Book review: Green bankers
By: Richard Gleed

Sustainable Banking: The Greening of Finance
Jan Jaap Bouma, Marcel Jeucken, Leon Klinkers (editors)

Subtitled “The Greening of Finance”, this edited collection tackles the important subject of the role that “banking” (a wide definition, including fund management) can play in fostering sustainable development. The authors - an assistant professor at Erasmus University in Rotterdam, a research economist at Rabobank, and a consultant with Deloitte and Touche respectively- seem eminently well qualified to survey the field. One might also hope they could pull the no doubt conflicting views of their contributors into a coherent whole.

In practice, that hope remains unfulfilled: while there are a series of contributions - some fascinating, some worthy - which address the main themes, there is no overview of what banking can do in total to achieve sustainable development. One of the difficulties here lies in an acceptable definition of “sustainable development”. Two strains of thought on this subject can be discerned in the book. In the first, sustainable development is linked to environmental policy and the Kyoto Protocol, and the banking risks are centred on the polluting activities of different projects. In the second, a much broader definition of “sustainable development” is used, where the objective is to further socially responsible investment, as measured by a “triple bottom line” of social, environmental and financial returns.

However, there is a second and more fundamental difficulty involved. Bankers, by nature and training, are a conservative lot. As suppliers of debt rather than equity capital, their appetite is for low risk projects which will cause their lending officers “no surprises”. Asking bankers to act as societies’ guardians of sustainable development (don’t finance this project unless it is “sustainable”) is therefore a tall order, and only really enforceable if there are clear rules as to what is and what is not “sustainable”.

As the book rather neatly demonstrates, these “clear rules” are conspicuous by their absence. The articles on ethical investment funds, for example, adopt different methodologies to determine whether particular stocks should be included in a “sustainable” index or not. We also get some conflicting findings: the Dow Jones Sustainability Group Index (DJSGI), for example, dominates the standard world equity indices from Dow Jones in terms of their risk/return profile. However, environmental funds tend to underperform the market, primarily due to an overallocation to small and medium-sized company stocks.

The issues raised involve causality as well as measurement. For example, is the superior performance of the DJSGI, as the authors claim, because “companies that integrate corporate responsibility into all aspects of their business performance benefit from long term shareholder value and superior performance?” Or because successful companies can afford to be “good corporate citizens”?

What is a “practical banker” to make of all of this? The simplest rule would be to avoid financing projects with “high” environmental risks, and, as the book indicates via its case studies, this is what the better banks in the developed world are moving towards through their corporate lending policies.

While the property rights of future generations remain so ill-defined, that is probably all we can sensibly ask of our banking colleagues. Digging through this book provides a useful overview as to their achievements against this brief.

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