

# Green Banking Initiatives for Sustainable Economic Growth

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**Abstract-**The Indian banking industry has faced numerous problems, including changes in customer behaviour, technology advancements, regulatory changes, and so on. It has gone through a series of challenges and has learned to adapt to changing circumstances. Green banking may help banks obtain a competitive edge in the industry by making an impact in their strategy-making process. Green banking is a proactive technique of conserving energy and protecting the environment. Green banks typically operate as public-purpose entities with some form of government relationship and are usually capitalized with public funds. Similar to a commercial bank, green banks provide capital and own debt, necessitating the presence of their own balance sheet. With the growing awareness about the environment safety, banking institutions are more grown to lose their reputation if they are involved in big projects, which are viewed as socially and environmentally damaging.

**Key Words** Technology, Environment safety, Conserving energy, Awareness.

## INTRODUCTION

Economic growth is influenced by the banking industry, both in terms of quantity and quality, resulting in a shift in the nature of economic growth. Green banking may help banks obtain a competitive edge in the industry by making an impact in their strategy-making process. Green banking is a proactive technique of conserving energy and protecting the environment. The primary advantage of green banking is that it protects the environment for future generations. Green banking minimizes paperwork to the greatest extent possible and concentrates on electronic transactions such as ATM, mobile banking, and other forms of electronic banking by customers. Electronic transactions not only contribute to sustainability, but they also give convenience to both clients and banks.

The primary goal of this banking concept is to improve the conservation of the earth's environment, habitats, and resources. What is the best way to go about it?

- Encourage people to use online banking instead of branch banking.
- Online bill payment.
- Using online banking instead of huge multi-branch banks to open CDs and money market accounts.

Green Banking includes:

- Sustainable banking
- Ethical banking
- Green mortgage
- Green loans
- Green credit cards
- Green money market accounts
- Mobile banking/on-line banking
- Remote deposits (RDC)

## IMPORTANCE OF GREEN BANKING

The importance of green banking is immense for both the banks and the economy by avoiding the following risk involved in banking sector:

- **Credit Risk:** It can arise indirectly where banks are lending to customers whose businesses are adversely affected by cost of cleaning of pollution or due to changes in environmental regulation. The cost of meeting new requirements on emission levels may be efficient to put some companies out business. Credit risks may be higher due to the probability of customer default as a result of uncalculated expenses for capital investment in production facilities, loss of market share and third-party liability claim. Further, risk of loan default by debtors due to environmental liabilities because of fines and legal liabilities and due to reduced priority of repayment under bankruptcy.
- **Legal Risk:** Banks like other companies are at risk if they themselves do not comply with relevant environmental legislation. But more

specifically, they are at risk of direct lender liability for clean-up costs or claim for damages if they have actually taken possession of contaminated or pollution causing assets. So, environmental management system helps the bank to reduce risk and cost, enhance its image and take advantage of revenue opportunities.

- Reputation Risk: With the growing awareness about the environment safety, banking institutions are more grown to lose their reputation if they are involved in big projects, which are viewed as socially and environmentally damaging. In certain cases, environmental management system resulted in lower risk, greater environmental stewardship and increase in operating profit. The polluting industries face more resistance and often forced to close down or face massive boycott by the consumers. Green banking solves the problem faced by the environmental regulation and enforcement authorities relate to size and location of polluting unit.

#### ESSENTIAL ELEMENTS OF GREEN BANKING

Green banks prioritize commercially viable technologies rather than early-stage innovative technologies. This focus is due to the tested nature of these technologies, reduced associated "technology risk," and their ability to reliably generate revenue for project owners. Green banks typically operate as public-purpose entities with some form of government relationship and are usually capitalized with public funds. Similar to a commercial bank, green banks provide capital and own debt, necessitating the presence of their own balance sheet. Green banks also concentrate on utilizing their capital to facilitate private entry into the clean energy market, primarily by using limited public funds to leverage private investment in clean energy.

#### GREEN BANKING: INITIATIVES

The purpose of Green Banking initiatives taken by central bank is to ascertain required measures to save the environment and reduce pollution while serving or financing customers and improve in-house environment management through efficient and effective use of resources in all the branch and head offices of banks. Bangladesh Bank is well

aware of the environmental degradation situation and has already given time-to-time directions to all scheduled banks. Commercial Banks are now required to ensure necessary measures to protect environmental pollution while financing a new project or providing working capital to the existing enterprises. Banks have been advised to facilitate their clients with utmost care financing for installation of Effluent Treatment Plant (ETP) in the industrial units and to finance in Solar Energy, Bio-gas, ETP and Hybrid Hoffman Kiln (HHK) in brick field under refinance programme of Bangladesh Bank.

By implementing this policy banks intend to accomplish the following objectives:

- Increase goodwill or improve brand image by showing their commitment to save and protect the environment;
- Reduce giving loans to certain environmentally harmful projects;
- Check the necessary environmentally due diligence factors before lending a loan/investment;
- Make efficient and effective use of resources and channel financing in an environment friendly manner;
- Introducing new technology in banking operations that would not only benefit customers but also increase the productivity of employees
- Reduce carbon foot print in all branches and head offices of all banks;
- Create awareness amongst the stakeholders about environmental and social responsibility enabling them to adopt environmentally friendly business practices.

#### GREEN BANKING IN INDIA

The Indian banking industry has faced numerous problems, including changes in customer behaviour, technology advancements, regulatory changes, and so on. It has gone through a series of challenges and has learned to adapt to changing circumstances. Going green is a new notion in India, and Indian banks have embraced it in a variety of ways. The following are the different banks in India that offer green banking services to their users.

- SBI has begun to implement a green banking policy. This is India's first green bank, specializing in going green and encouraging green energy projects.

- Punjab National Bank: They'd made a number of efforts to reduce emissions and energy use.
- Bank of Baroda: They had undertaken a number of green banking efforts, including the funding of a commercial project. BOB prefers green initiatives that are environmentally benign, such as windmills, biomass, and solar electricity, because they assist in collecting carbon credits.
- Canara Bank has incorporated eco-friendly measures like mobile banking, online banking, telebanking, and solar-powered biometric processes as part of its green banking effort.

#### ENVIRONMENTAL MANAGEMENT BY BANKING INSTITUTIONS

The financial institutions should encourage projects which take care of the following points while financing them.

- Sustainable development and use of natural renewable resources
- Protection of human health, bio-diversity, occupational health and use of energy
- Population prevention and waste minimization
- There should be a third-party expert to draw a plan for environment management plan.

FI's should keep following aspects in mind while financing any projects: -

- Banking Institutions need to evaluate the value of real property and the potential environmental liability associated with real property. Therefore, the banks should have right to inspect the property or to have an environmental audit perform through the life of a loan.
- Analysing the project in terms of scale, nature and magnitude of environmental impact. The project should be evaluated on the basis of potential negative and positive environmental effects and then compared with the 'without project situation.
- Banks also need to monitor post transaction for the ideal environmental risk management program during project implementation and operation. There should be a physical inspection of production, resources and audit programs etc.
- While investing or funding the projects the financial institutions should access the sensitive issue like vulnerable groups, involuntary displacement etc. and projects should be

evaluated in terms of environmentally important areas including wet lands, forests, grasslands.

- The next round of evaluation includes loan structuring, credit approval and loan management. Further banks have annual audits, quarterly environmental compliance certificates from independent third party and also from the government.

#### ROLE OF THE GOVERNMENT

Role of Government in promoting Green Banking in India is as follows:

- Green jobs: Green jobs are a potential area of creating more employment opportunities as there are good prospects of green jobs generation in non-conventional energy sector and other emerging sectors It is a job which is mainly concerned with agricultural, manufacturing, research and development, administrative, and service activities that contribute to preserving environmental quality, including jobs that help in protecting ecosystems and biodiversity.
- Green Funds: A mutual fund or other investment vehicle that will only invest in companies that are deemed socially conscious in their business dealings or directly promote environmental responsibility. A green fund can come in the form of a focused investment vehicle for companies engaged in environmentally supportive businesses, such as alternative energy, green transport, water and waste management, and sustainable living.
- Green Buildings: Green building is the practice of creating structures and using processes that are environmentally responsible and resource-efficient throughout a building's life-cycle from siting to design, construction, operation, maintenance, renovation and deconstruction. For example- green buildings may incorporate sustainable materials in their construction (e.g., reused, recycled-content, or made from renewable resources); create healthy indoor environments with minimal pollutants (e.g., reduced product emissions); and/or feature landscaping that reduces water usage (e.g., by using native plants that survive without extra watering).

#### GREEN BANKING STRATEGIES

## CONCLUSION

Indian banks can adopt green banking as a business model for sustainable banking by launching some of the following strategies.

- Paperless Banking For Carbon Footprint Reduction: Carbon footprint is a measure of the Green House Gases (GHG). Almost all banks in India are computerized or operate on a core banking solution (CBS). Thus, there is ample scope for the banks to adopt paperless or less paper banking. These banks can switch over to electronic correspondence.
- Green Banking Financial Products: Indian bank can introduce “Green Fund” to provide climate conscious customers the option of investing in environment friendly projects. Banks can also introduce green bank loans with financial concessions for environment friendly products and projects such as fuel-efficient vehicles, green building projects, housing and house furnishing loans to install solar energy system etc.
- Social Responsibility Services: As part of green banking strategy, Indian banks can initiate various social responsibility services such as tree plantation camps, maintenance of parks, pollution check-up camps etc
- Energy Consciousness: Developing energy consciousness adopting effective office time management and automation pollution and using compact fluorescent lighting (CFL) can help banks save on energy consumption considerably. They can also switch over to renewable energy (solar, wind etc) to manage their offices and ATMs.
- Green Building: The Indian banking industry uses more than one lac premises for their offices and residential houses throughout the country. These banks should develop and use green buildings for their office and employee accommodations. A green building uses less energy, water and natural resources, creates less waste and is healthier for the people living therein compared to a standard building. These measures will not only help banks reduce their carbon footprint but also save their operational cost considerably.
- Using Mass Transportation System: PSB can become fuel efficient organizations by providing common transport for groups of official posted at one office.

Today the definition of development is fast changing. The feeling is growing that we should re order our priorities and move away from the single-dimensional model which has viewed economic performance only in terms of growth (GDP), without really considering the social and environmental sustainability of our growth. Banks, like the corporate clients, have realized that sustainability and profitability go hand in hand as organizations looks to cut costs, streamline operations and create long-term processes. Green banking if implemented sincerely will act as an active ex ante deterrent for the polluting industry that gives a pass by to the other institutional regulatory mechanism. There has not been much initiative in this regard by the banks and other financial institutions in India, though they play an effective role in India emerging economy. The banking and financial sector should be made to work for sustainable development as far as green banking is concerned, India’s banks and financial institutions are running behind time. None of the banks or financial institutions has adopted equator principles even for the sake of records.

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