"GREEN FINANCE – A STEP TOWARDS SUSTAINABLE ECONOMIC GROWTH IN INDIA"

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Abstract : Developing a green finance framework to attract private sector capital should be viewed as an opportunity to 'green' the Indian financial system and create a 21st century framework for sustainable finance in India. It should not be viewed as either a trade-off between growth and sustainability or simply the development of new financial products, but as an opportunity to create a foundation to finance future investment that will contribute to environmentally sustainable infrastructure development.

Meeting global targets for action on climate change requires an unprecedented programme of investment in new infrastructure and a managed transition to a low carbon economy. Mobilising the required funding, a great proportion of which is expected from the private sector, calls for re-tooling of key parts of the financial system and identifying and setting new international standards for investment. Growing environmental concerns and action on climate change needs to be combined with sustainable economic returns to attract capital. Green finance is therefore gaining global prominence as a focused financing alternative to create targeted pools of capital and innovative financing products to raise funds for environmentally friendly, low carbon, climate-resilient projects.

India's green finance sector can be initially supported by a focus on green bonds and green loans, along with support and commitment in the form of guarantees from government agencies and supranational institutions. The guarantees and insurance will provide 'first loss' protection and will act to 'crowd in' domestic and international senior debt financing.

KEYWORDS: Green Banking, Green Banking Strategies, Indian Banks Initiatives.

I. INTRODUCTION

The disastrous impact of recent floods, droughts, storms and excessive heat around the world, motivate us to think seriously and to do whatever we can to address the problem of global warming. Man-made gases like hydro-fluro carbon, nitrous oxide, carbon dioxide and methane are found responsible for the distortion of climate.

As Climate Change has a drastic cause and effect relationship with agriculture and rural development activities, it has been recognized that activities like forestry, agriculture and other land use activities, viz., dairy, soil conservation, energy use practices, use of renewable energy, etc. have tremendous potential for reducing emission of GHGs. NABARD to address the issue of precious natural resources viz., land and water, had organized a workshop for bankers and other stakeholders on the theme of "Opportunities in Green Finance" Number of issues pertaining to opportunities in Green Finance were deliberated and the workshop threw up several action points for various agencies, which need to be addressed urgently. Climate change and agriculture are interrelated and climate change may have significant effects on crop production and food availability. It is speculated that by 2050, there would not be any glacier in the world. The melting of ice would result in frequent floods and significant rise in sea level etc. It is estimated that transitioning to a low-carbon and climate resilient economy and more broadly „greening growth" over the next 20 years will require significant investment and consequently private sources of capital on a much larger scale than previously - particularly given the current state of government finances. Government policies are therefore needed to support the commercialization of new technologies and to correct market failures through carbon. In addition governments and/or multinational agencies can use so-called "Public Financing Mechanisms" to provide cover for risks which are new to pension funds or cannot be covered in existing markets.

Potential solutions to the challenges India faces include investment in Smart Cities and digital connectivity, waste and water treatment, clean energy generation and smart distribution, mass transit, and climate-resilient infrastructure.

In the next three years, the Government is targeting investment of USD 370 billion4 in the infrastructure sector including roads, ports, highways, waterways and Smart Cities. Projects like the dedicated freight corridors in West and East India will help reduce carbon emissions and congestion on Indian roads.

II. LITERATURE REVIEW

Green Banking aims at greener and a clean future. As stated earlier what is needed in context of this new concept is consumer awareness. **Sharma, Gopal et al. (2014)** attempt to study the level of consumer awareness of Green Banking initiative in India with special reference to Mumbai. From the primary survey they conducted they find that surprisingly even those people who are using online facilities provided by their banks nearly three fourth of them are unaware of the term Green Banking. They find that among those who are aware of Green Banking term consider it mainly related to online bill payment and cash deposit system.

Other Green Banking aspects like Green CDs , solar powered ATM, bonds for environment protection are among few of which consumers are not aware of. They also attempt to analyze the gender based difference in awareness of green initiatives by bank specially E-Statements, Net Banking and Green loans. Using Chi-Square test for hypothesis testing they arrive at a result that both males and females have the same level of awareness with respect to Green Banking. The researcher's state that the major obstacle in Green Banking is the technical issues involved followed by lack of education.

Sudhalakshmi and Chinnadorai (2014) present the status of Indian Banks in respect of Green

Banking and state that though goes green mantra is essential for emerging economies like India but significant efforts have not been taken. Banks are required to include their green aspect in the lending principle. Every step taken today will mean a better global environment in future. So

a policy measure to promote Green Banking is needed in India. Indian banks are running behind time in adoption of this green phenomenon. Serious steps are required to be taken in this regard.

III. RESEARCH METHODOLOGY

This paper reviews the literature on the basis of secondary data collected from the sources such as articles, research papers, annual reports, sustainability reports, company's official websites, etc. For analyzing the green banking initiatives taken by Indian banks, top performing banks (on the basis of net profit) are selected in both public and private sector in India.

Objective of the paper:

1. Green Bank and Banking
2. Green banking strategies
3. Benefits of a green bank
4. Green banking initiatives undertaken by CANARA bank and ICICI bank

1. Green Bank and Banking

Green is becoming a symbol of Eco consciousness in the world. According to Indian Banks Association (IBA, 2014) "Green Bank is like a normal bank, which considers all the social and environmental / ecological factors with an aim to protect the environment and conserve natural resources". It is also known as ethical bank or sustainable bank. Their purpose is to perform banking activities but with an additional plan towards taking care of earth's ecology, environment, and natural resources including biodiversity.

Green banking is making technological improvements, operational improvements and changing client habits in the banking sector. It means to promote environmental friendly practices and to reduce the carbon footprint from banking operations. It is a smart and proactive way of thinking with a vision of future sustainability.

Banking activities are not physically related to the environment, but the external impact of their customer activities is substantial. Banks should promote those products, process and technology which substantially reduce the carbon footprint from the environment. Study by Hart & Ahuja (1996) is showing a positive correlation between environmental performance and financial performance. Initially, banks were doing analysis of their financial performance only, but now it is a time to do analysis of social and environmental performance as well. Green Banking is not only a CSR activity of an organization, but also it is about making the society habitable without any considerable damage.

2. Green banking strategies

The incorporation of social and environmental strategies into the development goals of the banks helps them in arriving effective environmental management system. According to Krebsbach (2005), the banks, which adopted socially and environmentally responsible lending and investing strategies were altering their processes of bond underwriting, investment banking and corporate lending. These banks were enjoying a competitive advantage over others as society is aware about the environmental issues. But the author had suggested that banks should adopt the green lending principles in such a way that a customer base will not be affected. The author said "Credibility comes from having high standards, but if you push the standards too high too quickly, it may stop some banks from lending and have a serious impact on companies that needs capital".

Environmental management in the banking sector is like risk management because it reduces the credit risk, improves the asset quality and increases the enterprise value. Biswas (2011) revealed some strategies for the adoption of environmental management in the banking sector:-

- Banks should do Environmental Impact Assessment (EIA) in which they design the environmental system to evaluate the risk involved before investing in different projects;
- They should adopt the Annual Reporting System (ARS) in which they prepare an annual report on environmental risk guidelines for every project they invest or finance;
- They should adopt environmentally sustainable technologies which minimizes risk, saves cost and enhance the bank's reputation;
- Banks should begin implementing procedures like assessment of environmental risk, environmental audit management and assessment of loan follow up and credit requirement before investing in different projects.

According to Dharwal & Agarwal (2013) green banking is a key in mitigating the credit risk, legal risk and reputation risk. The author had suggested some green banking strategies like carbon credit business, green financial products, green mortgages, carbon footprint reduction (paperless banking, energy consciousness, mass transportation system, green building), and social responsibility services towards the society. According to Malu, Agrawal, & Jajoo (2014), banks can play an important role in reducing the carbon footprint in the society. Earlier economic development means reducing poverty, inequality and unemployment in the society, but the concept of Economic development had changed to Sustainable development which means "development that meets the needs of the present without compromising the ability of future generation to meet their own needs (World Commission Environment and Development 1987).

The study suggested that sustainability in the banking sector can take two forms-

- Banks can change their routine operations through recycling programs, paperless banking, using energy efficient resources, and support for community events for reducing pollution and so on.
- They can adopt lending and investment strategies to promote environmentally responsible projects and can also develop green products to ensure the sustainability in their core business.

3. Benefits of a green bank

- **Attractive, Low-Cost Financing Terms:** Green banks can offer reduced lending rates and flexible terms below market standards (i.e., lower rates than available in private sector transactions) that match the terms and payback period of clean energy projects because of their green investment mandate and public source of capital. This enables a broader pool of clean energy projects to achieve economical financing that makes projects more likely to be developed and also attracts more investors, including directing international sources of capital to local projects. Additionally, green banks can issue green bonds, which provide lower cost, stable funding opportunities for renewable energy projects from the international market.
- **Credit Support:** A green bank helps bridge the gap between the perceived risk associated with clean energy investments, and the expectations of the private lenders by offering products such as partial credit guarantees, insurance, or loan-loss reserves. These risk mitigation products like guarantees and credit enhancements help private banks execute the initial transactions for clean energy projects. For example, the Connecticut Green Bank (CTGB) in the U.S. provides credit enhancements for working capital loans for Connecticut-based solar companies as a way of bridging the working capital needs of contractors with the needs of local lenders.
- **Co-Investment:** Green banks lend their name, capital, and credibility to clean energy projects thus making it more attractive for private players. Co-investment with local banks and contractors helps bring these investments to the secondary markets through bond issuances and private placement. Green banks can also identify and analyze technologies that are new to the local market, but have a track record elsewhere. For example, UKGB was an early investor in UK off shore wind while other investors were still reluctant. Now the UK off shore wind market is the largest in world.
- **Warehousing:** Green banks can bundle small projects together to reach a scale where they become attractive for on-sale to large investors or for securitization through bond issuances. This aggregation technique reduces transaction costs and drives investment. Additionally, green banks can standardize contracts to facilitate aggregation and reduce costs of individual projects. In Connecticut, CTGB compiled market friendly data of residential solar potential and aggregated rooftop space to attract large installers, such as Solar City, leading to significant expansion inresidential solar in the state.
- **Increased Supply of Capital:** Green banks can also provide immediate market information and facilitate best practices to increase transparency, boost investor confidence and reduce perceived risks in clean energy investment. Following "open source banking" techniques like tracking, publishing and sharing information about the performance of projects and investments in other markets can further reduce real and perceived risks and boost investor confidence.

4. Green banking initiatives undertaken by:

Canara Bank (Raghupati & Sujhatha, 2015)

- It has set up e – lounges for high – tech banking facilities like internet banking, pass book printing kiosk, ATM, online trading, mobile banking and telebanking.
- The bank has implemented E – HRM policies and procedures in the system.
- It extends loans to projects which values the use of wind energy and solar energy to earn carbon credits.
- At the time of appraisal of projects the bank makes it mandatory for the manufacturing units emitting toxic effluents to install the water treatment plants and also obtain approval of the central or state Pollution Control Board.

ICICI Bank (Neetu Sharma, Richa Chaudhary & Dr. Harsh Purohit, 2015)

As a part of its "Go Green" initiatives following activities are performed:

- Offering green products and services of Insta banking and concessional auto loans to the customers purchasing cars using alternative sources of energy.
- Green engagements in form of partnership with Green theme – CNBC overdrive auto awards, celebration of World Environment Day on June 5 by organizing trees and sapling plantation program and celebrating earth hour every year by switching off the lights in its premises from 8:30 pm to 9:30 pm. They are also partners with Green Governance Awards set up by BHNS.
- Green Communications includes promoting paperless banking through encouraging online fund transferring, filing of e-returns, making of e- FDs, online bill payments, demat trading etc.

- Other initiatives includes organizing Webinars, use of CFL bulbs, carpools and public transportation, developing eco friendly air conditioners etc.

IV. CONCLUSION

Thus, it can be concluded that India has a great potential to create a green infrastructure needed for green finance by overcoming the barriers and creating awareness among the corporate citizens.

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