Book Review: Sustainable Finance and Banking
by Gail Buyske

Marcel Jeucken cites a haunting Cree Indian prophecy:

Only after the last tree has been cut down,
Only after the last river has been poisoned,
Only after the last fish has been caught.
Only then will you discover: money cannot be eaten.

This prophecy neatly captures the focus of his book: the potential role of banks in ensuring that consumption does not exhaust our natural resources and hence our capacity for economic growth, or what Jeucken terms ‘sustainability’. The quotation is also an example of one of the book’s notable strengths: its ambitious synthesis of an extensive amount of information, ranging from ancient history, to philosophy, to the history of environmentalism, to the details of commercial banking.

The most compelling message of Sustainable finance and banking for this U.S.-based banker is that banks are beginning to take environmental considerations seriously. Despite my initial scepticism, Jeucken, a senior economist at the Rabobank group, amasses enough evidence to convince the reader that a cultural shift could be underway. Apparently a number of major banks do focus actively on environmental issues, particularly in the second of the two cost saving phases that Jeucken identifies. In the first phase, banks are ‘followers’; they implement mandated environmental protection regulations, but without enthusiasm. The second phase is more proactive and focuses on reducing environmentally related costs. This can be done internally, by reducing expenses on energy, water, paper and so on, as well as externally, by reducing the likelihood of environment-related loan losses. Banks in the second phase are achieving impressive results. NatWest Bank, for example, the first UK bank to introduce an internal environmental care system, reduced net energy costs by GBP 64 million in the mid 1990s. That would grab the attention of any hard-nosed banker!

Although Jeucken’s enthusiasm is infectious, his confidence in an irreversible trend toward the final two phases does seem idealistic. In phase three, banks begin to actively seek environmentally sound business opportunities as a profitable line of business, such as financing projects based on alternate energy uses. In the fourth and final stage, all aspects of a bank’s business focus on environmental sustainability; no financing is provided for projects that deplete resources irretrievably.

Jeucken does map out the route to the final two phases and appropriately stresses the role of the state in forcing banks and their clients to internalize the cost of environmental degradation, so that it becomes an automatic part of their risk-return calculations. Furthermore, his description of the Dutch Government’s fiscal green regulation in the early 1990s provides a tangible example of one way in which this can be done. This regulation increased market interest in financing environmentally friendly projects by eliminating taxes on interest and dividends and therefore raising the overall return. By the end of 2000, every major Dutch bank had opened a fiscal green fund and a total of 2.3 billion euro had been invested.

While the book’s focus is not on SMEs, Jeucken does note that SME finance is an example of sustainable finance in its intent to do more than just yield a profit. He also notes that SMEs are often disadvantaged in pursuing sustainability, because of their limited resources. Unfortunately the guarantee scheme that he proposes to enable SMEs to evaluate ways to reduce the environmental impact of their projects seems oddly non-commercial.

While this is a thought-provoking book, insufficient editing makes it just plain provoking at times. Two shortcomings in particular weaken the overall presentation. First, the author's command of enormous amounts of information sometimes prevents him from making his points succinctly. Most glaringly, he does not actually define 'sustainability' until page 27. Second, he sometimes grasps unnecessarily for vague supporting arguments, such as his assertion that 'Environmental and financial criteria can … amount to the same thing, given that companies with a good environmental performance usually keep their financial affairs in good order.' (p. 89) Unsubstantiated claims such as these weaken an argument that is compelling enough based on the facts.

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