

Environmental Finance and Environmental Audit: A Conscientious Effort

Shailesh Dattatraya Borkar

Assistant Professor, Burhani College

Abstract

Global warming and its effects have set the ball rolling for environmental consciousness the world over, albeit a bit late in the day. Finances are available or rather made available for Environment upgradation, be it in the name of Corporate Social Responsibility or Payback to Nature. With such major efforts being undertaken, it is necessary that there be a check on the outcome of these efforts. And that check can be done through Environmental Audit. Yet, surprisingly Environmental Audit is not yet given due recognition as a professional requirement that requires professional qualifications. This is the focal point of this paper as it is impossible to know the efficacy of endeavour without proper measurement and evaluation.

Keywords: Environmental Finance, Environmental Audit, Check.

Introduction:

For a world revering environmental prudence and quite very appreciative of corporates adhering to environmental finance as a measure of social responsibility, not only in matters of innovative processes and products but also in bringing about an attitudinal change in the operations of the work force, it comes as rather a shock, nay almost a challenge to the senses, that environmental audit, which can effectively be employed as a guardian against environmental improprieties, is relegated to the optional, in fact a reclusive concept evoked only to boost the corporate image. The carbon dioxide equivalent of greenhouse gases in the atmosphere has already exceeded 390 parts per million which is considered a tipping point. That clearly puts us mere earthlings at a risk not widely realized. The World Health Organization takes cognizance of every environmental offence committed the world over. That being the background, Environmentalism as a practice is the order of the day, even at grassroots level. Corporates have fallen in line, either out of bureaucratic compulsion or due to progressive management approach, channelizing investment into products and processes that involve the least harmful gaseous emissions and encourage the end user to be more environmentally conscious. Much is done in India and elsewhere to this end. But while environmental compliance audit is rigorously conducted in advanced nations, it receives a step-motherly treatment in our India. Undoubtedly, government-run institutions have to follow environmental procedures to hold forth an environmentally correct picture but otherwise the private sector is free to do away with such 'trivialities'!!!! A matter of concern is that an environmental auditor does not require any professional qualification and in fact can be any individual who has sufficient- if not complete- technical knowledge of the operations of the organization. This paper shall seek an insight into this scenario.

Objectives: The objectives of this paper can be summarily stated as follows-

- To analyze the extent of proliferation of environmental finance vis-à-vis that of environmental audit, especially among medium sized industrial units in Mumbai and Thane region.
- To find out how far these industrial units have adopted environmental awareness and caution as a matter of realization of social necessity and how far out of legal and financial compulsion.

Research Methodology: For the first objective, an extensive analysis of secondary data of the industrial units under is in order. For the second objective, a detailed questionnaire aimed at obtaining the views of the employees of the industrial units selected is put to use to collect primary data.

Matter: The corporate world is ornately aware of Carbon Credit which is a generic term for any tradable certificate or permit representing the right to emit one tonne of carbon dioxide or a mass of another greenhouse gas with a carbon dioxide equivalent of one tonne of carbon dioxide. Trading is executed in carbon credits by buying and selling the same. Carbon Market dealings in fact aim at directing industrial and commercial processes in the direction of low emissions or less carbon intensive approaches than those used when there was no cost attached to emitting carbon dioxide and other greenhouse gases into the atmosphere. Carbon credit availability is capped and then allocated to individual and corporate consumers through the market mechanisms by adopting the emissions trading approach – actually just a synonym for commercial exchange. Carbon credits are purchased from an investment fund or a carbon development company that has aggregated the credits from individual projects. According to the World Bank (2010), the carbon market was valued at US\$ 143 billion in 2009. Buyers and sellers can also use an exchange platform to trade, such as the Carbon Trade Exchange, which is like a stock exchange for carbon credits. The quality of the credits is based in part on the validation process and sophistication of the fund or development company that has acted as the sponsor to the carbon project. All these “oh-so-necessary” executions by the corporate players amply demonstrate their penchant for projecting an environmentally “oh-so-propah” image. Never mind if the efforts are not subject to stringent regulation and evaluation through environmental audit. The idea is not to slander corporate effort. In fact some very fruitful efforts in a positively environmentally beneficial direction may be mentioned here –

- Energy Efficiency improvement and waste heat utilization projects.
- Green Housing/ Habitat practices - Rain water harvesting, waste management, renewable/ solar energized, sanitation, eco- friendly material.
- Biomass energy- Using Bio gas, Rice husk, Sugarcane bagasse /Molasses waste.
- Use of Biofertiliser/ Biopesticide, e.g. Azotobactor, Tricoderma, Tricogramma .
- Rural and eco-tourism – spreading the concern for community cleanliness.
- Improved Jute retting technology – which saves on use of raw material as well as power.
- Financing projects which address Conservation issues- Prawn hatchery, Fish seed preparation,
- Ornamental fisheries

Now let’s have a look at some prevalent Environment Based Financial Products –

- ‘Green’ Savings Products e.g. Loans for conversion of vehicles to cleaner fuels.
- Energy efficient mortgages - Offering larger and easier mortgages to individuals who employ processes with low energy costs.

- Alternative Fuel Conversion - Loans for conversion of vehicles to cleaner fuels .
- Environmental Technology Leasing - Providing business leases for adoption of green technology in production.
- Environmentally Sound Construction - Provision of cheaper funds on favourable terms for environmentally sound projects.
- Energy Efficiency Loans - Loans for undertaking improvements in energy usage efficiency.
- ‘Green’ Accounts - Opening Savings accounts where the money saved is invested in ‘Green’ environmentally beneficial projects.

These financial products are offered by banks and finance companies as a measure of their social outlook. So far, so good. But when it comes to having a fair, if not exact, estimate of the actual effect on society – environment actually – we fall short of any strong assessment routine. Banks and finance companies would keep a check on whether the funds provided are routed to the intended channels but there the assessment stops. To what extent the infused funds have practically resulted in a step towards an environmental booster is seemingly beyond the care or concern of any technical authority. Gross misfortune!! Especially so because, when funds actually percolate to the grassroots level, there is sound hope of environmental aspirations taking shape through public participation. Corporate entities are now obsessed with Green Participation or Environmental Participation consequent to which Environmentalism as a philosophy is no more an in-house concept but encompasses the concern and contribution of all the elements of the supply chain to which the corporate entity belongs. Let us take one prime example. The US soft drinks giant PepsiCo has kept 55,000 metric tons of carbon dioxide out of the atmosphere by reducing fuel consumption in its transportation fleet by 24 percent 2010 onwards and is making earnest attempts to further check fuel usage for its carriers and vehicles, according to Green Century Capital Management, which has been in deliberations with Pepsico Inc. about its efforts to contribute towards environmental upgradation. Besides, Green Century says that Pepsico Inc has designed many innovative initiatives to check the carbon emission of its trucking fleet. This has made it necessary to work with suppliers to make checking carbon emissions a priority. It is but obvious that the underlying principle of this commendable effort is that sustainability can be maximized throughout the supply chain, beginning with concept and development, then continuing through all phases of production and final customer distribution. Environmental finance seems to have now crossed tangible as well as psychological barriers and gone into the realm of the natural fallout from that of the imposed duty.

But, what about Environmental Audit? Has it received due consideration? Or is policing such an unwarranted effort that only legal compulsion can elicit result? If so, then environmental finance amounts to an unbridled excess simply going unmeasured and unchecked. Let us begin with understanding the meaning of and need for environmental audit.

Environmental auditing is an attempt to provide information on the environmental performance of a company, and thus include environmental issues in the decision making process. An environmental audit assesses the nature and extent of harm to the environment caused by the activities, wastes or noise from a particular company. Environmental audits must be independent, objective, credible and transparent in order to be successful. Audits should also be regular and ongoing. Environmental auditing as an imminent necessity was conceived in the United States and in Western Europe in the 1970s. Environmental auditing was proliferated in the corporate world by multi-national companies which stipulate that their subsidiaries and suppliers exhibit green credentials.

Environmental Audit covers the ensuing fields -

- The level of energy use by way of fuel
- Measures taken towards recycling
- Steps taken towards proliferation of environmental education
- Efforts made for habitat conservation and creation
- Policy decisions and their execution on green purchasing
- The efficacy of material and energy management policies, resultant savings and alternatives thereto
- Efforts taken for water management and economy of use
- Control measures to check waste generation and provision for its management and disposal
- Checks provided for noise reduction, evaluation and control
- Control measures to check air emissions and maintaining indoor air quality
- Application of environmental checks on transportation and travelling practices
- Provisions made for staff awareness, participation and training in environmental issues
- Steps taken towards dissemination of environmental information
- Provisions made for dealing with public enquiry and response for complaints

Just the above observations are sufficient to justify the indispensability of Environmental Audit and its general and global applicability and need. Yet, when it comes to enforcing Environmental Audit what is meted out is a cold handshake instead of a warm embrace. Public institutions do have to follow the written word and therefore the resultant environmental consciousness. But, private entities have no such compulsion except for that which originates from the perception of an enlightened, responsible and socially aware management. Considering the huge responsibility that an environmental auditor has to shoulder, it is surprising that the qualifications required for appointing an Environmental Auditor have not been customized. In most cases, environmental auditors hold certifications issued by non-governmental organizations on the basis of written examinations and experience. There does not seem to be a common protocol the world over for the appointment of such an indispensable professional, despite the fact that a wrong estimation or a wrong conclusion by the environmental auditor could cost all of us very dear. Environmental auditors must regularly update themselves about environmental management methods. Besides, they must have the latest knowledge on techniques, legal rules and provisions, and commercial and scientific operations. Most have post-secondary education in environmental, scientific or engineering fields such as biology, chemistry, environmental sciences or environmental engineering. They may have undergraduate degrees in engineering, science, environmental law or environmental studies, or related work experience or a technical diploma specializing in environmental technology, chemical technology or engineering technology. For on-site audits, safety training may be required.

Let us now peruse the benefits of environmental auditing –

- It is the first step towards safeguarding the environment.
- It helps verify corporate compliance with local and national laws.
- It helps identify current or potential future problems that need to be addressed.
- It assesses corporate training programmes and provides data to assist in training.
- It enables companies to build on good environmental performance, give credit where appropriate and highlight deficiencies in the system.
- It helps identify potential cost savings, such as from waste minimization.

- It helps in creating a network to assist the exchange and comparison of information between different plants or subsidiary companies
- It amply demonstrates corporate commitment to environmental protection.

One prime quality that an environmental auditor must possess is a good working knowledge of environmental laws and rules.

Let's have a quick look at the efforts taken by various entities towards environmental consciousness –

- Bayer India opened its first emissions-free building – Green Building - in Greater Noida near New Delhi in 2011, to check its contribution to pollution.
- By using eco and power friendly equipment in its 10,000 new ATMs, the State Bank of India has not only saved power costs and earned carbon credits, but also set the right example for others to follow.
- Kansai Nerolac Paints Ltd. has continually taken an environmentally conscious stand keeping the welfare of society a priority and has conducted initiatives in the areas of health, education, community development and environment preservation. Kansai Nerolac has devised exemplary methods of making their paints free of harmful heavy metals. The hazardous heavy metals like lead, mercury, chromium, arsenic and antimony can have adverse effects on humans.
- Indian Oil is fully geared to meet the target of reaching EURO-III compliant fuels to all parts of the country. It has invested about Rs. 7,000 crore so far in green fuel projects at its refineries; ongoing projects account for a further Rs. 5,000 crore. Diesel quality improvement facilities are in place at all seven Indian Oil refineries, several more green fuel projects are under implementation or on the anvil. The R&D Centre of Indian Oil is engaged in the formulation of eco-friendly biodegradable lube formulations.
- Wipro Infotech was India's first company to launch environment friendly computer peripherals. For the Indian market, Wipro has launched a new range of desktops and laptops called Wipro Greenware. These products assist in controlling e-waste in the environment as they are RoHS (Restriction of Hazardous Substances) compliant.
- The state of Tripura has announced plans to make all public and private vehicles in Agartala run on compressed natural gas (CNG), thus making the capital “India's first green city”. Tripura Natural Gas Co Ltd (TNGCL), a joint venture of the Gas Authority of India Ltd (GAIL) and the Tripura and Assam governments, have made concerted efforts to ensure that all private and government vehicles use CNG as fuel. In addition, CNG will also be promoted as fuel for running machineries instead of electricity, petrol and diesel.

As is evident a lot of efforts are underway in the corporate sector to make business an environmentally conscious enterprise. But, the following viewpoint must be considered –

All efforts towards Green Technology would have to be put under a scanner and monitored regularly if some concrete result is to be obtained. In this respect, Environmental Auditing would be of great use. As of now, the corporate entities decide to undertake environmental audits in order to obtain an independent external assessment of whether the management has adopted an efficient environmental policy and provided for acceptable environmental attitude. The most important results of the environmental audits are recommendations on how a company can reduce the damaging effects on environment in an efficient manner and how it can, in the long run, save funds whilst using environment friendly technology.

Green Technology to be brought into practice would require Legal Support. What is especially required is a stringent penal provision combined with a tight and regular monitoring of all activities that could have a detrimental effect on environment. That brings us back to the indispensable Environmental Audit.

Conclusion:

Environmental Finance has obviously received its due the world over and that the environmental auditor has an inevitable role to play in global progress seems to be a foregone conclusion, but what remains to be seen is whether environmental protection and regulation receives global partnership or remains merely a subject of discussion in local, national and international fora. As a reminder, let us not forget that the purity of the air that we breathe in is the final test of our existence.

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