from the mirror of current operations of banks. The banks can introduce green bank loans with financial concessions for environment friendly products and projects such as fuel efficient vehicles (Green Vehicles financing), green buildings and house furnishing loans to install solar energy system (green mortgages) and strategic generous charities etc. The banks may also proactively follow businesses arising from international efforts like carbon credit offsetting and green climate fund businesses.

*__Awareness and training of Stakeholders:__

Building market for environmental friendly products and services entails creating green image of the banks through green marketing, creating awareness of bank staff to ‘think green’ in day to day activities and creating awareness among the potential clientele for resource efficiency and its adjunct economic benefits.

On international front there have been considerable efforts for promoting environment friendly banking practices. The key initiatives include agreements/ protocols like Collevecchio Declaration of (signed in 2003 by civil society organizations), Equator Principles (signed by IFC and leading banks in 2003) and Natural Capital Declaration (NCD) (signed by IFC and leading banks in 2012). IFC has also established Sustainable Banking Network (SBN) as an informal and exclusive group of banking regulators and associations that are interested in sustainable banking policies, guidelines and practices. Many regulators/central banks are taking measures for green banking. For examples, China has issued green credit guidelines in 200, Bangladesh Bank has established Green Banking and CSR Department and issued green banking guidelines, Brazilian Central Bank (BACEN) requires banks to have environmental & social risk management system, Nigerian Central Bank has adopted quasi mandatory Nigeria Sustainable Banking Principles (NSBP) and Reserve Bank of India (RBI) issued its sustainable development instructions to banks in 2007. The Indian Institute of Development and Research and in Banking Technology (IDRBT) which is a subsidiary of RBI, has also produced established guiding reports/ statements on green banking.

There have been efforts on part of State Bank of Pakistan on energy front generation in the form of Refinance Scheme for Renewable Energy; there is a strong need for sustained and coordinated efforts for promoting green banking and environmental considerations of banks. The recommended measures for State Bank are summarized below:

***Guidelines on Green Banking:**

State Bank may issue Green Banking Guidelines for the banks/DFIs encouraging the banks/ DFIs to adopt green banking practices. Guidelines of Green Banking includes following points---

***Environmental Safeguards in Lending:**

State Bank may encourage the banks to incorporate provisions for assessment of environmental implications/ risks in evaluation of credit proposals of their prospective customers.

* **Credit Enhancement Facility:**

State Bank may establish a credit enhancement facility for renewable energy and energy efficiency products.

***Model Green Financial Institutions**:

State Bank may coordinate with the banks/ DFIs for selection of a Bank/ DFI that is willing to reorient itself as a model of green banking.

***Setting up sustainable energy financing as separate segment:**

State Bank may also encourage banks and DFIs to set up sustainable energy financing as a separate segment within their overall portfolio of financing.

***Green Banking Unit:**

In order to coordinate initiatives on green banking, State Bank may establish a green banking unit in infrastructure, Housing & SME Finance Department.

***Sustainable Energy Financing Group:**

State Bank may establish a Focus Group on Sustainable Energy Financing comprising of representatives from banks, IFC and other stakeholders for suggesting policy measures to promote green banking and financing.

***Green Climate Fund & Carbon Offsetting Business:**

Being a developing country, Pakistan has huge potential for attracting carbon off-setting business and Green Climate Fund. State Bank may, therefore, encourage willing banks/ DFIs to develop their capacities on environment related matters and develop their businesses through the use of these international funding pools.

***Indicative Targets for Renewable Energy Financing:**

A collaborated targets mechanism with separate targets for agriculture, housing, SME and sustainable energy may be established as this single platform streamline reporting set-ups and also help to increase focus of senior management of banks/ DFIs.

***Conclusion—**

Thus, the category includes measures for converting office building and branches into resource efficient (Green Buildings), adopting modern infrastructure and reducing printing and papers (paperless banking).

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