

**GREEN BANKING PRACTICES BY COMMERCIAL
BANKS IN KATHMANDU DISTRICT**

A Thesis Proposal

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Registration No.:- 7-3-28-163-2016

Submitted in Partial Fulfillment of the Requirement of Degree of

Masters of Business Studies (MBS)

In the

Faculty of Management

Tribhuvan University

Kirtipur, Kathmandu

September, 2019

TABLE OF CONTENTS

	Page No.
1. Background of the study	1
2. Problem statement and research questions	3
3. Objectives of the study	4
4. Conceptual framework	4
5. Significance of the Study	5
6. Limitations of the Study	5
7. Literature Review	6
8. Methodology	8
8.1 Research design	8
8.2 Population and sample	8
8.3 Sources of data	9
8.4 Data collection & processing procedure	9
8.5 Data analysis tools and techniques	10
8.5.1 Financial Ratios	10
8.5.2 Statistical Tools	10
9. Research Gap	11
10. Chapter Plan	11
References	13-14

1. Background of the study

Banking system occupies an important place in a nation's economy. A banking institution is indispensable in a modern society. It plays a pivotal role in the economic development of a country and forms the core of the money market in an advanced country. Banks are adopting a voluntary set of guidelines for managing social and environmental issues related to the financing of development projects. Banks as financial institutions are environmentally neutral.

Green Banking manage environmental risk, the banks have to design proper environmental management systems to evaluate the risks involved in the investment projects. The risks can be internalized by introducing differential interest rates and other techniques. Moreover, banks can withdraw themselves from financing high-risk projects. The second component of green banking entails creating financial products and services that support commercial development with environmental benefits. These includes investment in renewable energy projects, biodiversity conservation, energy efficiency, investment in cleaner production process and technologies, bonds and mutual funds meant for environmental investments (Bihari & Pradhan, 2011).

Society is facing the most complicated issues of climate change. People nowadays are more conversant with global warming and its adverse consequences on human life. So it is high time to bring changes to the policies in order to protect the environment in a sustainable manner as this is the need of the hour for the survival. It is not only the concern of the government and the direct polluters but also of other stakeholders like financial institutions such as banks, which are playing a fundamental role in development and response to the environment through "Green Banking" (Nath & Goel, 2014).

Benefits of Green Banking are immense as it avoids paper work as transactions or procedures are done online or electronically thus less cutting of trees. It also creates awareness to business people about environmental and social responsibility enabling them to do an environmental friendly business practice. Loans are issued at comparatively lesser rate, the interest of that loan is comparatively less with normal banks because ethical banks give more importance to environmental friendly factors - ecological gains (Mehtar, 2014).

“Green Banking” will ensure the greening of the industries but it will also facilitate in improving the asset quality of the banks in future. Banking and other financial institutions are more effective towards achieving this goal for the kind of intermediary role they play in any economy and for their potential reach to the number of investors. Environment is no longer the exclusive concern of the government and the direct polluters, but also the other partners and stake- holders in the business. It would certainly give the much needed impetus for the banking industry to expand the use of environmental information in their credit extension and investment decisions (Islam & Kamruzzaman, 2015).

Green Finance as a part of Green Banking makes great contribution to the transition to resource-efficient and low carbon industries i.e. green industry and green economy in general. As with traditional marketing, greening which can be linked to the social marketing concept involves identifying green attitudes and behaviors that could be used in developing green ideas and products, and encourage the integration of factors with economic, social, and environmental benefits when delivering values. Moreover, environment management in the banking business is like risk management. It increases the enterprise value and lowers loss ratio as higher quality loan portfolio results in higher earnings. Thus, encouraging environmentally responsible investments and prudent lending should be one of the responsibilities of the banking sector. Banks have to undertake some green growth initiatives within and outside their organizations for the creation of a strong and successful low carbon economy. However, Banks are now playing a vital role towards the green growth through their green banking practices (Rai, 2019).

As business of the commercial banks spread in all areas of the country, the performance of green banking by commercial banks may also be influenced by the performance of bank branches in other areas. Green banks adopt and implement environmental standards for lending, which are really a proactive idea that would enable ecofriendly business practices which would benefit our future generations. Banks have chances to implement green banking guidelines in this area for building sustainable environment friendly banking. But, it is not clear that at what extent green banking can be practiced easily with success in this area as its quite difficult to say if customers are aware about it or not. Since, the banking business consists of

management, bank employees and customers, so the success of green banking depends on all these parties and usually the key problems arise in the paths of successful implementation of green banking are customer's incognizance and negative perception.

Moreover, environment management in the banking business is like risk management. It increases the enterprise value and lowers loss ratio as higher quality loan portfolio results in higher earnings. Thus, encouraging environmentally responsible investments and prudent lending should be one of the responsibilities of the banking sector. Those industries which have already become green and those, which are making serious attempts to grow green, should be accorded priority to lending by the banks. This method of finance can be called as "Green Banking", an effort by the banks to make the industries grow green and in the process restore the natural environment.

2. Problem Statement and Research Questions

Green banking is different from normal banking system in the sense it updates itself from the traditional mode of functioning with a view to supporting environmental consideration. Lack of adequate number of specialized programs is foremost reason for people not being aware its importance. No separate trainings and awareness programmed have been conducted for their customers to operate the green banking system. The commercial banks are facing a lot of challenges in controlling environment impact on their business. However there are some indirect suggestions from them to the branches to take initiatives of their own to take steps for safeguarding the environment. The main problem is that not only the customers but also the banks themselves are not adequately aware of the concept of green banking system. The role of banking sector which is on major financing source to the industries assumes high importance. Besides few banks, these banks unaware or pretend to be unaware about the green banking practices and sustainability of the banks. Thus, the statements of problem are:

- i. What are the green banking practices commercial banks in Kathmandu?
- ii. What is the green banking practice influence on perceived financial performance of commercial banks in Kathmandu?

3. Objectives of the study

The present study is conducted with the objectives of assessing the topic of green bank with the comparative study of the six commercial bank in Kathmandu district. The specific objectives of the study are given below: To identify the green banking practices of commercial banks in Nepal.

- i. To examine the relationship between green banking practices and perceive financial performance of commercial banks in Kathmandu.
- ii. To assess the green banking practice influence on perceived financial performance of commercial banks in Kathmandu.

4. Conceptual Framework

A theoretical framework specifies which key variables influence a phenomenon of interest and highlights the need to examine how those key variables might differ and under what circumstance. The theoretical framework is the structure that can hold or support a theory of a research study. The theoretical framework introduces and describes the theory that explains why the research problem under study exists.

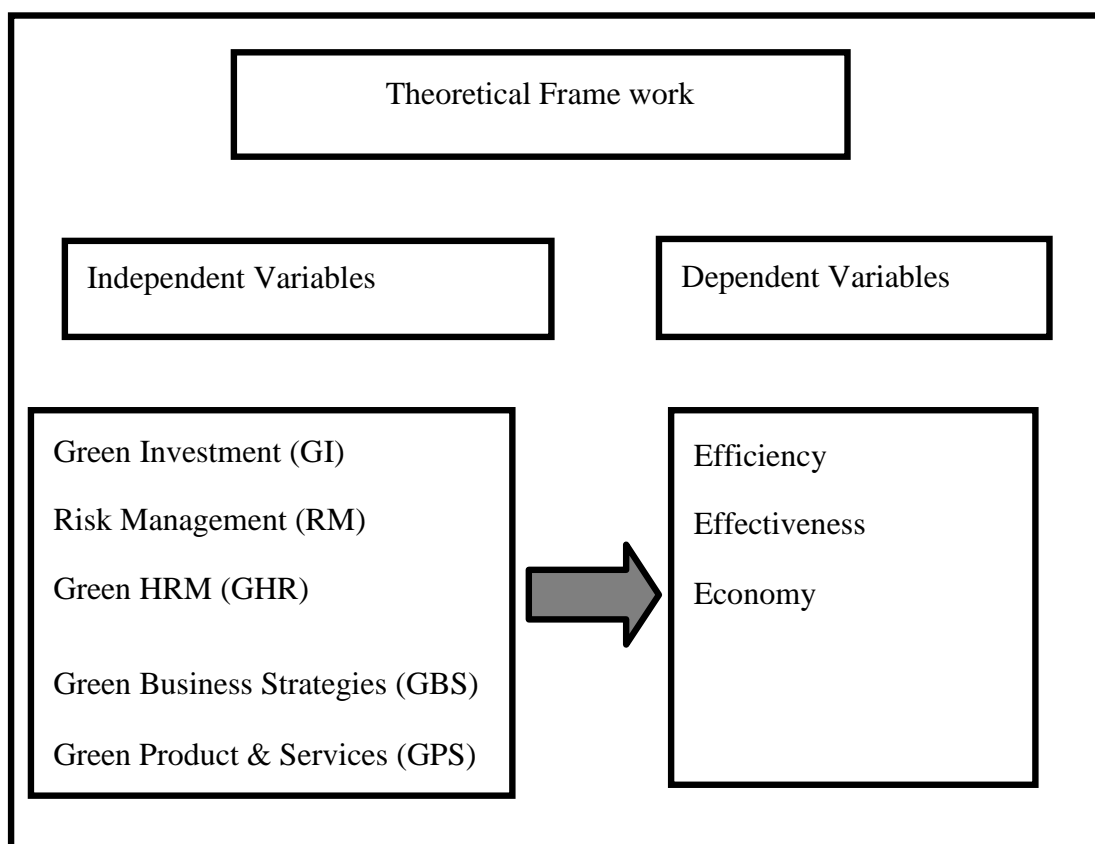


Figure 1.4: Conceptual Framework

5. Significance of the Study

This research will help to identify the green banking practices of Nepalese Commercial banks and its impact to the perceive financial performance of those banks through the analysis of different kind of green banking practices and it will help to identify the which of the green banking method is more important to increase the financial sustainability of the banks. The significance of a study may include the meaning of the research work to personally and should include how your research benefits or impacts others in part or whole. It discusses what people or groups of people might benefit from reading of the research.

- i. First, the study will be useful for Nepalese commercial banks in order to see the impacts of Green banking practices in comparison with the perceive financial performance of banking system.
- ii. It helps in understanding what the green is banking and what actions should the banks take in order to benefits from the opportunities and how to overcome the challenges.
- iii. This study can be used for other researcher as a reference who wants to study further in this or related areas or to serve as a reading material for anyone who is interested.
- iv. This research will alert bankers from tomorrow's problems at today in order to get the intended green banking service can be said it is at infant stage in the country.
- v. It also helps to policy maker of banks related with green banking practices.

6. Limitations of the Study

The basic limitation of this study is that it only considers green banking practices and it does not take into consideration what perspective does all bankers employees have on the technology.

- i. It does not include bank customers who do not use the current green banking which would help to compare the attitude of green banking users and non-users towards green banking practice.
- ii. It is also limited only with six banks employees that started green banking practices but it doesn't fully cover other banks those which do not start it.
- iii. Most of the available data of previous research conducted may not explain specific to our country context of the area.

- iv. There are 27 banks and 300 customers selected for this study due cost and time constraints.

7. Literature Review

The purpose of the review of literature is to assess what much research work has already done, So far in the area specified by this researcher. This can help one to have a glimpse of the area traversed by the new researcher. Further, such an attempt helps to identify the research gap and lead the study to fill in such a gap. A detailed literature on the aspects of green banking system has been presented in this chapter.

A bank's responsibility extends to Government, customers, shareholders, staff, and the community, Companies does have ethical responsibility, but it is not protected by limited liability from the consequences of their actions. A company's record and the perception of its ethics affect its reputation and ensure long-term success or failure. Further, he concluded that as we face increasingly complex and conflicting issues, our commitment to ethical behavior would be tested (Green 1989).

Green Banking involves pursuing of financial and business policies that are not hazardous to environment and help to protect environment. The purposes of Green Banking are to use resources with responsibility avoiding waste and giving priority to environment and society Bangladesh Bank Governor argued that all need to change mindset about environmental issues for making a better future through greening financial transactions (Star 2010).

To save our planet it is the time to take initiative for green banking. The banks should give priorities in providing loan to the sectors that encourage environmental practices (Rashid 2010).

The bank should go green and play a pro-active role to take environmental and ecological aspects as part of their lending principle, which would force industries to go for mandated investment for environmental management, use of appropriate technologies and management systems (Hayder 2012).

Green banking is a stream of banking in which environmentalism is adopted as the operational base of banking activities like a conscious being (though the registered banking organization is regarded as artificial being) in a society. It persuades customers taking green projects and encourages the projects through lending along

with putting in practice of conservation activities-using solar or renewable energy-within the bank premises. A study defines green banking as operational improvements, technology and changing client habits in the banking business as well as promotion of environment-friendly practices and reduction of the carbon footprint from banking activities. Green banking avoids as much paperwork as possible and rely on online/electronic transactions for processing so that we get green credit cards and green mortgages. Less paperwork means less cutting of trees (Singh and Singh, 2012).

Green banking refers to how environmentally friendly bank is, and how committed to green and ethical policies they are. This concept of green banking will mutually beneficial to the consumers, banks, industries and the economy (Dr. Chinnadurai and Sudhalakshmi 2014).

Green practices of bank popularly known as green banking refers to the environment-friendly initiatives taken by the banks to reduce the carbon footprint from their day to day banking activities and also to minimize the external carbon emission. Likewise, sustainable bank is a bank concerned with the social and environmental impacts of its investment and loan. It refers to the initiatives taken by banks to encourage environment friendly investment to give lending priority to those industries which have already turned green or are trying to grow green and thereby help to restore the natural environment (Deka, 2015).

The virtuous circle between corporate social performance and corporate financial performance in the European banking sector. The main objective analyses the relationship between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP) in the European banking sector. This study has taken panel data analysis is used to verify the research hypotheses. The main findings show a positive influence of CSP on CFP, confirming the good management approach. However, the results demonstrate a negative influence of CFP on CSP, which generates the impossibility of confirming the theoretical assumptions of the slack resources approach. Therefore, the existence of a virtuous circle deriving from the integration of the two approaches is not supported (Bussoli & Conte 2018).

8. Methodology

Survey method has been followed for the study. The data will be collect through the structure questionnaire to selected commercial bank in Kathmandu districts. The questionnaire is modified as per the objectives of the study. The data will be based on primary sources of the data collection as well as secondary sources. Questionnaires were constructed to collect primary data from the banks and their customers. The secondary data were collected from the reports of the commercial banks, related agencies, seminars, workshops, proceedings, magazines, journals, and websites etc. They were appraised about the purpose of the study and request was made to them to fill up the questionnaire with correct and unbiased information. For conducting such survey, a face-to-face interview method using a well-structured questionnaire was used. In making a concrete questionnaire, different research article in the related field has been studied thoroughly. The researcher personally contacts 300 Customers of commercial bank in Kathmandu districts on the basis of convenience.

8.1. Research Design

This study undertakes quantitative approach towards descriptive and casual research design. After the literature review it was evident that banks and FIs, as providers of finance, could ensure that businesses adopted environment-friendly practices. A descriptive research design will use for answering the current situation of green banking practices and financial performance, sustainability perception in Nepalese banks. The study required observation of how the organization used green technologies and adopted green practices, while adhering to the guidelines and policies of the central bank, for internal operation and investment decisions. Also, the study demanded how leveraging on the use of technology the organization could reduce the usage of resources such as paper, thereby striking a positive environmental impact.

8.2. Population and Sample

The simple random and convenient sampling method has been selected for the purpose of this study. From the Customers point of view we have selected 300 customers of the selected banks. There are 27 Commercial bank located in Kathmandu District. Among them only 6 banks are (2 are Government and 3 are private) taken for the study.

- i. Agriculture Development Bank
- ii. Rastriya Banijya Bank
- iii. SBI Bank
- iv. Global IME Bank
- v. NMB Bank
- vi. NIC Asia Bank

8.3. Sources of Data

To carry out the research primary data have been used on this study. The primary data are those that are collected a fresh and for the first time and thus happen to be original in character. Primary data has been collected through interview method and questionnaire distributed and collected from the respondents.

8.4. Data Collection & Processing Procedure

In case of primary data, some personal views and ideas of individual's respondent are collected. Data collection in this study will be present in the effective and useful way. The data is collected by using the research questionnaires some personal interview for the purpose of collecting primary data. The questionnaire is structured and there are multiple choices, single responses and Likert scale. Self-administered questionnaires were presented to respondents. The researcher had visited to the sampled banks in Kathmandu valley. The researcher also meets to the Branch manager and their employees of the respective banks for asking after taken permission from Head of Department and then fill-up administering the questionnaire to the employee. This process helped refine the questionnaire, enhance its legibility and minimize the chances of misinterpretation it.

The researcher personally collects the data from the respondents of individual and in groups. While collecting the data the researcher told the title, purpose of research, reasons to select the topic and methods to fill the questionnaire and then distribute the questionnaire to the employee of six banks. Some respondents filled the questionnaire at the same time and rest of the questionnaire is collected after four -five days of distribution.

8.5. Data Analysis Tools and Techniques

The collected data was analyzed using quantitative data analysis methods. Descriptive analysis such as frequencies and percentages was used to present quantitative data in form of tables. Data from questionnaire was coded and entered into the computer using Statistical Package for Social Science (SPSS Tools) for analysis. It helps to calculate the standard deviations, correlations and frequency distribution of each independent and dependent variable against the five independent variables using the regression model. The mean, percentage and standard deviation are the most commonly used descriptive statistics. Financial performance has been examined as possible consequence of those influencing factors of green banking practices. Finally, the relationship between green banking practices and the financial performance have been measure by the numerical finding using appropriate parameters. Two kinds of tools have been used to achieve the certain goals.

- i. Financial Tools
- ii. Statistical Tools

8.5.1. Financial Tools

Financial tools basically help to identify the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account.

8.5.2. Statistical Tools

Some important statistical tools have been used to present and analyze the data for achieving the objectives such as coefficient of correlation between different variables, trend analysis which are presented below.

- i. Arithmetic Mean
- ii. Standard Deviation (S.D)
- iii. Correlation Analysis
- iv. Regression Analysis
- v. Standard Error
- vi. ANOVA

9. Research Gap

The review of relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers conduct on lending practice, inventory management, financial performance and cash management of various commercial banks. In order to perform those analysis researchers have used various ratio analysis. The past researches in measuring financial performance of bank have focused on the limit ratios, which are incapable of solving the problems. Actually, perceive financial performance management is determined by various factors. In this research various green banking practice are systematically analyzed and generalized. Past Researchers are not properly analyzed about status of Green banking practice and its impact on perceive financial performance of commercial banks in Nepal. In this study financial performance of commercial bank is measuring by various financial and non-financial variables, trend analysis and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only one fiscal year but all the data are current and fact. This study tries to define perceive financial performance by applying and analyzing various financial tools like coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of financial performance of bank and financial institutions.

10. Chapter Plan

The present study will be divided into five chapters. The entire study carried out to different stages and procedures as it needed. The study organized in the following chapters in order to make the study easy to understand. They are as follows:

Chapter-I: Introduction

The first chapter will be an introductory chapter which contains background of the study, statement of the Problem and research question, objective of the study, Conceptual framework, significance of the study, limitation of the study and organization of the study.

Chapter-II: Literature Review

The second chapter will be concerned with review of literature. This chapter reviews the previous studies and literature related to green banking system. It helps to gain

knowledge on the subject, to identify the research gap and to get proper guidance to carry on the study.

Chapter-III: Methodology

The third chapter will be the most important part of the study. It deals with the analysis of the data collected from customers of the selected banks and research methodology, which will be applied to collect the data and analyze them in this study. It will contain introduction, research design, sources of data, population and sample, financial analysis statistical tools used and data processing and analysis.

Chapter-IV: Results

The fourth chapter will be an analyzing chapter, which data collected from the bankers of the selected banks and with presentation and analysis of relevant data through definite courses of research methodology with financial and statistical analysis related to Green Bank. This is the central and most important part of the thesis where the required results, inferences and findings of the analysis are derived. Major findings of the study will be presented consist of data presentation and analysis at the end of this chapter.

Chapter -V: Conclusion

This chapter includes the summary, conclusion and implication of the study. An overall conclusion of the study is also given at the end of this chapter. This provides summary and conclusion, suggestions and recommendations for improving the future performance of the sample banks. Finally, an extensive, bibliography and appendices will also be presented at the end of the thesis work.

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