

# Green Banking System & Practices and Sustainable Development: An Indian Perspective

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## ABSTRACT

**Purpose:** Green banking is a relatively newer concept, especially in the context of many developing countries, in achieving the objectives of economic development and growth by keeping a balance of environmental protection. In India, it is approximately two decades old, with the introduction of green programs in the context of society and environment like, granting loans for local economic development projects and loan credits to women etc. **Methodology:** This paper provides a literature review study about the concepts of green banking and green finances as well as the impacts of these concepts in relevance with economy and environment and sustainable banking in India. **Findings:** Green banking system is a future model banking, balancing the environmental and economic advantages with expenditure, for all the players of this banking system and paving the way for sustainable banking system. **Implication:** This study will be helpful in increasing the awareness, encouraging green investment for creation of green finance and effective implementation of these concepts. **Originality:** This research paper is an original work of author and all the references and sources are duly cited by the author.

**Keywords:** Green Banking, Green Financing, Sustainable Development and Growth.

## INTRODUCTION:

The Green banking concept has evolved as a new type of banking system focusing on the environmental protection and achieving the objectives of sustainable development for the economy, society and environment. Truly speaking, banking system by the way of its activities, have to play a role of intermediary for achieving the development of economy through the protection of environment. By keeping the vision of environmental protection, formally in 2003, this concept was developed by some nations. Resulting in the adoption of new system by some world level leading banks for finding, managing and assessing the risks related with environment and society in their projects. Today, the concept has become a part of policies followed by many nations there by having an effect on the environment and economy. World Bank published Environmental and Social norms for commercial banks and financial institutions. Those gave (ESMS) Environmental and Social Management System for institutes for planning the way for environmental protection. (IBRD, 2014)

## LITERATURE REVIEW:

Green banks also function like traditional banks but providing better services to customers and investors with application of plans and projects useful for the environment and society. The green banking system is neither a pure CSR business action nor a business for earning profit. But on the other hand it is an amalgamation ensuring sustainability and balancing about society, environment and economy. (SOGESID)

In 2010, SBI stated that, particularly both the concepts i.e. green banking and green finance are elements of green growth but still today this concept is unpopular in the corridors of financial system. (SBI, 2010)

As per UN ESCAP, the concept of green banking implies that of applying the banking operations in order to reduce carbon emissions and inducing for environment protecting activities by way of imposition of standards for environment protection like giving preferences for the granting and approving of the projects which are concentrating on decrease in carbon emissions, motivating customers in using of green services and products and renewable energy etc. (UN ESCAP, 2012)

**Green Banking Model:**

According to (Kaeufer, K., 2010), Green Bank Model has five levels as stated below;

**1<sup>st</sup> Level: Corporate Activities (Unfocused):** Many banks have this level. Applying sub processes by supporting or financing public works and green events.

**2<sup>nd</sup> Level: Business Practices or Projects (Isolated):** Further promotion of green services or products

**3<sup>rd</sup> Level: Business Practices (Systematic):** Organizational structure of banks is drawn for supporting the green concept in terms of people, purposes, principles and processes.

**4<sup>th</sup> Level Innovative Ecosystem (Strategic):** Balancing strategic ecosystems actively, for achieving sustainability of financial, environmental and social factors.

**5<sup>th</sup> Level (Purpose Driven) Innovative ecosystem International:** Making bank a hybrid system. Not just avoiding to negative things but, applying challenges for changing the entire ecosystem.

The concept of green banks is not just effective in financial sector but also effective in education, information technology, employment, society and environment.

**Benefitting from the Green Banking system:**

Green Banking effects and ensures sustainable development in the manifold aspects like social, environmental and economic this may benefit in the following ways, (Greenbank Report, 2010)

- 1. Making the Payment System Green:** Using of more and more online services in the banks and payments would help in saving the environment. This initiative can further be boosted by allowing higher interests or low charges to the persons and customers who are using and promoting green services of the bank.
- 2. Efficient and flexible interest rates:** The rates of interest and charges should be made efficient and lower on the loans of the projects which are supporting the environmental causes.
- 3. Promoting Green Banking by the way of Electronic Banking:** In the efforts relevant to enhancing revenues margins and reducing the costs for its operations, the banking organizations in the pre-internet period, for delivery of services and reaching outside the organizations made extension of services by using ICT and intra organizational applications and technologies. (Furst, K., Lang, W., & Nolle, D., 2002)

In attempts to increase convenience and satisfaction to customers, this highly informative Industrial scenario consequently enhanced the applicability of electronic systems and strategies. (Economist Intelligence Unit & Kpmg Professional Se, 2000)

In the early eighties the electronic banking systems were emerged in the form of telephone banking service, ATM and Credit cards as three larger facilitations. (Yang, et al, 2009)

- 4. Creating multi-disciplinarily effects:** With the help of efficient and effective working with regard to granting of loans, credits and project appraisals, green banking will prove a boon for other sectors also. After importing high technology for effective working, green banks would require new skilled workforce, resultantly it would provide employment opportunities to unemployed and a contribution to the promotion of information technology industry. On the other hand, green banking efforts would introduce standards and higher responsibilities in the industry. The banks will have to be efficient and the society will be benefitted by the improved services by the banks and industries.
- 5. Saving of resources and energy through Online Banking:** Online banking saves natural resources, time saving and reduction in use of papers etc help in the preservation of environment. This can be achieved by the doing the functions of account management, transfers, bill payments etc. by using the internet. In result the cost of paper work, buildings and branches are reduced and energy consumption is also saved.
- 6. Green Banking supporting socially and environmentally benefitting projects:** Green banking features prove as a big resource for fulfilling and carrying out the educational, social and community's other green projects. Association of banks with local authorities for carrying out green projects is a big idea and great model for multiple sectors. Green banks are not just working for non-profit objectives but for even the sustainable development objectives of the future which are lasting for longer period for the society can also be achieved.
- 7. E- Banking providing solution of green banking:** With the adoption of e- banking system, the banking system are able to achieve multiple business objectives like a solution of green banking also. E- banking is helping the banking institutions in elimination of geographical and physical limits, also relaxations related to time bindings of bank's services are also observed in e-banking. (Yang, et al, 2009)

Banks are able to reduce the cost of labour, expand the services by enhancing the effectiveness and efficiency. E-banking also helping banks in getting high customer satisfaction, increased competitive advantage with more profitability. (Aliyu, A., Younus, S., & Tasmin, R., 2012)

**Green Banking and India:**

India two decades ago initiated for applying the green programs for society and environment protection in the form of approving credits and loans for economically developmental projects and sanctioning programs of loans for women. In the July of the year 2010, the State bank of India (SBI) started the policy of “(GCC) Green Channel Counter” and keeping the banks away from lining up in its larger than 5000 branches all over the nation, as a part of innovative step of green banking, paper less business for transferring, withdrawing or sending money abroad or pay. Many private and public sector banks also implemented green banking strategies and initiated for providing green services and products. However the banking sector is playing short role to impact positively on environment. (Sahoo, P. & Nayak, B. P., 2008)

**Sustainable Development:**

The issues related to socio-economy also have an obvious affecting on the Green Banking implementation. A report by (OECD) Organization for Economic Co-operation and Development states that effects of socio-economic issues having relation with environment degradation are dangerous in developing nations due to their dependency on the natural resources. Such nations are also effecting water and food security, energy shortage, extreme weather conditions and changes in climate. (OECD, 2012).

According to (Sharma, K. , 2013) due to globalization and over population elements in a developing nation like India negative effects of industrialisation affect the society very seriously. At time in achieving sustainable development, the banking sector has a very crucial role to play in relation to providing resources related to finance for the projects. On the same lines the importance and responsibility of green banking with regard to environmental protection and green projects also enhance.

Sustainable development is just not only justice, but also it ensuring about the economical advantages like protecting the asset, reinforcing value of brand and reducing the capital cost. Advantages of sustainable and green development are clarified to the parties. But, the green banking still is new and businesses and banks should have strong intention to be capable of succeeding due to initial higher cost. As combined risks of environmental crisis and global economic downturn, posed a problem about achieving of sustainable development. It acquires more importance in the case of banking sector as it being an important resource of economy which is providing finance to economy. (Do Hoai Linh, 2019). Banking sector and environment are able to affect the stagnancy growth of economy. But, banks mostly pay attention for generating profits and avoiding environment, making the maintenance of sustainable development harder. For balancing society, environment and profit green banking is an impactful model.

**CONCLUSION:**

There is a discrepancy in implementation of e-banking between developing and developed nations despite of the fact that there is development of e-commerce. (Yang, J. & Ahmed, K. T., 2009). The developed nations are not only experiencing a large scale use of e-banking but enjoying its advantages also. (Zhao, A. L. et al., 2008). According to Osho, 2008, the developing nations however have initiated in current years for adopting the e-banking system. In most parts of the world e-banking is aiding in providing solution to the problem of making available the financial services to the poor masses of the rural areas, who are now enjoying the same facilities and resources enjoyed by the people of big cities. One most important advantage e-banking gives is green solution that is helping the environment. A bank can introduce the system of electronically delivery by scanning the documents, instead of sending those documents by courier etc. Also the reimbursement cheques and payment cheques can be transacted electronically for the purpose of saving the paper. (Bihari, S., 2011). A better grasp of knowledge about how e-banking implementation effects the green banking system is very important for furtherance of green banking solutions. For sustainable development and banking, the green banking model should be applied by the banking sector. After gaining detailed and thorough knowledge about the situations and factors effecting the nation's capability in fully accepting the e-banking services and realizing the environmental advantages, strategical impacts may be created for practitioners, professionals and researchers about how to increase the development of green banking.

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