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A COMPARATIVE STUDY OF GREEN BANKING PRACTICES IN INDIA & USA

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ABSTRACT

The paper examines "Green Banking" practices in United States and India. The paper initially explores the evolution Green Banking in the world. United States being the pioneer in launching this concept, the paper touches on the working of Coalition for Green Capital (CGC), a non-profit formed to foster the development of green banks in the U.S. The paper further discusses how Green Banking is perceived and implemented in India relative to United States. The study reveals that RBI, the apex banking institution in India has given two dimensions to the concept of green banking which has led to the diversion in understanding and execution of green banking compared to U.S. The study concludes with the suggestions to further promote Green Banking in India.

Key Word: Coalition for Green Capital, Comparison, Green Banking, India, United States.

Introduction

Down the ages of civilization, men have always evolved ways to improve his lifestyles. And most of them has undoubtedly resulted in the betterment of our life conditions. But, has these changes come up with adverse effects on the environment that sustains our life? Is our prosperity at the cost of deterioration of our environment? Yes, it is! But change is the only constant, and in the recent, past there has been a tremendous change in our attitude towards the environment. We have realized that the need of the hour is the protection and preservation of the environment. The phase of "going green" is moving faster than the speed of light. Across the globe, everyone is working towards conserving the environment for ensuring their safe survival.

Banks and financial institutions too are playing a significant role in preserving the environment. Green banking is one such initiative taken up by the banking sector with the view to reduce the impact of its working on the environment. Coalition for Green Capital, U.S defines a green bank as a "public or quasi – public institution that invests in clean energy projects in partnership with private lenders." While in countries like India, Pakistan, and Bangladesh Green Banking primarily focus on making regular banking operations environmental friendly. It includes paperless banking, conservation of electricity, etc. While the former majorly talks about promoting investment in clean and energy efficient projects to affect a reduction in carbon footprints, the latter focuses on environment-friendly banking operations.

However, with an aim to maximize the environment-friendly investments in the business fields by extending loans only to those enterprises which follow the required guidelines for environment protection and development, the concept of Green Banking acts as an incentive to the business firms to tailor their business operations in such a manner that the adverse effect of the business on the environment is either nullified or minimized. Green banks can, therefore, be considered as pioneers of clean energy investments across the world. These banks work on a narrower and more efficient platform as compared to conventional forms of banks as every decision is taken only after analyzing its possible effects on the environment, customers and its profits. Along with this, Green banks also ensures in-house operations involve minimum wastage of resources. However, it is not limited to these practices.

Objectives

1. To study and compare the green banking practices of USA and India
2. To offer suggestions to improve green banking in India

Research Methodology

The paper is a descriptive study based on information collected from secondary sources like various banking, financial and other institutions that practice green banking in USA and India.

Literature Review

Green Banking has emerged as an important strategy to address sustainable development concerns and creates awareness among people about environmental responsibility. (Chakrabarty, 2013) Green banking initiatives by international organizations are: (1) Equator Principles: set of voluntary standards that commit signatory banks to take social and environmental risks into account when providing project finance. (2) UN Principles for Responsible Investment (UNPRI): This was developed by institutional investors that recognize the increasing relevance of environmental, social and corporate governance issues that apply to asset management. (3) UNEP Finance Initiative Statements: It recognizes the role of the financial service sector in making global economies sustainable. This promotes investment in clean and renewable energy by financial institutions and other investors. (4) UN Global Compact (UNGC): Set of ten voluntary principles under which signatories promise to avoid complicity to human rights violations, adhere to labor standards, and protect the environment. (Express, 2012)
Several studies have been conducted to identify the ways to go green. Such studies focus on the green initiatives taken by bank and other financial agencies to go green. The paper on Green Banking: "Bye-bye cheques, hello electronic payments" finds out the ways to go green through green banking system by highlighting on the green banking initiatives taken up by various Government agencies and Public/ Private banks in India. The green initiatives identified are internet banking, mobile banking, ATM, RTGS, NEFT etc (Kumar & C H, 2012). Banks undertake green initiatives to reduce its impact on the level of carbon footprints. A study conducted in 2015 using multiple regression analysis examined the impact of green banking initiative on the level of carbon footprint. The study indicates that Green Banking initiatives adopted by the banks by way of retail electronic payment systems are effectively working in the reduction of carbon footprint. (Rumila & Guruswamy, 2015).

Green Banking is not limited to online or mobile banking or ATM and NEFT. Green Banking is a wide concept. Banking is often associated with formal and rigid approaches and the sector generally perceives itself as environmentally neutral. The context in which banking operates is, however, continuously changing. Although banks themselves are generally environment-friendly and do not impact the environment much through their own 'internal' operations, given the relationship between the banking sector and the firms who are users of banks' products, the

'external' impact on the environment through these entities is substantial. Banks that are serious about sustainable development put principles at the heart of decision-making. For example, an investment in a factory that pollutes heavily (and passes on the costs to the society as a whole) will generally have a higher financial rate of return than a factory that invests in expensive pollution control technology, thus showing a lower rate of return. How will banks assess the two and which one of the two will be considered first for lending, although everyone knows that the second case will clearly be a better investment option in the long run? (Dash, 2008). Also, another study titled Green Banking: As Initiative for Sustainable Development highlights the means to create awareness in internal as well as external sub systems among target groups and impart education to attain sustainable development through green banking. The study states that the RBI and the Indian government should play a proactive role and formulate a green policy guidelines and financial incentives. The survival of the banking industry is inversely proportional to the level of global warming. Therefore, for sustainable banking, Indian bank should adopt green banking as a business model without any further delay. (Ravi, 2013)

Evolution of Green Bank

The idea of green banking was developed in the United States in the year 2003 with the aim to eliminate the adverse effect banks and other financial institutions have on the environment. Green banking evolved from the practices and principles laid down in the Equator Principles which was launched in Washington DC on 4th June 2003. The Equator Principles (EPs) is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. (Equator Principles, n.d.) These were then adopted and followed by many leading banks like Citigroup Inc., Royal Bank of Scotland, etc.. They were regularly updated to incorporate the rules and regulations passed by the International Finance Corporation's (IFC) performance standards on social and environment Sustainability and World Bank group environment, health, and safety guidelines. The Equator Principles is applicable globally and concentrates on four financial products: a) Project Finance Advisory Service b) Project Finance c) Project-Related Corporate Loans c) Bridge Loans. Currently, there are 87 Equator Principles which are officially adopted by about 36 countries. (Equator Principles, n.d.)

In March 2009, the Congress Chairman, Chris Van Hollen of USA had proposed the first Green Bank legislation in the United States. However, the bill though was passed by the House of Representatives; it was not approved in the Senate and consequently, it did not gain acceptance. However, in the year 2014 it was reintroduced, and in 2016, the United States Green Bank Act was passed. The UK also has its forms of Green Banking system which cater to the specific needs of

protection of the environment. Several other countries too have taken up this initiative to protect and save the environment. However, the system of working and operations varies in different countries to cater to the specific requirements of each region, though they all mainly look up to the Equator Principles for the basics and tailor their Green Banking system as required.

Green Banking in USA- Coalition for Green Capital (CGC)

The Coalition for Green Capital is a Non-Profit Organization formed to foster the development of Green Banks in the US. It collaborates with the government and private investors to arrange funds for setting up green banks. The objective of these green banks is to accelerate greater private investment in clean energy. Clean energy necessarily means renewable sources of energy, which causes minimum harm on the environment.

The Coalition for Green Capital was introduced after a series of laws and amendments passed by the governments. The concept of green banking and coalition for green capital started in the year 2009, by the Obama-Biden Transition Team, which consisted of Reed Hundt and Kenneth Berlin. Their aim was to promote clean energy and energy efficiency in the working of organizations. Hence, they advocated the establishment of Green Banks at the federal level. However, their ideas did not include any plans for the development of a non-profit organization CGC dedicated to the development of green banks. The concept of CGC was first included in the Waxman-Markey Climate Change Bill. This bill considered the establishment of economy-wide greenhouse gas system and critical measures to address the issues of climate change and development of a clean energy economy. The US House of Representatives passed this bill in the year 2009. However, it was not approved by the Senate. Hence, this merely remained in paper terms. Failure to pass the bill in the Senate led to turning the attention to focus on creating state level Green Banks. In the United States, Connecticut, New York, Hawaii, California and Rhode Island have state clean energy finance institutions. The Connecticut Green Bank created in 2011 was the first state Green Bank in the U.S, and the new green bank system was born out of the Connecticut Clean Energy Fund. This led to the launch of Nation's first Green Bank. The success of Connecticut Model led to growth in the Green Bank Concept throughout the US. Later on, in the year 2014, the first Green Bank Bill was formulated. Eventually, the Global Green Bank Network was introduced which focused on the international level of operations of the Green Banks.

By passing the Green Bank Act 2016, the government has granted an enormous sum of $50 billion for the creation of national green bank which would provide loans and guarantees to eligible financial institutions on a competitive basis. The banks, however, would not have their projects. The regional, state and local Green Banks would receive funding from the National Green Banks..

The Green Bank set up under the Coalition for Green Capital offers low-cost financing for clean energy projects and addresses market failures by providing greater liquidity for clean energy instruments. The green banks have also set up Green Bank Academy in collaboration with the Green Banks for educating skilled individuals and widening the scopes of Green Banking and energy conservation. There are mainly three models of Green Banking at state level namely, Connecticut Model, State Clean Energy Financing Authority Model and Infrastructure Bank Model. (Berlin & Hundt, 2013) A basic Green Bank model works in collaboration with the government and private investors. The government invests huge amounts of money for the establishment of Green Banks across the country at different levels. These green banks invest in low carbon projects which have minimum negative impact on the environment. However, they are not the individual investors. Private investors also make investments in these projects along with the Green Banks. Therefore, such environment-friendly projects have both private and public investments in its funding. This partnership in investments also helps to mitigate risk arising from it. Green Bank also takes up a variety of non-finance activities to facilitate easy use of clean energy. It mainly uses three techniques for financing its fund requirement which are Credit Enhancements, Warehousing, and Co-Investments.

Green Banking - Indian Scenario

In India, Green Banking has two dimensions. First, the way the banking business is being done- is it paperless or not. There are several guidelines from the Reserve Bank on e-banking and banks are also putting sincere efforts towards adopting paperless banking. The second dimension of green banking relates to where the bank puts its money. Green Banking entails banks to encourage environment-friendly investments and give lending priority to those industries which have already turned green or are trying to go green and, thereby, help to restore the natural environment. (Chakrabarty, 2013). The RBI does not make any specific mention of regulations or guidelines to be followed for green banking. In the absence of any specific guidelines, it is observed that all banks concentrate on paperless banking in the name of Green Banking. No attention is given to the other and the basic motive of green banking of encouraging environmental friendly investments that reduce the impact on the level of carbon footprints.

Instances

Following are few instances of green banking practices in the India

- **State Bank of India (SBI)**

SBI is the largest commercial bank in India with Government of India being the largest shareholder. It is an Indian multinational, public sector banking and finance company. The bank has over 200

years of banking experience.

SBI Annual report of 2015-16, under the heading New developments in ATM which comprises of Green PIN, introduction of INB etc, further discusses the benefits offered due to these developments covers green banking. It states "Green Banking- Paperless initiative to considerably reduce carbon footprints." (SBI, 2016). From this phrase, it is evident that SBI focuses only on the first dimension of Green banking guidelines given by RBI. Besides, various other green initiatives are taken by the bank in the context of CSR and Corporate governance which is beyond the boundaries of Green Banking.

- **ICICI Bank:**

ICICI (Industrial Credit and Investment Corporation of India) is an Indian based Multinational Bank which has its operations across the world. The bank indulges in various environment conservation activities for sustainable development. The following lines have been taken from the bank's official website which talks about the "Go Green Initiative" taken up by the bank. "Our approach towards environmental sustainability involves promoting the use of "Green" banking products/channels amongst our customers. We also incorporate various energy and paper conservation measures while undertaking our day to day business activities." (Go Green: ICICI Bank, n.d.)

Close analysis of the above statement shows that the bank only focuses on the first dimension in the definition of green banking given by the RBI. Due to this reason the initiative for green banking has been limited to only paperless banking. Under the umbrella name 'Green Banking" ICICI Bank concentrates on online banking and ethical banking

- **IndusInd Bank:**

IndusInd Bank is one of India's largest private, new generation bank. The bank gives immense importance to the matters of environment protection and sustainable development. The bank focuses on aspects of paperless banking, waste management, conservation of electricity, etc. in the name of going green. The bank also conducted e-learning workshop for its employees to make them aware of green banking practices. However, a detail inspection of the report shows that the bank had only focused on the first dimension in the definition of green banking given by the RBI. (IndusInd Bank, 2013)

In India, Green banking initiative is taken up by the commercial banks. Various initiatives like green banking products, paperless banking, conservation of electricity, waste management, etc. are taken up by banks in the name of green banking. However, it is observed that the 'go green' activities of the bank is only restricted to one dimension of green banking stated by the RBI. The other and the primary aspect of green banking is conveniently ignored by most of the commercial banks which aim at prioritizing environmental friendly investments and thereby contribute towards a reduction in the carbon footprints in the atmosphere. Thus, the commercial banks even if interested cannot always prioritize environmental friendly projects as their mission is to

maximize the return to its shareholders through investment in profitable ventures. This necessitates the establishment and promotion of green banks in India

Recently in May 2016, Jeffrey Scrub, the executive director of Coalition for Green Capital (CGC) had traveled to India to explain the concept of green banks to the Minister of Power, Secretary of New and Renewable Energy and the President of the Indian Renewable Energy Development Agency (IREDA). The potential opportunities for developing green banks were discussed. IREDA (Indian Renewable Energy Development Agency Limited) is a non-banking financial institution set up by the Ministry of New and Renewable Energy. It was established in the year 1987 for promoting, developing and extending financial assistance for setting up projects relating to new and renewable sources of energy and energy efficiency. (About Us: IREDA, n.d.).

Suggestions & Conclusion

Today "Go Green" is the mantra of every country to protect the environment and preserve the natural resources. From trying odd, even formula in Delhi, the capital state of India to the construction of solar panel roads in France is some of the initiatives taken to protect the environment and conserve resources. Every industry in the world is trying in this line. The Banking sector also through green banking is attempting to reduce the adverse impact of its operation on the environment. However, it is observed that Green Banking is pursued in two dimensions across the world. A comparative study of USA and India revealed, while the former focuses on investing in environmentally friendly projects, the latter gives two dimensions to Green banking, majorly focusing on making the banking operations environmental friendly. The USA being a pioneer in green banking stands way ahead of India and other nations by setting up Coalition for Green Capital (CGC) which is dedicated to the development of Green Bank.

India can also boost green banking aggressively and thereby protect the environment by not just having an environmental friendly operation in commercial banks but also develop exclusive green banks to encourage clean and green projects. The following suggestions are offered in this line:

- The initiative of developing IREDA to a green bank should be accelerated. This proposal if executed well can promote the growth of green energy market by overcoming financing barriers faced by such projects.
- In the long run, the CGC model of Green Banks followed in the USA should be replicated in India where Green Banks along with public funds should also accept corporate investments.
- Investments in Green Bank by public should bear a lock in period and be tax exempted
- Corporate investment in Green Bank should be included in Section 135 of Companies Act of 2013 to a limited amount. To further promote such investment, the company should also be entitled to receive a nominal rate of return which shall be tax exempted.
- Based on the success of IREDA developed green bank, selected India Post offices should also extend its services to green projects but only limited to micro and small projects. Only major

projects can be financed by the Green Banks.

Strong policy settings and incentives can enable successful setting and scale up of green banking in India. Eventually, innovative products and schemes can prove successful in the further promotion of Green Banks in India. Green Banks can play a vital role in accelerating low carbon development projects and overcome the local financing barriers for clean energy projects.

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