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FINANCIAL SECTOR AND SUSTAINABLE DEVELOPMENT

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ABSTRACT

The mushrooming industrialization and rapid pace of urbanization has left the world at a position where immediate action is needed in order to have a control on the deteriorating global climate. The composition of the global atmosphere has gone drastic change and this has resulted in the deterioration in the global climatic condition thus threatening our own existence. The present paper takes a look as to how financial sector is working towards attainment of sustainable development. The paper covers in short an introduction of green banking and how this approach of the bank can help in achieving sustainable development.

Keywords- *Environment, Global Climate, Financial Sector, Green Banking, Sustainable Development.*

I. INTRODUCTION

Entire world is experiencing the global climate change and this has raised an alarm everywhere. The impact of global climate change can be felt on health, well-being and quality of life and this has motivated every individual, organization and regulatory bodies to think seriously over addressing this issue. Banks are considered a major intermediary of any economy. They play key role in building backbone of every economy**.** Indian banks are no exception. Indian banks have a major role and responsibility in supplementing government efforts towards substantial reduction in carbon emissions. The efforts made by banks towards environmental protection through their internal and external activities are commonly termed as 'Green Banking'. Green Banking can be defined in a number of ways. However, in broader terms it refers to promoting environmentally friendly practices that aid customers in reducing their carbon footprint through their banking operation activities.

Financial institutions interact with the environment in a number of ways:

- STAKEHOLDER RELATIONS: Banks are shareholders as well as lenders to the companies and so exercise control over their management.
- INVESTORS: Invest in projects that promote sustainable development e.g. Solar energy, wind energy.
- INNOVATORS: Develop various financial products which promote sustainable development e.g. Green Home Loan.
- RISK MANAGERS: Minimizing risks and maximizing the returns, for companies, projects as well as for the banks itself.

II. BENEFITS OF GREEN BANKING

The benefits of green banking are many folds. It ranges from avoiding of paper works and use of energy efficient technologies for banking operations and thus reducing the carbon emission to the minimum in the banking activities. It creates awareness not only among the individual customers but also among the various companies that take loan from the banks. Banks now-a-days are providing loans to various environment friendly projects at comparatively lower rate of interest to promote more and more people to conduct sustainable projects and thus promote sustainable development. This activity of the banks is termed as "Green Financing".

III. IMPORTANCE OF GREEN BANKING

Banks are exposed to environmental risks that may lead them to economic and reputational loss. If the clients violate stringent environmental policies and are penalized for the activity, banks may not get their loans back and have to face reputational as well as the legal risk. Thus, besides liabilities from banks' own operations, greater risks are from bank's commercial lending and can be categorized into following types (Weber, et al, 2005; Weiler, et al., 1997, Tara et al., 2015):

Loan Default by Debtors
If the loan debtors violate the environmental legislations, they have to pay extra cost for compensation and cleanup. Due to this burden the possibility of clients becoming financially weak rises thus leading them defaulter in repaying the loan back to the banks.

Reduced Value of Collateral
If the collateral property gets polluted, then its value gets reduced due to the cost of cleanup. So, the risk of getting the payment reduces due to decreased value of the collateral.

Changing Market with Environmental Concerns
The customers today are well acquainted and concerned towards the environment and the government and regulatory bodies are also becoming strict in the formulating environmental policies and laws. These changing environmental attitudes of market make debtors tough to survive by affecting its capacity to pay back the loan to the bank.

Bank's Liability
Since banks may directly have business in collateralized properties, they are liable for the cleanup of contamination or personal injuries caused by the properties.

Reputational Loss
If the banks do not perform well towards environmental and social responsibilities lowers then the credibility of the bank reduces among the public which leads to loss of reputation to banks.

IV. GREEN BANKING PRODUCTS

Now-a-days banks have started providing many services to their customers like sending e-statements, providing electronic bill payment services, etc. Banks are promoting products like ATMs, mobile banking, internet banking, etc. These bank products reduce the carbon emission to the minimum. These products not only provide the benefit of ease of use to the customers but also make banks technically efficient and advanced. This has changed the banking operations and has led the banks to think in the green context like, green products, green financing, etc. (Singh and Kaur, 2012). Various green products of banks are online banking, ATM facility, mobile banking, green financing, green deposits, green credit cards, remote deposits, etc.

V. APPROACHES TOWARDS GREEN BANKING

Some of the activities that has helped bank in adopting green approach in their banking activities are:

1. Approach towards Adoption of Paperless Banking and Clean Technology:
    a. Online Savings Accounts: it promotes various activities like paying bills online, receiving electronic statements, electronic transferring of money, receiving of pay checks, etc. These activites save paper and reduce carbon emissions (Singhal et al., 2014).
    b. Credit and Debit Card: Bank customers use this product for making the payments of various expenses. This product promotes cashless transactions (Singhal et al., 2014; Bahl, 2012).
    c. Electronic Fund Transfer: Customers can transfer fund from their account to others without the use of cheque. This is also an important initiative of the banks towards paperless banking (Bahl, 2012).
    d. Mobile Banking: Today the banks provide to its customers various banking facilities on their mobile like checking balance and getting details of their various account transactions (Jha and Bhome, 2013). These functions can be performed through Mobile and Personal Digital Assistance (PDA).
    e. Online Banking: Banks also provide the benefits of performing various banking transactions like cash transfer, bill payment, making shopping purchase through internet without visiting the branch of the banks (Jha and Bhome, 2013). Banks also send e-statements to their customers.

2. Green Financing: Through green financing, banks finance only those projects which are environment friendly and do not have any negative impact on the environment. Green financing is also done to green buildings in order to promote environmental friendly buildings. Many banks are providing concessions in the interest to the buyers of the environment friendly Projects (Mehar, 2014; Tara and Singh, 2014). Besides this many banks are providing concession to the environment friendly vehicles.

VI. ORGANIZATIONS PROMOTING SUSTAINABILITY CONCEPT AND GREEN BANKING

International Finance Corporation (IFC)
The IFC is a member of the World Bank Group. It helps financial institutions and companies in various activities like generation of tax revenues, creating jobs, in improving corporate governance and environmental performance, and also in contributing to their local communities (IFC: World Bank).

United Nations Environment Programme - Finance Initiatives (UNEP-FI)
UNEP FI is a global partnership between UNEP and financial sector. Over 200 institutions, including banks, insurers and fund managers, work with UNEP to understand the impacts of environmental and social considerations on financial performance (UNEP-FI, 2007).

Bank Track
Bank Track is a global network of non-governmental organizations which focuses primarily on the work of private banks and their involvement in projects that are a risk to the environment, society or human rights. The organization works with the aim is to promote changes in the operations of the bank so that the banks consider the ecological well being of the society and be accountable for the activities of their shareholders (Bank Track: Wikipedia).

VII. LAWS AND GUIDELINES FOR ENVIRONMENTAL CONSERVATION AND SUSTAINABILITY

Equator Principles
The Equator Principles are risk management framework, adopted by financial institutions, for assessing and managing environmental and social risk in projects. The EP applies to four financial products and those are Project Finance Advisory Services, Project Finance, Project-Related Corporate Loans and Bridge Loans. Currently, 80 Financial Institutions have adopted it covering over 70 percent of international Project Finance debt in emerging markets (About the Equator Principles).

Carbon Disclosure Project
Carbon Disclosure Project (CDP) is an organization based in the United Kingdom which works with shareholders and corporations to disclose the greenhouse gas emissions of major corporations**.** In India, investors such as SBI, HDFC Bank Ltd, IDBI, IDFC, Reliance Capital, Tata Capital, IndusInd Bank and Yes Bank have also become signatories (Business Standard, 2011).

CERCLA
Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) is a United States federal law designed to clean up sites contaminated with hazardous substances as well as broadly define "pollutants or contaminants". Under CERCLA, Environmental Protection Agency (EPA) can require liable parties to conduct cleanups or EPA can conduct a cleanup and subsequently seek cleanup costs from liable parties. It had made a huge loss to the US banks as they were held directly responsible by the government for environmental pollution made by their clients.

BSE Greenex
Bombay Stock Exchange has launched India's first carbon-efficient live equity index called 'BSE-GREENEX' which measures the performance of the companies in terms of Carbon Emissions (Shree, 2012). The index targets socially-aware investors who are willing to pay a premium for green investments in companies to get better return. BSE Greenex assesses the energy efficiency of firms, based on energy and financial data. The selection of companies is on the basis of greenhouse emissions in the last four financial years from 2007-08 till 2010-11(Gupta, 2012).

VIII. SUGGESTIONS TO BANK FOR EFFECTIVE GREEN BANKING ADOPTION

Banks should construct work towards conveying the use of their green products to more and more customers. Banks should educate their clients through the banks website and should also acquaint their employees about the same through banks' intranet. If the banks will focus on sharing all the environmental issues, green products, their benefits on their intranet then these messages will be conveyed to the customers through their employees. Banks should also take help of press and media to create more and more awareness about their green products among the general public. Banks should also work very seriously on sustainability reporting. Banks should encourage energy saving schemes like car pooling for their employees to promote energy conservation. Banks should focus on imparting education to their customers through various E-learning Programmes. Banks should focus heavily on their green financing activity and should strongly implement "Equator Principle" in their lending activities.

IX. CONCLUSION

Indian banks are working actively towards environment protection but still have to go a long way. For effective green banking, the RBI and the Indian government should together play a pro active 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. Thus, for environment friendly banking, Indian bank should adopt green banking as a business model without any further delay.

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