Economic Sciences
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ES (2024) 20(2), 421-425 | ISSN:1505-4683

Incentives and Barriers for Green Banking Adoption: Paving the Path towards Sustainable Financial Practices

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Abstract:

Now a days every person in the society have awareness about the environment sustainability and every third persons wants to contribute in the society by using environment friendly products because we all know that if we use harmful products in today's scenario it will automatically affect our future. For this government of most of the countries develop environment protection initiatives in which green banking is the one. Because now customer is more alert about the environmental activities and as per government norms, business should obey the rules of environment suitability to retain their businesses into the market. So they have to follow the 3P's rule i.e. Profit, People and Planet Generally, the green word is more popular in current scenario like Green Banking, Green Projects, and Green Products and so on because everyone has the knowledge about the environment sustainability. The study just focused on Green banking in this research report, green banking concept was originated in 2003 by US to safeguard their economy. The Green Bank Act establish the first Green Bank in US country and the main purpose of this bank is to use the minimum paper for banking activities as well as reduce those activities which deepened on tree based raw material.

Keywords: *Green Banking Incentives and Barriers, Environmental Protection, Green Banking, Online - Banking, RBI, And Sustainable Development.*

1. Introduction:

Green Banking Concept firstly originated in our neighbour countries; at initial stage it was originated in US around in 2009. And in 2009, Green Bank Act was launched in US country for the purpose of establishment of a government green bank under US Government rules and regulations. The main purpose is to maintain the economical sustainability in US by saving more and more trees, reducing paper uses etc. Later on, the green word is more popular in other countries as well, India is one of them. Now Indian Government also launches Green Banking policies for managing green practices and sustainability practices in Indian Market with definite set of instructions.

1.1 Green Banking:

Green banking is the new concept in Indian economy but very popular because every person wants to contribute towards sustainable development by using ecofriendly products and services and green banking is one of them. Under green banking many products and services are offered to normal customers like ATM, online banking, credit and debit cards, e-statement etc. To businesses, green banking provide rebate for green projects, funding to organizations. Green banking term is generally popular on urban cities as compared to rural area due to lack of education. In rural areas people prefer to use traditional banking methods. Also, there are not any rigid norms set by government for green banking which followed by industry and banking institution. So, the objective of this paper is to study the information about the concept of green banking in foreign countries as well as in India, initiatives taken by RBI and other financial institution for adopting green practices in the economy, consumer awareness regarding the green banking and at last impact of green banking towards sustainable development

1.2 Sustainability:

In past the term sustainability is very popular in western countries, officially in 1987 Brundtland

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Commission launched the sustainable development movement for the purpose to identify the exact definition of term sustainability. They defined sustainable development refers to "meeting the present needs in such a way that capabilities of coming generations are not compromised in meeting their own needs.

After few years, around in 1992 Earth Summit Brazil conference was presented in united nation. In 2015, 195 nations come together for sustainable development, reducing carbon foot print and make Paris Climate Conference (COP21).

Sustainable financial practices encompass a range of strategies and principles aimed at harmonizing financial decisions with environmental and social responsibility. These practices involve integrating environmental, social, and governance (ESG) factors into investment and lending decisions, thereby evaluating the potential impacts on climate change, resource management, labor practices, and ethical governance.

2. Significance of Green Banking Adoption towards Sustainable Development:

The adoption of green banking is of paramount significance in today's dynamic and interconnected world. With environmental concerns reaching critical levels and societal expectations shifting toward sustainable practices, green banking emerges as a strategic imperative for financial institutions. By integrating environmental, social, and governance (ESG) factors into their operations, these institutions not only contribute to the preservation of our planet's delicate ecosystems and the mitigation of climate change but also align themselves with evolving regulatory frameworks and global sustainability agendas.

By offering sustainable financial products such as green bonds, impact investments, and eco-friendly loans, financial institutions tap into a burgeoning market demand for responsible investments. This not only attracts environmentally conscious investors but also channels capital towards businesses that prioritize sustainable practices, spurring economic activity and job creation in emerging sectors.

Beyond regulatory compliance, green banking enhances institutions' reputations, building trust among stakeholders who value responsible financial practices. Moreover, it opens doors to innovative market opportunities, catering to a growing segment of environmentally conscious consumers and investors. In embracing green banking, financial institutions wield their influence to drive positive change, promote inclusivity, and shape a future where economic growth and societal well-being coexist harmoniously within the boundaries of our planet's resources.

3. Review of Literature

(Hadi , Hasan , Flayyih , & Hussein , 2023) they examine how green banking contributes towards environmental sustainability, the profitability of banks, and the financial climate in the concept of environmentally conscious. They focus on the potential advantages of green banking, like reduced operating expenses, improvement in client retention, and the need to access new markets.

(Chunyu, Ali, Tan, Yin, Kouser, & Gulzar, 2022) study the impact of fiscal hedging and R&D in energy, using a green-energy system in Sustainable Development Goals. Fiscal hedging refers to the practice of reducing the risk of adverse price movements. The study results show that fiscal hedging contributes to the environmental degradation of the economy. There has been a negative impact of Research and development in renewable resources on ecological degradation and SDGs in the economies of South & Southeast Asia.

(Sudhalakshmi & Chinnadorai, 2014) present the status of Indian Banks in respect of green banking. For the Indian economy green mantra is essential to cope with the current international trend for economic development but proper efforts are not been taken by Indian banks. The concept of green banking was adopted very recently in India as compared to other neighboring countries. If the Indian forms not taking this into serious concern then definitely, they will lack in the national and international markets. Banks need to take serious steps toward green banking for lending their money in future projects. So, every step taken today by banks will help to gain the benefit in the future.

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(Ozili, 2022) Provide information about the situation of green financing across the world. There are remarkable developments in green finance in Asia. It shows that In Asian countries, the ratio of green financing increased to meet the demand for sustainable economic development. Similarly, like India, many other neighbouring countries like China, Japan, and South Korea have increased green bond issuance. And China has become a global leader in green bond issuance since 2015.

(Mir & Bhat, 2022) they study the green banking practices adopted by financial institutions and which methods they use for practicing green banking. In their research, they have concluded data from SBI and Maybank of Malaysia. They found that in the economy, people will have to deal with financial institutions like banks, which play an important role in developing a strong and successful low-carbon economy. Banks need use to study the current environmental data before lending money to any business organization.

(Kujur & Sahu, 2022) they study the role of Indian banks in sustainable development through green finance along with the initiatives taken by the banks towards sustainable development in the Indian economy. Green finance is a long-term financial sector strategy for combating climate change and transitioning to a low-carbon future. As per their study, green finance is a must-have tool to adopt sustainable financing practices in India because Green finance creates a balance between nature and the economy.

(Sachs, Woo, Yoshino, & Hesary, 2019) found that the investors are less interested in investing their money in energy and renewable resources which is becoming the main reason for less growth of green finance and also revealed that there is a very high need to promote Green Financing that includes green investments, projects, banking, fin-tech areas, etc. to achieve the sustainable development goals.

(ASEEM, 2020) the author wants to draw the attention of financial institutions towards green funds which are helpful for the protection of the earth and a safe environment. The researcher studies the concept of green bonds and green investing companies in India. He concludes that in India, green bonds are popularly issued as green asset-backed securities, corporate self-labeled bonds, green project bonds, international bonds government, and municipal bonds, etc. There are many limitations related to green fund investment, such as no legal guidelines, lack of international standards, fluctuation of currency, etc.

4. Objectives of the Study

1. To study green banking opportunity
2. To know the major avenues of green banking
3. To study the challenges faced for green banking.

4.1 Opportunities of Green Banking In India

Green banking in India presents a range of opportunities that align with the country's environmental and developmental priorities. These opportunities not only contribute to sustainable growth but also address pressing environmental challenges. Here are some key opportunities for green banking in India:

1. Renewable Energy Financing
2. Green Infrastructure Development
3. Sustainable Agriculture and Forestry
4. Climate Adaptation and Resilience
5. Financial Products and Services

4.2 Incentives for Green Banking Adoption:

Promoting green banking practices in India requires a tailored approach that considers the country's unique challenges and opportunities. Here are some incentives specifically targeted toward encouraging Green Banking adoption in India:

1. Market Demand and Reputation
2. Regulatory Frameworks
3. Cost Savings and Risk Mitigation
4. Access to Capital
5. Strategic Opportunities

4.3 Barriers to Green Banking Adoption:

Several barriers hinder the widespread adoption of Green Banking practices in India. These barriers need to be addressed to promote sustainable and environmentally responsible banking in the country. Some of the key barriers include:

1. Lack of Clear Guidelines and Standards

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2. Short-term Profit Orientation
3. Limited Expertise and Training
4. Perception of Reduced Financial Performance.
5. Capital Constraints

5. Research Methodology:

For the Study, secondary data is used from various banks like SBI, HDFC, and ICICI bank. Along with the banks, many websites and new papers are also used for collecting information in the area of green banking and sustainable development.

6. Significance of Study:

The study focusing on "Incentives and Barriers for Green Banking Adoption towards Sustainable Financial Practices" holds paramount significance within the contemporary context of urgent environmental concerns and the imperative for sustainable development. As the global community grapples with escalating environmental challenges, the role of the financial sector becomes increasingly pivotal in effecting positive change. This study endeavors to dissect the intricate dynamics that influence the adoption of Green Banking practices, identifying both the incentives that propel financial institutions toward sustainable practices and the barriers that impede their progress.

Simultaneously, this study critically examines the obstacles that obstruct the widescale integration of Green Banking practices. Barriers may emerge in the form of limited awareness, perceived higher risks associated with environmentally friendly projects, and inadequate regulatory frameworks. These hurdles can impede the adoption of sustainable financial practices, hindering the transition towards a greener and more resilient financial sector.'

7. Limitations and Scope of Study:

Due to the multifaceted nature of the topic, the study's scope may necessarily be constrained to specific segments of the financial sector or particular regions. This focused approach might inadvertently exclude certain factors that could influence Green Banking adoption in other contexts.

Another potential limitation pertains to the accuracy and completeness of the data used for analysis. The study relies on self-reported information, which can introduce response biases or inaccuracies. Moreover, the availability of reliable and comprehensive data on Green Banking practices, incentives, and barriers might pose challenges, potentially affecting the depth of analysis.

Despite these limitations, the study's scope offers valuable insights into the complex interplay between incentives and barriers in driving Green Banking adoption. By acknowledging these limitations and delineating the study's scope, researchers and stakeholders can interpret the findings within a contextual framework, ensuring a more nuanced and accurate understanding of the challenges and opportunities in fostering sustainable financial practices through Green Banking adoption.

8. Conclusion of Study

While reviewing related literatures of the topic 'Green Banking in India: Initiatives Taken by RBI and Other Banks for Sustainable Development', I have concluded that most of the population in Indian economy are well aware about the green banking and sustainable development. After demonetization in India, almost 65% to 75% population shifted their regular banking activities to internet banking activities like online bill payment, amount transfer. Now an auto-rickshaw driver also uses gpay so we can conclude that some part of green banking is already been very popular in Indian economy.

But there is naked truth also that all banks in Indian economy not following the rules and regulations launched by RBI towards green banking initiatives that's why rest of the population still depend upon traditional banking, they prefer to go to the bank for even statement printing. The reason behind is that lack of confidence about internet banking. Another naked truth is that due to corruption, financial institution lending money to those industries which are comes under polluted industry as per GOI like steel industry, Chemical industry.

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