



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 2, Issue 2, 2013

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

Green banking

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Abstract. *There is an urgent need to march towards “low - carbon economy”. Global challenges of diminishing fossil fuel reserves, climate change, environmental management and finite natural resources serving an expanding world population - these reasons mean that urgent action is required to transition to solutions which minimize environmental impact and are sustainable. We are at the start of the low - carbon revolution and those that have started on their low - carbon journey already are seeing benefits such as new markets and customers, improved economic, social and environmental performance, and reduced bills and risks. Green investment banks offer alternative financial services: green car loans, energy efficiency mortgages, alternative energy venture capital, eco - savings deposits and green credit cards. These items represent innovative financial products.*

Keywords: protecting nature, business environment management, low – carbon economy, responsible financial projects, current trends in green banking.

JEL Codes: Q56, Q58, G21, M10

1. Introduction

Why are companies increasingly trying to become more clean and “green”? For one company the reason may be a major industrial accident, another may have experienced pressure from consumers and a third company may have discovered new target markets. The loss of market shares to green competitors is a great stimulus to change. Top managers are beginning to consider the environment as an additional element on which to base their business decisions. Environmental business management means integration of nature protection into all business functions with the aim of reaching an optimum between the economic and ecological performance of a company. Environmental business management is a key parameter in achieving sustainable development of developing and industrialized countries.

While environmentally unconscious consumers may give managers the illusory feeling of not being threatened by the “green revolution”, these enterprises may be trapped by companies which have already adjusted to the new challenge. Even though environmentally conscious consumers may cause a loss market share in the short run, in the long run they are the real supporters of sustainable economic growth.

As the environment is becoming a fashionable business topic, many companies paying services to environmental protection without taking meaningful actions to prove that they are really committed. It is not enough to be committed to the environment; a company needs to respond efficiently to the environment challenge. These environmental standards requiring the installation of complex pollution control equipment and all these processes need to be analyzed and monitored. Changes of products and services will occur more often. The green growth company will therefore be characterized by well - trained staff at all levels.



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Green companies have demonstrated that they are able to anticipate or react quickly to variable changes in the market and environmental regulations. Their growth is due to creativity in developing new products or modifying existing ones. If company has developed specific know - how, on how to substitute or recycle materials, and to reduce pollution or wastes, the selling of this knowledge as a consultancy service to other companies can be a new profitable area of business.

As major actors in the global economy, financial institutions should embrace a commitment to sustainability that reflects best practice from the corporate social responsibility movement.

2. The financial losses resulting from environment destruction

Environmental damage causes financial losses, along with the destruction of irreplaceable resources whose value cannot be expressed in money terms. This is challenge which industry is facing directly and indirectly: to restore the environment with the same momentum with which the European economy was rebuilt after the Second World War.

Most people prefer to take the easy way out and get on with their conventional business. In the light of this indifference and apathy, scientists have tried to express the degree of damage being done to the nature and environment. Examples of the damage which are simply not quantifiable are loss of natural habitats and of animal and plant species, non - compliance with overall environmental impact thresholds and the long - term effects of noxious and toxic transmissions released into the environment.

Just as the revitalization of our destroyed and unhealthy economies after the Second World War was made possible largely by the free and liberal market economy, so today we need the dynamic forces of free market competition to help us restore our ruined ecosystems. What we are so far lacking are politicians capable of altering the framework conditions of our free market economy such that economic success can only be maximized by maximizing the environmental acceptability of products and services. Environmentally responsible business activity must be made economically profitable to enable the dynamic forces of free competition to work to the advantage of the restoration of the environment.

The global economy is losing more money from the disappearance of forests than through the current banking crisis.¹ Today, we are once again the victims of a major destruction process, this time affecting our environment and our lives. The pollution of the air that we breathe and the contamination of soil and water may be less obvious than ruined cities and whole areas of land laid to waste, but their long - term effects are much more evident. Today, business community is once again facing a historic challenge.

¹ <http://news.bbc.co.uk/2/hi/7662565.stm>



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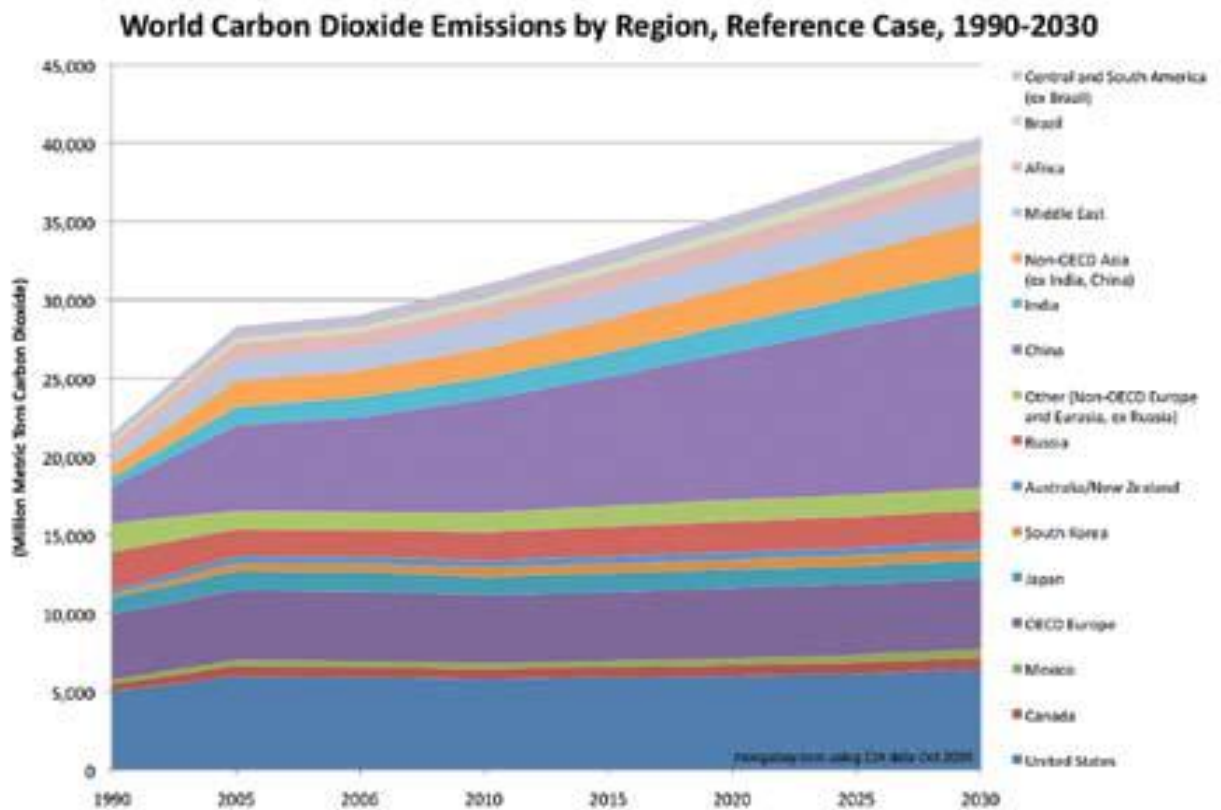


Fig.1: High - carbon economy
Scientific source for image: Rainforest information¹

3. Sustainable green banking

Energy efficiency loans and mortgages, green auto loans, alternative energy venture capital, eco - savings deposits and green credit cards are items that represent “ethical” innovative financial products that are offered whole world around.²

The world is much more focused on economic growth and humanity has made great steps through that complex multilevel process. The side effects of the development process have also been significant: biodiversity crisis, global warming and climatic change, and environmental derogation. Social issues such as poverty eradication have also become more important as the world has progressed economically. *Banks and insurance companies* plays a very important role in promoting and supporting environmental

¹ http://rainforests.mongabay.com/09-carbon_emissions.htm

² http://www.unepfi.org/fileadmin/documents/greenprods_01.pdf



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development. The global reforms totally have changed the banking sector. The banks should go green and play a proactive role to take environmental and ecological aspects as an integral part of their business philosophy, which would force other industries to create funds for green investments and use appropriate technologies and management systems.

Banks that are serious about sustainable development put environmental principles at the heart of decision making. For example, an investment in a factory that pollutes heavily will have a higher financial rate of return than a factory that invests in expensive pollution reduction technology, as a result showing a lower rate of return.

Green banking movements such as less paper is good for the environment where customers make paperless deposits, withdrawals and remittances. For example, statements and charges summaries will be delivered electronically (internet banking). The bank can concentrate on nature and environment by projects in the field of renewable energy, organic agriculture across the entire value chain including health food shops and environment technology such as recycling companies and nature conservation projects. As environmental issues gain greater attention, pressure is being placed on all industries, including financial services, to implement green initiatives.³

The easiest way to bank green is to start using the mobile banking and online banking services that are available. Benefits of online banking include less paperwork, less mail and less driving to branch offices, which all have a positive reflection on the environment. Online banking can also increase the efficiency and profitability of a bank. A bank can lower his costs that result from paper overload. Banks can also support eco - friendly organizations and raise money for local eco - friendly initiatives. Unfortunately, many banks claim to be more environmentally friendly and socially - conscious than their competitors, but actually they do little to support ecological initiatives with the money that people deposit.⁴

Luckily for the environment, more and more banks realize that ignoring social and environmental issues could considerably increase their exposure to credit, compliance and reputational risks.⁵

Modern green banks are dedicated to sustainability - based economic revitalization. Green mortgages or energy efficient mortgages provide retail customers with lower interest rates than market level for clients who purchase new energy efficient homes or invest in retrofits, energy efficient appliances or green power. Banks can also choose to provide green mortgages by covering the cost of switching a house from conventional to green power. Central features of the green credit card include the discounts and low borrowing rates provided to users when purchasing environmentally friendly products and services. Eco - securitization is differentiated from conventional securitization in its focus on environmental, as well as financial, returns. Based on the concept of debt - equity swaps in the financial sector, debt - for - nature swaps enable debtor countries to free up resources to implement environmental conservation activities. A bank that familiarizes its stakeholders, in general, and employees, in particular, with the complexities of the carbon market may improve its image and reputation, while ensuring that future carbon market opportunities are accurately identified and

³ http://www.deueko.org/economic_banking/the_role_of_green_banking_in_environmental_management.html

⁴ <http://www.money-rates.com/basicguides/home/greenbanking.htm>

⁵ http://www.banktrack.org/download/the_dos_and_donts_of_sustainable_banking/061129_the_dos_and_donts_of_sustainable_banking_bt_manual.pdf



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pursued. All these green products and services are rated higher and worth more than traditional products and services.

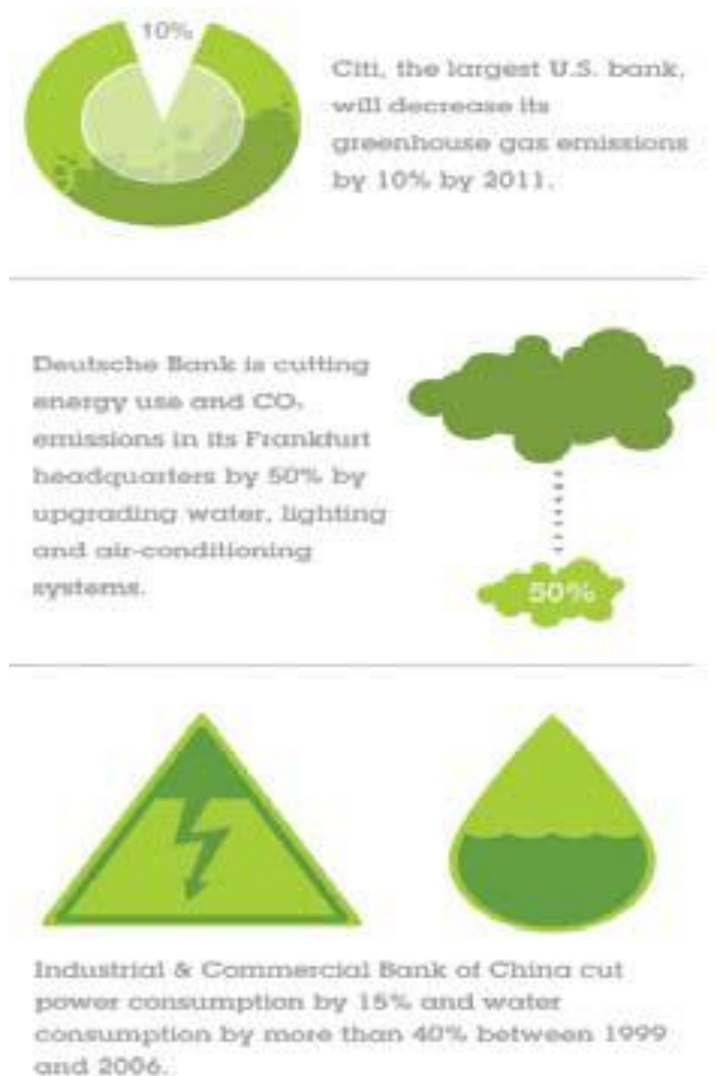


Fig 2: Green banking

Bank's campaign such as "Save a tree, conserve a forest" can strongly affect on awareness about worldwide deforestation. A structured green branding approach, in which global business lines and brands are on one side and local branding strategy are on the other, will play crucial role in achieving customer loyalty, as well as ensure that such products are created for the specific needs and demands of



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local communities. Traditional banking and green banking could consider *family - branding* (modern banking umbrella - branding).⁶

Scientific source for image: IBM⁷

4. Reasons for environment business management

There are several main reasons why any business top manager with a sense of corporate responsibility should apply the concept of environment business management in his firm.

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Without environment - minded companies there can be no environment - minded economy and without an environment - minded economy the human race cannot expect to survive for a life that is worth living. Without environment business management, managers cannot understand sensitive business processes and functions.

Without environment - minded companies there can be no public consensus with the business community and without a public consensus with the business community there can be no free market economy. Market liberalization can reduce agency costs.

Without environment business management there will be a loss of fast – growth market openings and a risk of the company being held liable for environmental damage for enormous sums of money, thus jeopardizing the future of the company and of all the jobs dependent on it. Without environment business management, a company cannot have competitive advantages.

Without environment business management, boards of directors, management executives, heads of department and other members of staff are more likely to risk liability for environmental damage, with the consequent affecting jobs and careers.

Without environment business management, business top manager will be in conflict with their consciences and without self - respect, there can be no real sense of identification with job.⁸

5. Environmental management principles

The *inclusion of environmental protection in the corporate mission statement* will be the first step to publicizing the commitment of a company, which will have to be followed by specific actions endorsed by the owners and managers of the company. Protection of natural environment cannot become a corporate priority if employees do not believe in it. Communications of the company objectives, programmes and practices to the employees, as well as their participation, is a crucial part of successful environment management system.

⁶ http://www.unepfi.org/fileadmin/documents/greenprods_01.pdf

⁷ http://www.ibm.com/smarterplanet/us/en/banking_technology/article/green_banks.html

⁸ http://www.freshbusinessthinking.com/business_advice.php



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Each management function within a company is responsible for the implementation of an environmental responsibility policy. Production management must ensure that operations are efficient and as non - polluting as possible. Project management must ensure that projects are compatible and harmoniously integrated into the social and physical environment. Marketing management must ensure that products sold are safe and clean. Personnel management must ensure that all workers are aware of the need to protect the environment. Research and development management must develop new products and processes which are completely safe, non - polluting and efficient. Materials management provides recyclable and non - polluting materials. Financial management will assist in making pollution prevention pay. Occupational health and safety measures will have to protect workers from negative environmental conditions. *All these functions have to be integrated* by the appropriate organizational structures and processes on all management levels.

To be effective, the environmental management process must be systematic, detailed and integrated into all functional management decisions. Action plans and strategies should be set up to ensure continuous improvement of environmental performance of a company. The environmental quality management can be economic advantage to an organization, but its justification must be based on the recognition of these wider responsibilities. Creating this environmental awareness is the greatest challenge in developing environmental management system in a company. Successful environmental management, just like the development of positive policies regarding equal opportunities, employment or the creation of better working conditions, requires the extensive participations of employees and their representatives.

Education and training to raise awareness about environmental problems, to change attitudes and behavior and to provide the necessary skills to act in an environmentally responsible manner are important elements of environmental management which concern staff as well as management.

Environmental management is often associated with cleaning - up production processes and not so much with producing *environmentally friendly products*. Marketing management has to translate the consumers' desire for environmentally friendly products into a product concept. Materials management will have not only to purchase recyclable materials, but also to handle wastes and take back already used products and substances. Environmental management means managing the product life cycle. This also leads to changing links between companies and customers.

The label "environmentally friendly" has become a major *advertising argument*. In the light of the extended responsibility for its products, companies share a responsibility to make consumers environmentally literate, to explain why products are environmentally friendly and provide consumers adequate information for the appropriate selection and use of products. Environmental management also means developing an environmentally conscious and literate sales and marketing staff.⁹

Research and development creates a product portfolio for the future and plays an essential role in converting cleaning - up operations into fresh business opportunities. This gives strategic importance to a creative research and development team and short development cycles to meet changing consumer needs and environmental standards in a flexible way. Research and development carried out within the concept of environmental management aims at using renewable materials and reducing the

⁹ <http://www.dwa.gov.za/documents/IEM/Presentations/Module>



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consumption of irreplaceable resources, as well as minimizing pollution and wastes associated with the manufacture, storage, use and disposal of the product.



Fig. 3: Green banking - Scientific source for image: Creative Brand Communications
<http://www.creative-brand.com/bank-branding/greenbanking-we-can-see-right-through>

Green companies have demonstrated that it often plays to be among the first to modify products and services before consumer pressure, before serious accidents happen or before environmental regulations have to be enforced. Companies taking a *precautionary approach* and will not start production of a new product or will discontinue an existing process if there are signals of adverse health effects on workers or the general population, or if environmental damage is caused. Environmental management in this sense means to act voluntarily in a preventive way without being forced by environmental regulations.



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An emergency or near emergency was, for a significant number of companies, the starting - point for their environmental management thinking. Green pressure groups and communities have become very sensitive to the inherent dangers of local industry. An environmentally conscious company not only needs to take all internal precautions to avoid emergencies, but also has to make the community and responsible authorities aware of hazards. The company, together with the community, should develop an *emergency response plan* and train the local residents on how to act in the event of an emergency.

The combination of an informed public, best business practice and environmentally responsible decisions will strengthen the case for environmental management. An informed public will also provide a framework for environmental management by setting the parameters of what is considered acceptable and the priority concerns of society. Employer dialogue on environmental issues should not be limited to company level, but should form part of a tripartite *dialogue* between employers associations, trade unions and government.

Environmental management is not just a specific kind of business philanthropy; it is a very important business strategy, the results of which have to be *measured* in economic and ecological terms. Experience has shown that hiding environmental effects will lead to a loss of credibility in the eyes of the public. To establish and maintain clean and green company reputation, the importance of a credible communication strategy cannot be underestimated.¹⁰

6. The philosophy of environment business management

The concept of environment business management can enrich and strengthen the corporate philosophy and help to attain the classic corporate aims. The crucial principles on which the long - term success of a properly and responsibly run company rests are quality, creativity, humanity, profitability, continuity and loyalty.

A product can only be said to be high - quality if it is produced in a way which is not inimical to the environment and can be used and disposed of without causing damage to the natural environment.

The creativity of workforce of the company can be encouraged by working conditions which take account of human biological needs, for example healthy air temperature and humidity levels, low - level noise and ergonomically designed office furniture and vitamin - rich and fresh canteen food.

The general working atmosphere can be made more humane by gearing the corporate aims, strategies and activities not only to the economic criteria, but also to a sense of responsibility for all forms of life.

Company profitability can be improved by adopting cost – reducing environmental protection measures covering such thing as raw materials and energy and water saving programmes, and by exploiting market openings for environmentally responsible products and services.

In the interests of continuity, it is becoming more and more important to make sure that the company is not adversely affected by liability risks under the increasingly stringent environmental legislation and by the market risks resulting from the reduced level of demand for environmentally damaging products and services.

¹⁰ <http://www.iccmex.mx/intranet/documentos/CHARTER.pdf>



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The top managers and staff of a company can only be loyal to the laws and aims of the state if the sentiment is a genuinely felt one and that in turn is only possible as long as the country has not sacrificed its inner value to the forces of environmental derogation.¹¹

7. Conclusion

It may take time before investments in environmentally friendly products, services and processes pay off. Companies may feel threatened by the fact that they will have to put money into “green funds” without being able to define precisely the pay - back periods of these investments. Still, it is possible to reach an economic and ecological balance and equilibrium. Managers should cooperate with the relevant authorities to develop a predictable, coherent, market - oriented and well - enforced system of environmental regulations as the basis for environmental management which is able to turn threats into business opportunities.

Companies that take the environment seriously find themselves changing not only their products, services and their processes, but also the way they run themselves. Often, such changes go hand in hand with improvements in the general quality of management. Badly managed companies are rarely kind to the environment; conversely, the companies who try hardest to reduce the damage they do to the environment are usually well managed. Green companies have an open - minded, committed and highly skilled management and staff.

Work is perceived as being meaningful when it is not only a means of earning money, but also and primarily serves to enhance the well - being of the country and its people. In an environmentally oriented company, the work process regains its old status as a means of enhancing the well - being of the community as a whole. Companies which can give its employees a sense of doing the right thing can also expect a better business performance. Making work meaningful, the company is strengthening the classic virtues in both conventional and environmental work terms. It is up to us to create meaningful jobs by applying the environmentalist management technique and it is up to us to consolidate the standard of living of people while at the same time respecting and conserving the natural basis of all types of life.

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