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GREEN BANKING PRACTICES IN INDIA & USA:A COMPARATIVE STUDY

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Abstract
The Research paper tries to examine “Green Banking” practices in United States and India. The paper firstly sightsees the evolution of Green Banking in the world. United States being the forerunner in launching this concept, the paper traces on the working of Coalition for Green Capital, a non-profit formed to nurture the development of green banks in the U.S. The Research paper further explores how Green Banking is perceived and have been implemented in India relative to United States. The research paper also tries to reveal 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 settles with the suggestions to further promote Green Banking in India.
Key Words: India, United States, Coalition for Green Capital, Comparison, Green Banking.

Introduction

Since the ages of civilization, men have always developed ways to improve his lifestyles. And most of them has certainly resulted in the improvement of our life conditions. But, has these changes come up with antagonistic effects on the environment that endures our life? Is our prosperity at the cost of worsening of our environment? Yes, it is! But change is the only constant, and Recently, in the past there has been anincredible change in our attitude towards the environment. We have understood that the need of the hour is the protection and preservation of the environment. The phase of “going green” is going faster than the speed of light. Across the globe, everyone is functioning towards conserving the environment for ensuring their safe survival.

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

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

Objectives

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

Research Methodology

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

Literature Review

Green Banking has arisen as an important strategy to address sustainable development concerns and generates awareness among people about environmental responsibility. (Chakrabarty, 2013) Green banking initiatives by international organizations are:(1) Equator Principles: set of voluntary standards that obligate signatory banks to take social and environmental risks into account when providing project finance. (2) UN Principles for Responsible Investment: This was established by institutional investors that identify the increasing relevance of environmental, social and corporate governance issues that apply to asset management. (3) UNEP Finance Initiative Statements: It identifies the role of the financial service sector in making global economies sustainable. This encourages investment in clean and renewable energy by financial institutions and other investors. (4) UN Global Compact: Set of ten voluntary principles under which signatories promise to evade complicity to human rights violations, adhere to labor standards, and protect the environment. (Express, 2012)

Several studies have been directed to identify the ways to go green. Such studies emphasize on the green initiatives taken by bank and other financial agencies to go green. The Research paper on Green Banking: "Bye-bye cheques, hello electronic payments" finds out the ways to go green through green banking system by emphasizing on the green banking initiatives taken up by various Government agencies and Public or Private banks in India. The green initiatives recognized are internet banking, mobile banking, ATM, RTGS, NEFT etc. (Kumar & C H, 2012). Banks undertake green initiatives to lessen its impact on the level of carbon footprints. A study conducted in 2015 using multiple regression analysis tested the impact of green banking initiative on the level of carbon footprint. The study shows 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 confined to online or mobile banking or ATM and NEFT. Green Banking is a very wide concept. Banking is often related with formal and rigid approaches and the sector generally sees itself as environmentally neutral. The context in which banking operates is, however, continuously changing. Although banks themselves are generally environment-friendly and do not influence the environment much through their own ‘internal’ operations, given the

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relationship between the banking sector and the firms who are users of banks' products, the 'external' impact on the environment through these entities is considerable. Banks that are serious about sustainable development set 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 commonly 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 evaluate the two and which one of the two will be considered first for lending, although everyone recognizes 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 tries to highlight the means to generate awareness in internal as well as external sub systems among target groups and convey education to attain sustainable development through green banking. The study clearly states that the RBI and the Indian government must play a proactive role and make a green policy guidelines and financial incentives. The existence of the banking industry is inversely proportional to the level of global warming. Therefore, for sustainable banking, Indian bank should approve green banking as a business model without any further delay. (Ravi, 2013)

Evolution of Green Bank

The notion of green banking was developed in the United States in the year 2003 with the goal to remove the adverse effect banks and other financial institutions have on the environment. Green banking progressed from the practices and principles laid down in the Equator Principles which was launched in Washington DC on 4th June 2003. The Equator Principles is a risk management framework, accepted by financial institutions, forassessing, determining and managing environmental and social risk in projects and is mainly intended to provide a minimum standard for due diligence to support responsible risk decision-making. (Equator Principles, n.d.) These were then accepted and followed by many leading banks like Citigroup Inc., Royal Bank of Scotland, etc. They were frequently updated to integrate the rules and regulations passed by the International Finance Corporation's performance standards on social and environment Sustainability and World Bank group environment, health, and safety guidelines. The Equator Principles is valid 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 legitimately adopted by about 36 countries. (Equator Principles) In March 2009, the Congress Chairman, Chris Van Hollen of USA had recommended the first Green Bank legislation in the United States. However, the bill though was accepted by the House of Representatives; it was not accepted in the Senate and consequently, it did not gain acceptance. Though, in the year 2014 it was reintroduced, and in 2016, the United States Green Bank Act was approved. The UK also has its forms of Green Banking system which satisfy to the specific needs of protection of the environment. Many other countries too have taken up this initiative to guard and save the environment. However, the system of working and operations varies in differentcountries to cater to the specific requirements of each region, though they all largely look up to the Equator Principles for the basics and tailor their Green Banking system as required.

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Green Banking in USA- Coalition for Green Capital

The Coalition for Green Capital is a Non-Profit Organization fashioned to foster the development of Green Banks in the US. It aligns with the government and private investors to get funds for setting up green banks. The objective of these green banks is to hasten greater private investment in clean energy. Clean energy unavoidably means renewable sources of energy, which causes minimum damage on the environment. The Coalition for Green Capital was announced 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 contained of Reed Hundt and Kenneth Berlin. Their aim was to encourage clean energy and energy efficiency in the working of organizations. Hence, they promoted the establishment of Green Banks at the federal level. However, their ideas did not embrace any plans for the development of a non-profit organization CGC dedicated to the development of green banks. The concept of CGC was first encompassed in the Waxman-Markey Climate Change Bill. This bill considered the creation 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 approved this bill in the year 2009. However, it was not approved by the Senate. Hence, this simply remained in paper terms. Failure to pass the bill in the Senate led to turning the attention to focus on making 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 fashioned 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 progression in the Green Bank Concept throughout the US. Later on, in the year 2014, the first Green Bank Bill was framed. Eventually, the Global Green Bank Network was presented which focused on the international level of operations of the Green Banks. By passing the Green Bank Act 2016, the government has approved an enormous sum of $50 billion for the creation of national green bank which would provide loans and guarantees to qualified financial institutions on a competitive basis. The banks, however, would not have their projects. The regional, state and local Green Banks would collect 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 arranging greater liquidity for clean energy instruments. The green banks have also set up Green Bank Academy in association with the Green Banks for educating skilled individuals and widening the scopes of Green Banking and energy conservation. There are primarily 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 association with the government and private investors. The government finances huge amounts of money for the establishment of Green Banks across the country at different levels. These green banks capitalize in low carbon projects which have minimum negative impact on the environment. Though, 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 aids to mitigate risk arising from it. Green Bank also takes up a variety of non-finance activities to enable easy use of clean energy. It primarily uses three techniques for funding its fund requirement which are Credit Enhancements, Warehousing, and Co-Investments.

Green Banking - Indian Scenario

Green Banking has two dimensions in India. First, the way the banking business is being done- is it paperless or not. There are many guidelines from the Reserve Bank on e-banking and banks are also giving sincere efforts towards adopting paperless banking. The second aspect of green banking relates to where the bank puts its money. Green Banking involves banks to encourage environment-friendly investments and give lending importance 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 explicit mention of regulations or guidelines to be followed for green banking. In the absence of any explicit guidelines, it is perceived that all banks concentrate on paperless banking in the name of Green Banking. No proper attention is being 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 major 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 200years of banking experience. SBI Annual report of 2015-16, under the title New developments in ATM which comprises of Green PIN, introduction of INB etc, further deliberates the benefits offered due to these developments covers green banking. It emphasizes "Green Banking- Paperless initiative to considerably reduce carbon footprints." (SBI, 2016). From this phrase, it is evident that SBI efforts only on the first dimension of Green banking guidelines given by RBI. Besides this, several other green initiatives are taken by the bank in the context of CSR and Corporate governance which is beyond the boundaries of Green Banking.

SBI has become the first bank in the country to undertake generation of green power by installingwindmills for captive use. As part of its green banking initiative, SBI has installed 10 windmills with a total capacity of 15 MW in the states of Tamil Nadu, Maharashtra and Gujarat. SBI has also planned to install an additional 20 MW capacity of windmills in Gujarat soon and touch 100 MW power generation through windmills within five years, windmills are set up with a certain objective of reducing the dependence on the polluting thermal power and not on purely economic or business considerations.SBI had propelled Green Channel Counter (GCC) facility at their branches in 2010 to change the traditional way of paper based banking.

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Punjab National Bank (PNB)

As per Corporate Social Responsibility Report 2010-11 (PNB, 2011), PNB had taken various steps for reducing emission and energy consumption.PNB is leading Electricity Audit of offices as an energy conversation initiative and maintained a separate audit sheet for assessing the impact of green initiatives taken by them. The bank had structured more than 290 Tree Plantation Drives. It started highlighting on green building practices such as energy efficient lights, immediate repair of water leakage, printing on both sides of paper, mater censors for lights, fans, etc. The organization had contracted a Green Pledge with Ministry of New and Renewable energy under which they had set up the butterfly park at the compound of Guruvayur temple which houses 18 types of medicinal plants. They had framed guidelines to ensure that all the necessary approvals and permissions, including from Pollution Control Board has been got before disbursement of term loans and for the project loans, compliance with environment and social safeguards including rehabilitation and resettlement of project affected people is to be ensured as pre-disbursement condition. The bank also considered stepping of sustainable development with particular reference to the Equators Principles on project finance. The organization had allowed nine wind energy projects with an aggregation limit of 185.81 crore and they were also awarded with a second prize for Best Wind Energy Power Financer by wind power India 2011.

ICICI Bank:

ICICI (Industrial Credit and Investment Corporation of India) is an Indian based Multinational Bank which has its maneuvers across the world. The bank is involved in various environment conservation activities for sustainable development. The following lines have been drawn from the bank's official website which talks about the "Go Green Initiative" taken up by the bank. "Our approach towards environmental sustainability comprises promoting the use of "Green" banking products/channels amongst our customers. We also include various energy and paper conservation measures while undertaking our day to day business activities." (Go Green: ICICI Bank) Close scrutiny of the above statement displays 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 confined 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 main private, new generation bank. The bank gives huge importance to the matters of environment protection and sustainable development. The bank emphases on aspects of conservation of electricity, paperless banking, waste management, etc. in the name of going green. The bank also did e-learning workshop for its employees to make them aware of green banking practices. However, a detail examination of the report shows that the bank had only focused on the first dimension in the definition of green banking given by the RBI. In India, Green banking initiative is being taken 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 found that the 'go green' activities of the bank are only restricted to one dimension of green banking stated by the RBI. The other and the primary aspect of green banking is suitably ignored by most of the commercial banks which aim at giving importance to environmental friendly investments and thereby contribute towards a decrease in the carbon footprints in the atmosphere. Thus, the commercial banks even if interested cannot always rank environmental friendly projects as their mission is tomaximize the return to its shareholders through investment in profitable ventures. This requires the establishment and promotion of green banks in India Recently in May 2016, Jeffrey Scrub, the executive director of Coalition for Green Capital had traveled to India to clarify 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. The potential opportunities for developing green banks were deliberated. IREDA is a non-banking financial institution set up by the Ministry of New and Renewable Energy. It was found in the year 1987 for promoting, developing and extending financial assistance for setting up projects linking to new and renewable sources of energy and energy efficiency.

Suggestions & Conclusion

"Go Green" is the mantra of each country to protect the environment and preserve the natural resources today. From trying odd, even formula in Delhi, the capital state of India to the creation 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 doing something in this line. The Banking sector also through green banking is trying to reduce the adverse impact of its operation on the environment. However, it is found that Green Banking is followed in two dimensions across the world. A comparative study of India and USA reveals that, while the later focuses on investing in environmentally friendly projects, the former gives two dimensions to Green banking, majorly focusing on making the banking operations environmental friendly. The USA being a forerunner in green banking stands way ahead of India and other nations by creating Coalition for Green Capital which is dedicated to the development of Green Bank. India can also increase green banking aggressively and thereby protect and preserve 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 can be given in this line:

1. The initiative of building IREDA to a green bank should be accelerated. This suggestion if executed well can promote the growth of green energy market by overpowering financing barriers faced by such projects.
2. In the long run, the CGC model of Green Banks followed in the USA must be replicated in India also where Green Banks along with public funds should also accept corporate investments.
3. Based on the success of IREDA developed green bank, selected India Post offices must 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 allow successful setting and scale up of green banking in India. Eventually, ground-breaking products and schemes can prove successful in the further promotion of Green Banks in India. Green Banks can play a vibrant role in accelerating low carbon development projects and overcome the local financing barriers for clean energy projects.

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