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Dr. Parmil Kumar
Associate Professor, Sahu Jain (P.G) College, Najibabad, Bijnor, Uttar Pradesh, India

Sapna Verma
Research Scholar, M.J.P. Rohilkhand University, Bareilly, Uttar Pradesh, India

Editors

Dr. Parmil Kumar
(Associate Professor), Sahu Jain (P.G) College, Najibabad (Bijnor), Uttar Pradesh, India

Faiyazurrehman
(Research Scholar), Dr. Bhimrao Ambedkar University, Agra), Uttar Pradesh, India

Dr. Anurag
(Principal), Baluni Public School Tallamotadak, Najibabad), Uttar Pradesh, India

Correspondence
Dr. Parmil Kumar
Associate Professor, Sahu Jain (P.G) College, Najibabad, Bijnor, Uttar Pradesh, India

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Roll of Green Banking in Economic Development

Dr. Parmil Kumar and Sapna Verma

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Abstract

This paper aims to focus on the Indian banking sector especially on Green banking in India. Green banking is a modern way for the bank to finance themselves. It is the product of the government's Green movement, which aims to ensure a comfortable environment for the future generation. Without the effective implementation of Green banking, the recent government's aim to achieving sustainable development goals (SDGs) by 2030 would be unlikely. It is a new chance for banks to aware of the environment while financing. Usually, Green banks aim to save the environment decrease the carbon footprint from banking projects. We have an easy way to achieve the clean energy transition. If we avoid the worst impacts. The fast adoption to clean energy possible by a green bank is a strong and cost-effective component of a comprehensive climate policy agenda. All Green banks have a mission is that cares about developing clean energy rather than maximizing profit. They actively develop clean projects and search out chances in the world.

Keywords: Covid-19, green banking, economic development, NGFS, customer satisfaction

Introduction

In the present scenario, the whole world is facing pandemic disease COVID-19. This pandemic affected not only life but also the economy. The effect of the coronavirus pandemic on India has been important in terms of both economic activity and human life loss. With a few notable exceptions, almost all sectors have been negatively impacted as domestic demand and exports have significantly decreased, with some notable exceptions where strong growth has been observed. According to the Ministry of Statistics, India's growth slowed to 3.1 percent in the fourth quarter of the fiscal year 2020. According to the Government of India's Chief Economic Adviser, the decline is primarily due to the impact of the coronavirus pandemic on the Indian economy. Noteworthy India has been experiencing a pre-pandemic recession, and the new pandemic, according to the World Bank, has "magnified pre-existing danger to India's economic outlook". The economic impact has been operationally described as the impact of the following main economic indicators: GDP, Unemployment rate, Inflation rate, Interest rate, and Industry Production. Slowly the situation worsened. Death rate increases. Economic development blocked. The only option left for the government to save the country is a lockdown. Lockdown was imposed for the first time by the government on 23 March 2020 to save the country from the terrible pandemic of coronavirus which had the greatest impact on the general public. In such a situation, Green Bank played an important role.

Green banking is similar to traditional banking in that it supports the climate. By focusing its key options on environmental improvement, a conventional bank becomes a Green bank. In today's banking world, green banking has become a buzzword. It entails devising inclusive banking policies that will ensure significant economic growth while also encouraging environmentally sustainable practices.

Green banking, in general, relates to the banking industry's attempts to keep the world green and reduce greenhouse gas emissions by in-house operating activities and green finance. Green banking takes two main approaches-greening internal operations and environmentally friendly financing. Opening online account, online banking system, mobile banking system, SMS banking and net banking system, e-fund transfer, ATM, cash and cheque deposit machines, credit and debit card, e-statement and SMS notifications, e-mail communication, picture statement, and more are all part of Green Banking's internal operations. The aim of green financing is to provide financial support to projects that use green technologies to minimize pollution in order to reduce external carbon emissions.

Green Bank, a fast-growing financial innovation, could help India achieve its target of increasing solar and wind energy power. The Indian Renewable Energy Development Agency (IREDA), in collaboration with the Council on Energy, Environment and Water (CEEW) and the Natural Resources Defence Council, has released a new report (NRDC). The study noted that the availability of financing has not kept pace with developer commitments and that creating a Green Bank could help address this main market barrier.

Meaning & concept of green banking

The idea of Green Banking was born out of the bank's concern for the environment's long-term viability. The idea of 'Green Banking' would benefit banks, businesses, and the economy in equal measure. Green banking includes green financing. Green banking entails encouraging environmentally sustainable activities and lowering the banking activity's carbon footprint. Green banking aims to improve the banking industry's technology while also making customers' activities more environmentally friendly. It's similar to traditional banking, but with a focus on social and environmental factors to protect the environment. It is a method of managing a banking industry that considers the social and environmental consequences of its operations. Green banking lowers costs, lowers risk, improves bank credibility, and contributes to environmental sustainability in the long run. As a result, it serves the bank's economic goals as well as its social responsibility.

Objectives of the study

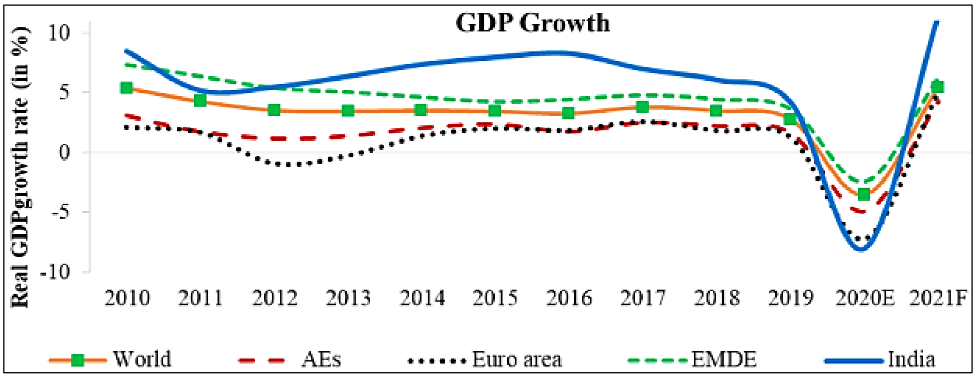
- To highlight the need for Green banking in the Indian Economy and also find out the impact of Green banking on customer satisfaction in India.
- To understand Green banks and their importance.
- To study the role of Green banking in the growth of our economy.
- Green banks contribute to fulfilling government policies.

Why green banking is important for economic development

Green banking can a way to decrease pollution and save the environment helping sustainable economic growth. Green business practices adopted by new green banks include geothermal heating and cooling systems, energy-efficient lighting, recycled building materials and environmental policies. New Green banks offer a personal banking alternative that makes life easier for its customer as they support the Green banking goals. Green banks is a global bank with a focus on financial organizations such as organic Food business renewable energy enterprises and nature conservation projects are the major green practice adopted by them. Bangladesh Bank issued policy guidelines for developing Green Banking practices and environmental risk management and circulars to handle climate change. The Central Bank gives facility for financial solar energy, biogas and effluent treatment plant at a 5% interest rate.

Green Banks and the Recovery of the Economy several countries are optimistic for a green recovery as the world grapples with the answer to COVID-19 and the economic fallout it has created. Green banks have the potential to be a significant tool in the future development of a sustainable and resilient economy. Green banks will help to create a more environmentally friendly financial system by facilitating the mobilisation of private capital.

Green Bank's capacity to capitalize on smaller-scale deals will assist in providing required capital injections into small and medium enterprises (SMEs). Recessions have a significant economic impact on SMEs because capital is often difficult to come by and costly. Furthermore, several green banks claim to be more welcoming to current customers. Extending loans, deferring fees, and assisting clients are all examples of this.



V-shaped recovery

Likewise, green banks may provide programmes that will help already-struggling families cut expenses, such as providing equity for community solar projects that reduce energy bills without adding to their debt burdens. Many countries and established green banks are also working to recognise and establish solutions for the pandemic-induced recession.

There are current legislative attempts in the United States to create a national green bank. Several pieces of legislation also passed the House of Representatives, including economic recovery legislation that included a national climate bank. If the most recent proposal is signed into law, the bank will be a $20 billion non-profit entity. According to a recently released study, a federal green bank could generate over 5 million new job-years within five years of its establishment: 3.3 million direct and 2.2 million indirect.

The ability of some economies' renewable energy markets to create jobs may exacerbate the potential for job creation. According to executives at Tata Cleantech Capital Limited, renewable energy has become one of the most resilient sectors of the Indian economy during the pandemic. Current COVID-19 Response and Existing Green Banks- Green banks are expected to play an important role in post-COVID recovery in a number of countries. Many green banks are now working with their governments to ensure a low-carbon, climate-resilient recovery following the COVID (LCR).

The emerging trends of green banking

The word "green banking" is becoming more common these days. According to the Indian Bank Association (IBA) in 2014, a green bank is similar to a traditional bank in that it considers social, environmental, and ecological factors with the aim of protecting the environment and conserving natural resources. It's also known as a sustainable bank or an ethical bank. Green banking can help the environment by lowering customers' or banks' carbon footprints. An example of a Green banking initiative is online banking. Online banking has a number of advantages, including reduced paperwork and fewer trips to branch offices by bank customers, both of which have a positive effect on the economy. Customers that use green banking use less paper, which reduces emissions both directly and indirectly. A bank's productivity and profitability can also benefit from online banking. Green banks will also help to eliminate the need for costly branch banks. The majority of banks are experiencing computerization, networking, and the provision of online services. Green lending and eco-friendly groups may also be supported by banks.

There has been a significant improvement in the way banks operate in terms of cost-cutting, enhancing profitability, rising efficiency, controlling and managing non-performing assets (NPA), performing asset-liability management, managing risks, dealing with foreign exchange rate volatility, managing interest rate changes, and complying with regulatory requirements, and ultimately, boost customer service to the highest level of satisfaction. The Sustainable Finance Awards were introduced by The Finance Times and the International Finance Corporation (IFC), a member of the World Bank Community, for organizations that are incorporating social, financial, and corporate governance aspects into their business operations. The awards recognise collaboration between financial and non-financial organizations in the creation of commercially viable and innovative solutions for long-term challenges. According to financial time, the five types of sustainable finance award are:-

- Sustainable Bank of the year.
- Sustainable Investor of the year.
- Achievement in inclusive Business.
- Sustainable Investment of the year.
- Technology in Sustainable Finance.

Despite numerous initiatives in the field of green banking, it has been discovered that it is still in its infancy in India. There is only one Indian company, Infrastructure Development Finance Company (IDFC) ltd that has signed the Equator Principles for evaluating, assessing and interpreting environmental risks in projects undertaken.

Network for greening the financial system

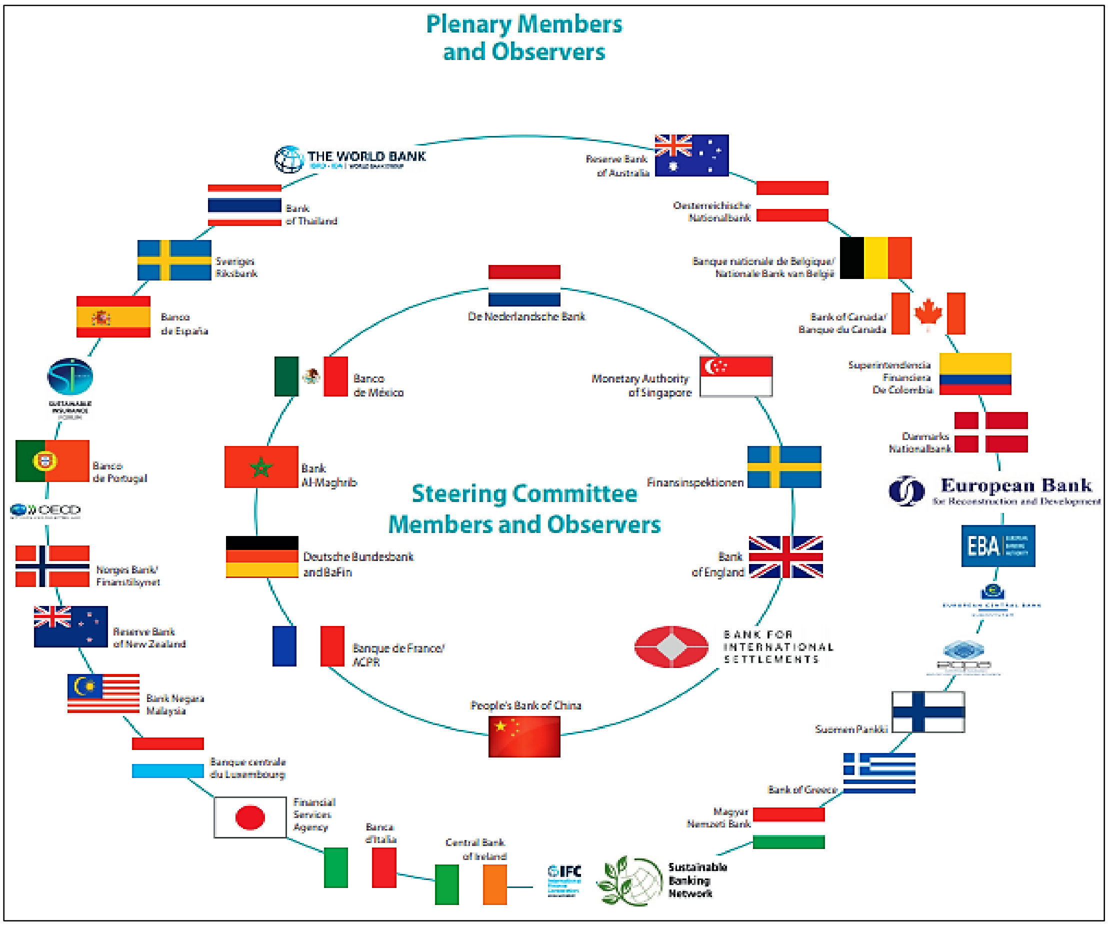
The Central Bank and Supervisors Network for Greening the Financial System (NGFC) “is the only forum worldwide bringing together central banks and supervisors committed to better understand and manage the financial risks and opportunities of climate change. The network was launched in December 2017, during the one planet summit and gathers, as of June 2019, 36 members participating in three different work streams: supervision, macro-financial and mainstreaming green finance.

The central bank and supervisors network for greening the financial system (NGFS) is a group of central banks and supervisors willing, on a voluntary basis, to exchange experiences, share best practice, contribute to the development of environment and climate risk management in the financial sector and to mobilize mainstream finance to support the transitions toward a sustainable economy. Its purpose is to define and promote best practices to be implemented within and outside of the membership of the NGFS and to conduct or commission analytical work on green finance.

The Central Bank and Supervisors Network for Greening the Financial System (NGFC) is the world's only forum dedicated to better understanding and managing the financial challenges and opportunities posed by climate change. The network was introduced in December 2017 during the One Planet Summit and currently has 36 members working on three separate work streams: oversight, macro-financial, and mainstream green finance.

The central bank and supervisors network for greening the financial system (NGFS) is a community of central banks and supervisors willing to share insights, best practices, and contribute to the advancement of environmental and climate risk management in the financial sector, as well as mobilise mainstream finance to promote transitions toward a sustainable economy, on a voluntary basis. Its goal is to identify and encourage best practices for green finance implementation both within and outside the NGFS membership, as well as to conduct or commission analytical work on the topic.
“Experience exchange and recognition of best practices on the supervisory and macro-financial dimensions of climate-related and environmental threats, as well as options to scale up green financing”, according to the NGFS work programme.

Participating members



The NGFS has three dedicated work streams

1) Supervision (chaired by ma Jun from the people's bank of China)

- Make a map of existing supervisory activities for incorporating environmental (climate) risks into micro-prudential supervision.
- Financial institutions' disclosure of environmental information (climate risk) and options to facilitate disclosure.
- Considering the degree to which 'green' and 'brown' assets have different financial risk profiles.

2) Macro-financial (Chaired by Sarah Breeden from the bank of England)

- What effect will climate change and the transition have on the macroeconomic system?
- What is the effect of climate change and the transition on financial stability?
- What are some good practise examples?
- Where do we need to fill of the blanks in our collective knowledge? What are the most urgent problems that need attention?

3) Mainstreaming green finance (Chaired by Joachim wuermeling from the deutsche bundesbank)

- Greening Central Bank and Supervisory Operations.
- Green finance market dynamics are being studied and monitored.
- Central banks/supervisors as catalysts for financial system greening.

Member of the NGFS

Name	Membership	Join date
Banque de France and ACPR	Permanent member	2017
Bank of England	Permanent member	2017
Banco de Mexico	Permanent member	
Deutsche Bundesbank	Permanent member	2017
European Central Bank (ECB)	Permanent member	2018
Hong Kong Monetary Authority	Founding member	2017
People's Bank of China	Permanent member	2017
Asian Development Bank	Observed	
Bank of International Settlement	Observed	2018
International Monetary Fund	Observed	2019
IDB (Inter-American development bank)	Observed	2019
Organisation for Economic Cooperation and Development (OECD)	Observed	2018
World Bank and the International Finance corporation	Observed	2018
Reserve Bank of India	Member	2021

Customer facilities

Go online: Online banking is a new trend in the Indian manufacturing industry. Online banking contributes to more energy and natural resource management. Mobile banking, online bill payment, online fund transfer, online statement, and remote deposit are all examples of online banking. Mobile banking is a tricky business. On the one hand, having the ability to check accounts, move money, and pay bills from your phone is fantastic. It saves the customer's time and resources.

Use green checking account: You prefer the convenience of a paperless statement and the convenience of using your debit card, in which case green checking is the best option. Green checking account features-

- There are no monthly subscription fees.
- There is no requirement for a minimum balance.
- Your first check order is free.
- There are no annual fees on the debit card.
- The use of an e-statement is needed.
- Online banking is available for free.
- Online bill payment is available for free.
- Touch Tone Teller (T3) automated telephone banking is available 24 hours a day, 7 days a week.
- There is a ready reserve open (subject to credit approval).

Use green loans for home improvements

A green loan is a type of financial product that enables and empowers businesses to fund projects that have a significant environmental impact, or that are specifically geared toward funding "green" projects. The definition is more expansive in that it encompasses a green-oriented approach in the entire process of choosing, structuring, using, and reporting on green loans. Green loan principles (GLPs) provide a high-level structure of industry standards and guidelines, offering a common approach for use in the green loan market while retaining flexibility as the market evolves. The GLPs are non-mandatory recommended guidelines.

Use green credit cards: Green encourages the creation of low-carbon products and services, resulting in increased eco-innovation and a transition to a low-carbon economy. The Green credit card is the world's first national programme that uses a credit card network to provide a variety of financial incentives for environmentally sustainable behaviors. It eliminates the use of paper in transactions and reduces the use of power, water, and gas.

Use of solar and wind energy: The use of renewable energy systems such as solar and wind to power green-house environments decreases fuel consumption and thereby improves the sustainability of green-house productions. Without the use of fossil fuels, wind and solar energy can be used to power the greenhouse and provide fresh water. Nowadays, the majority of water desalination is done with fossil fuels, which leads to increasing levels of greenhouse gases.

Suggestion for green banks

- Creating public awareness about social services performed by green banks.
- Promotion the technology services provided by the green bank from home.
- Promoting different forms of electronic banking.
- Carbon footprint reduces by saving energy the paper.
- Using e-statements may save your money by avoiding paper statement fees.
- To identify the factors affecting the adoption of green banking.
- Set up a separate green banking department in the bank to ensure that the green project is carried out effectively.
- Card-based payments can receive discounts for consumers of online banking and mobile banking.
- Customers will be taught how to use online banking and mobile banking in a training programme. This will boost their self-assurance.
- To raise environmental consciousness among banking employees and encourage them to adopt environmentally friendly practices.
- Reduce cybercrime and provide consumers with assurances about safe online banking and card-based transactions.
- To examine the relationship between various factors to adopt green banking practice and environmental sustainability.
- To check awareness about Green banking among the general public, customers and media.

Challenges to achieve the targets

While adopting green banking practices, the banks would face the following challenges:

Diversification: Diversification is a real challenge for Green banks, which impedes their business dealings with those companies that pass the green bank's screening process. Green banks will have a lower customer base to fund them because they will have less clients.

Start-up face: A few banks in the Green sector are very new and are in the start-up phase. It takes a bank three to four years to start making money, so it doesn't support banks throughout a recession.

Credit risk: It occurs as a result of lending to customers whose companies are affected by the cost of pollution, improvements in environmental standards, and new restrictions on emissions levels. It is greater because there is a greater chance of consumer default as a result of unanticipated costs for capital investment in manufacturing facilities, market share losses, and third-party claims.

High operating cost: To provide proper services to customers, green banks need talented, qualified workers, which comes at a higher cost of operation. Experienced loan officers with knowledge of green businesses and customers are needed.

Brand risk: If banks engage in Green financial services, such ventures would harm the climate, putting their brand reputations at risk. There have also been a few instances where implementing an environmental management scheme has resulted in cost savings and an improvement in bond price.

Specific banks: A Green bank's main focus is to provide financial assistance to those who care about climate change. “Making a profit” does not always imply “protecting the environment”. But, hopefully, this assumption is proved incorrect in this case, and green banks demonstrate that they can thrive even in the face of stringent regulatory requirements.

Conclusion

Worldwide pandemic, inadequate of foods items, increase in mortality and devastating effects of the environment that many people have experienced around the world. We get inspiration from Green bank to solve this problem. The good thing is that today awareness of Green banks is increasing and the green bank is also helping to solve the problem.

Green banking is a broad concept that refers to activities and guidelines that help banks be more sustainable in terms of their economic, environmental and social impacts. Green banking is a method of reducing emissions and conserving the environment while promoting long-term economic development. Before deciding to fund the project, the bank must assess the environmental and risk factors, as well as ensure that the project participants have environmental protection measures in place, such as recycling facilities or smoke and gas arresting units. The advancement of green banking requires a system of incentives for responsible behaviour.

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