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Research Article

AN ANALYTICAL STUDY OF SUSTAINABILITY AND ITS IMPACT ON GREEN ECONOMIC DEVELOPMENT

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ABSTRACT

In the present scenario, in order to attain good quality life needs sustainable development.What if, People is having good physical health but poor and uneducated. What, rich person live in populated environment and family is having religious freedom but unable to feed them. Sustainability contributes in economic and social development that must ensure us to long term business success along with healthy and stable environment in society. Indian needs huge support for sustainable development which is provided by bank only. RBI play active and significant role in sustainable development in collaboration of Commercial banks. This paper examine conceptual frame work about sustainability vs. bank, for paper has four part. Firstly it can explain what sustainability is. Secondly it explore sustainability vs bank and its related aspect. Third part explains opportunities & challenge for sustainable growth in India. Lastly various steps taken by Indian Bank towards sustainability.

INTRODUCTION

Hit first and hardest by the credit crisis, banks and asset managers have dealt with waves of frozen markets, illiquid assets and public scrutiny. Despite the turmoil, prescient firms recognize that the principles of sustainability must play an essential role in the future of banking and capital markets. Indeed, sustainability depends on financial services and vice versa.

According Brundtland Report[2] "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts:

- The concept ofneeds, in particular the essential needs of the world's poor, to which overriding priority should be given; and
- The idea oflimitationsimposed by the state of technology and social organization on the environment's ability to meet present and future needs."

As per the definition given by International Finance

Corporation

- "Sustainability is about ensuring long-term business success while contributing toward economic and social development, a healthy environment, and a stable society." For the financial institutions, it encompasses the following four dimensions of good business performance.
- The financial sustainability of the financial institution and its client companies, so that they can continue to make a long-term contribution to development
- The economic sustainability of the projects and companies the financial institution finances, through their contribution to host economies.
- Environmental sustainability through the preservation of natural resources
- Social sustainability through improved living standards, poverty reduction, concern for the welfare of the society and respect for key human rights.
- These considerations, taken together, aim to capture a whole range of factors that influence the decisions, activities, products, and services of financial institutions, including the social and environmental impacts of their work.

According to John Elkington[1] Sustainability is the concept of the triple bottom line (TBL) .The TBL concept refers to economic prosperity, environmental quality and social progress, and to building metrics that help measure the performance of a company not only in the economic but also social and environmental spheres. Socio-environmental improvements are primarily linked to economic losses violates one of the three supports of the TBL is not sustainable.

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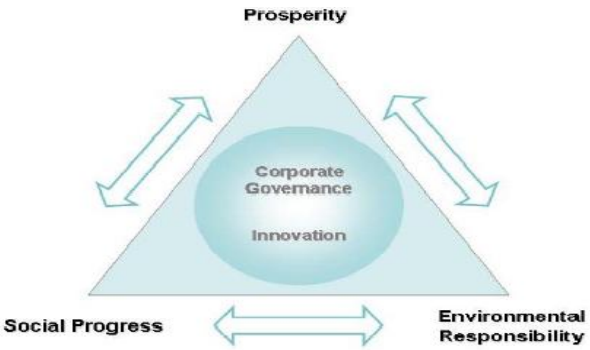
According to the study of Monnin and Jokipii, 2013, The Banking System Stability (BSS) is an integral part of future growth and sustainability.

CISL and UNEP FI, 2014 has explain, “The role of the banking system in the economy and broader society is to provide the necessary financing and liquidity for human and economic activity to thrive—not only today but also tomorrow. Its role is to fund a stable and sustainable economy.” Therefore, financial regulators play a key role in ensuring that excessive risks that threaten the stability of the financial system—and hence imperil the stability and sustainability of the economy are minimized.

Two principles are extremely important in promoting corporate sustainability: corporate governance and innovation.

- A company can guarantee that the interests of the various stakeholders are preserved only when it has good corporate governance practices
- Innovation is the catalyst of the aforementioned change in paradigm, creating new products, redesigning existing processes and rethinking the business model of the organization. Banks can create value for their shareholders while also being catalysts of sustainable development



Sustainability economic growth in India goes hand in hand with attention to human development indicators like adequate healthcare, education, social equality as well as environmental indicators like air and water quality, pollution and greenhouse gas controls, biodiversity protection, etc. Special focus will be laid on possibilities for international partnerships and two-way knowledge flows.

Bank sustainable Finance means

1. Financially sound
2. Environmentally sustainable
3. Socially sustainable

That lead Banks credit appraisal system improved and their risk management by taking into account the environmental and social risks also in addition to the credit risk, market risk and operational risk. This will enable the bank to offer advance products at a reduced price than its competitors.

Role of bank in sustainability

Direct socio-environmental impact may not be strong, but banking sector does have a strong indirect impact on sustainability through

- Financing of its clients’ activities and its relationship with its suppliers.
- To induce change in the parties with which it interacts rather than through direct changes.
- Their considerable size, coverage and job-generating potential, can contribute enormously to a change in attitude of a large part of society.
- Improving transparency in the socio-environmental performance of the banking institutions.
- Performance assessments, credit evaluations or investment decisions.
- Upgrade the tools currently used by institutions
- Include micro-credit, socio-environmental financing lines, environmental insurance and carbon market-related activities lead to value creation to institute in the long term.

We can say corporate sustainability as the integration of social and environmental aspects into business strategy, business operation and stakeholder interactions.

Significance of Sustainability vs bank

Sustainability has become an essential element of competitive advantage and something businesses can no longer ignore. As sustainability importance is reflected in changing consumer expectation and emerging national and international legislation. Companies’ chances of operating successfully and engaging in international trade depend more and more on their ability to mitigate social and environmental risks and to capitalize on opportunities for innovation.

Accordingly, banks and other financial institutions are shifting their focus and reorienting their activities. They are increasingly moving from avoiding risks to creating opportunities: from defensive banking, where environmental management is seen as an additional cost, to sustainable banking, where sustainable development is seen as an advantage and an opportunity for growth.

Bank needs sustainability because it helps them to mitigate the impacts of climate change. Banks favors sustainability must invest in renewable energies and socially responsible business over destructive business e.g. fossil fuel companies help to fund the future low Carbon economy.

Bank take pledge to adopt sustainability principle will brings eco-conscious customers and investors.
Bank performance and sustainability are associate with each other i.e. bank is consider as financial intermediaries and reflects no direct relationship with sustainability. So bank performance on environmental, social and governance attribute use as proxy.

One of the study reveals, higher sustainability scores of bank is significantly associate with lower default risk and outperformance on sustainability reduce banks contribution to systematic risk. Thus Banks sustainability performance can spill over to the financial system.

Bank and sustainability relationship can measure under three heads which are as follow:

- Banking system stability on GDP per capita
- Banking system stability on Adjusted Net saving rates
- GDP per capita on Adjusted Net Saving

Banking system stability means economic sustainability in the society. Bank stability can be measure on the basis of nonperforming loans, bank z-score, capital percent of assets, liquid assets to deposit and short-term funding, and regulatory capital to risk- weighted asset.

The World Bank group developed the Adjusted Net Savings rate (ANS) as a comprehensive indicator for measuring economic sustainability (Pardi et al., 2015; World Bank, 2012; Hamilton, 2006). The ANS approach is superior to other approaches for the following reasons: (1) it presents environmental issues and resource in a context of a framework that development planning ministries and finance can understand. (2) It makes available relatively simple and clearer sustainability indicator to national-level decision makers on how sustainable a country‘s investment policies are. (3) It extends the net national saving rate calculation by adding human capital development (public expenditures on education) and subtracting depletion on natural resources in addition to environmental degradation (pollution). Indeed, the ANS is a useful measure of economic sustainability.

In its simplest form, the World Bank group calculates ANS as:

$$ANS = \frac{GNS - DPC + CEE - \sum RDN_i - DCD}{GNI}$$

where *ANS* is Adjusted Net Savings rate; *GNS* is Gross National Savings; *DPC* is Depreciation of Produced Capital; *CEE* is Current Expenditure on Education; *RDN* is Rent from Depletion of Natural Capital, *i*; *DCD* is Damages from Carbon Dioxide emissions; and *GNI* is Gross National Income at market prices. With this formula, ANS can be positive or negative. Where ANS is positive, it means that the nation is operating at sustainable path, and hence, accumulating the assets needed to build up wealth to ensure her growth over a long period. However, a negative ANS means that the nation is operating at unsustainable path, and hence, running down her capital stock.

According to RBI financial report 2021, the bank stability indicator reflects improvement in all the five parameters specifically soundness, profitability, and liquidity components revealed noteworthy reduction in risk due to banks improved capital position better return on assets and higher customer deposit to total deposit ration respectively.

The environment of bank credit remains lackluster in the midst of the pandemic with credit supply muted by persisting risk aversion and subdued loan demand. Liquidity risk in banking sector has remained in large surplus. Systematic risk reflects all the broad categories of risks to the financial system were perceived as medium by panelists. However price of commodity, domestic inflation and growth, fiscal deficit, equity price volatility, corporate vulnerability, capital requirement, cyber risk and bank asset quality are quite high.

Financial institutions two components of sustainability

i) One component is managing social and environmental risks in strategic decision-making and lending. Financial institutions can strengthen their portfolio by systematically evaluating these risks in the loan or investment appraisal process. In this way, they can focus investments, on those companies and projects with high environmental, social, and financial performance. Doing so can help protect their asset portfolio by decreasing nonperforming loans, thereby increasing financial stability and protecting the bank’s reputation.
ii) The other component is identifying opportunities for innovative product development in new areas related to sustainability. This entails creating financial products and services that support commercial development of products or activities with social and environmental benefits. A growing cluster of these opportunities has evolved and includes renewable energy, energy efficiency, cleaner production processes and technologies, biodiversity conservation, microfinance and financial services targeted to women. Business models that address these dimensions are yielding new clients and markets. They are also helping financial institutions differentiate themselves from competitors, improve their reputation among key customers and stakeholders, attract new capital, and generate goodwill and support from stakeholders.

Bank Sustainable Finance Management

Bank should manage Socio-environmental risk assessment in finance, Socio-environmental finance, advance responsible lending, provide Micro-credit, finance Socially Responsible Funds, Eco-efficiency project, explore Carbon Market, express Disclosure of Socio-Environmental Performance, check Diversity in Workforce, maintain Environmental Insurance, Socio-environmental criteria in selecting suppliers /service providers, Climate Change, provide Information Security and Money laundering.

Integration of sustainability into the banking sector

While banks play a crucial role in promoting sustainable development, the industry got off to a late start in acknowledging sustainability as an item on its agenda. In the 1990s, however, it started to play a more active role in sustainable development. The major shift happened when bankers realized poor environmental performance on the part of their clients represented a threat to their business success.

There has taken many key directions:

- The pursuit of environmental and social responsibility in a bank's operations through environmental initiatives (such as recycling programs or improvements in energy efficiency) and socially responsible initiatives (such as support for cultural events, improved human resource practices and charitable donations);
- The integration of sustainability into a bank's core businesses through the integration of environmental and social considerations into product design, mission policy and strategies. Examples include the integration of environmental criteria into lending and investment strategy, and the development of new products that provide environmental businesses with easier access to capital.
- By integrating sustainability into a bank's business strategy and decision-making processes, institutions can support environmentally or socially responsible projects, innovative technologies and sustainable enterprises has influence business on a large scale.
- The interdependency between a bank's profitability and the environmental record of its clients has influenced the business strategy of both banks and their corporate clients.
- Bank needs sustainability because it helps them to mitigate the impact of climate change. Bank favors sustainability must invest in renewable energies and socially responsible business over destructive business e.g. fossil fuel companies get to fund the future low carbon economy.
- Bank take pledge to adopt sustainability principle will brings eco-concious customers & investors.

- The whole society is directly link with banking sector for their financial services. So it is consider that society must indirectly follow banks rule regarding sustainability principle.

Strategies adopted by bank for sustainability

Develop baseline carbon footprint or sustainability reporting processes implement commitments to voluntary standards, such as the UN Global Compact, Equator, Climate, and Carbon principles covering lending and asset management practices.

- Audit practices to assess all sustainability and corporate responsibility practices in operations
- Incorporate sustainability and corporate responsibility practices as an element of investment due diligence
- Risk mitigation – Develop programs to extend credit to traditionally creditworthy small businesses in collaboration with international organizations, develop programs to alleviate emerging country indebtedness include all facets of sustainability agenda in due diligence for all lending and investments
- Include sustainability criteria in requests for proposals from sub-contractors, IT vendors, preferred service providers
- Create and participate in new markets, including those for carbon trading or water quality
- Create renewable energy, social responsibility and other new funds to serve increasingly aware clients and customers
- Leverage public stimulus funds to produce the private sector investments necessary to avert climate change and other key sustainability threats
- Build business plans for investments in low-carbon technologies and renewable energy initiatives, such as biofuels
- Finance green infrastructure projects

Main Sustainability Challenges for the Banking Sector

There are following main sustainability challenges for banking sector:

1. To disseminate the sustainability concept throughout the organization
2. To make employees aware and engage them in the topic
3. To measure socio-environmental risks in financing activities
4. To measure the value of sustainability to the bottom line
5. To assure responsible use of credit by borrowers
6. To increase the value of the socio-environmental business
7. To constantly innovate with new products and processes
8. To balance short-term benefits with long-term requirements in a sector extremely focused on results
9. To encourage banking inclusion
10. To change clients' negative image of the sector

Opportunities and Challenges for sustainable growth in India

The Indian economy has been growing at an annual rate of over 8% over the last two years, making it one of the fastest growing economies worldwide. Policy makers are even talking about a 10% growth rate in the coming years. According to the Goldman Sachs' BRIC Report (2003) it is estimated that by 2050 India will be the third largest economy worldwide after China and the USA. There are however also challenges and hurdles on the road to achieving this level of economic development. For instance, there is an urgent need for investments in physical infrastructure like roads, air and sea ports and electric power; investments in social infrastructure like adequate healthcare, education and community building; and finally investments in environmental infrastructure like improved quality of air and water, capping green house gas emissions, protection of biospheres etc. In addition, there is the important question of the level of India's integration into the global economic order in regard to multilateral and bilateral trade agreements.

Today, it is well established that in order to ensure sustainable growth it is imperative to take an integrative approach to the economic development. The panel on "Opportunities and challenges for sustainable growth in India" will focus primarily on economic growth in India while looking at ways to make this growth "inclusive", i.e. ensuring simultaneously the social and environmental sustainability of this growth.

The total size of India's IT sector export market is estimated to be USD 23.4 billion in 2006 and has been growing at a compounded annual growth rate of 28% since 1999-2000. The number of international companies outsourcing various business processes to India is on the rise, and total employment in the IT enabled services industry in India stands at almost 1.3 million today compared to 284,000 in 1999-20006 In addition to IT outsourcing, there is also a move towards knowledge, R&D and even innovation outsourcing to countries like India. The key drivers for outsourcing include cost saving sand freeing resources to focus on core competencies. There are however also potential pitfalls in this process including quality of services, data security, and cultural and language barriers. Another important consideration is domestic opposition to outsourcing due to fears of job losses.

It is biggest challenges to become aware about the green finance and sustainable development, green lending, green bond and the major challenges could be high borrowing costs, false claims of environmental compliance, plurality of green loan definitions, maturity mismatches between long-term green investment and relatively short-term interests of investors.

Global partnerships in environmental and social sustainability

India and China, the fastest growing of the large economies in the world, are increasingly the focus of attention both at home and abroad for their role as major contributors to greenhouse gas emissions. With a significant part of India's population yet to achieve a reasonable standard of living, social issues are also a very important consideration for policy makers in India.

Risks to Growth for sustainable growth in India

Apart from monsoon-related uncertainty, there are downside risks to growth:

First, private consumption demand needs to improve significantly to support the growth momentum.

Second, global recovery, despite gaining strength, is expected to remain fragile, which has implications for exports.

Third, the exit from fiscal stimulus and the growth-supportive monetary policy, unless calibrated carefully, could impact the growth process.

Finally, the domestic saving rate has exhibited some decline, led by significant decline in public sector savings. This has adverse implications for the potential growth of the economy.

Reserve Bank's Survey of Professional Forecasters suggests (median) growth for 2010-11 at about 8.2 per cent.

Various step taken by Indian bank towards sustainability

- Regarding the socio- environment change, all of the technology and knowhow in the world is useless without strong implementation of policies. In many ways, India should be poised for an effective environmental governance program. According to the World Bank, "India has a strong environment policy and legislative framework and well-established institutions at the national and State level" . Furthermore, democratic countries with strong public participation are often considered best at identifying and reacting to environmental problems. And, India's growing prosperity is leading to "an increase in public demand for better environmental quality from the growing and increasingly assertive urban middle class, as demonstrated by drastic measures to improve air quality in Delhi, which now has the largest compressed natural gas-driven public bus fleet in the world"
- Indian and international banks seem to be operating on the same wavelengths in the micro-finance segment, but when it comes to innovations, there is little doubt that Indian banks are clearly leading the way.
- Low-income countries (LICs) have often struggled with large external debts. Debt burdens have been reduced, thanks in large part to international debt relief initiatives. As part of the Millennium Development Goals (MDGs), the IMF and the World Bank have developed a framework to help guide countries and donors in mobilizing the financing of low-income countries' development needs, while reducing the chances of an excessive build-up of debt in the future. The joint World Bank–International Monetary Fund (IMF) Debt Sustainability Framework (DSF) was introduced in April 2005
- Asian Development Bank (ADB), UNDP and ESCAP on the 'Millennium Development Goals (MDG): Progress in Asia & the Pacific 2007' shows that on environmental sustainability, which is one of the eight goals of the MDG, India has regressed in the matter of carbon dioxide emission and consumption of ozone-depleting CFCs
- Reserve Bank of India feels that, there is general lack of adequate awareness on the issue in India. In this context, the need for sustainable developmental efforts by financial institutions in India assumes urgency and banks, in particular, can help contribute to this effort by playing a meaningful role. RBI in its notification dated 20th November 2007 has advised banks to take note of the issues raised and consider using the same to put in place a suitable and appropriate plan of action towards helping the cause of sustainable development, with the approval of their Boards.
- The Reserve Bank has pursued an accommodative monetary policy beginning mid-September 2008 in order to mitigate the adverse impact of the global financial crisis on the Indian economy. The measures taken instilled confidence in market participants and helped cushion the spillover of the global financial crisis on to our economy. However, in view of rising food inflation and the risk of it impinging on inflationary expectations, Maintain an interest rate environment consistent with price stability and financial stability, and in support of the growth process [7]
- IFC, a member of the World Bank Group, has reaffirmed its commitment to contribute to India's economy by expanding its investments in private enterprises in the sectors where IFC is needed most. In 2009 IFC also doubled its portfolio in the infrastructure sector, to \$600 million. Investments ranged from natural gas to wind power, and from port services to a fund for developing public-private projects in infrastructure sector. IFC's strategic priorities include strengthening the focus on challenging markets; differentiating through sustainability; addressing constraints to private sector growth in infrastructure, health, and education; supporting local mid-tier manufacturing companies become globally competitive and helping local financial market development through institution-building and innovative financial products. Today IFC's activities in India cover a wide range of sectors, from power, transportation, and oil and gas to manufacturing companies in auto components, engineering, pharma sectors to microfinance and housing finance institutions, poultry and vegetable farms, IT companies, and hospitals.
- IFC focuses on combining investments with capacity-building advisory services in such areas as governance structures, staff training, and systems and procedures for management, accounting, and risk assessment.
- Aryavart Gramin Bank[4] in Lucknow 's forward-thinking make rural bank is pioneering a system of affordable loans for poor rural customers that wish to purchase solar home lighting systems. The systems are supplied in partnership with TATA-BP Solar and they have rapidly scaled up to more than 20,000 loans agreed. This programme is particularly exciting because it doesn't involve any subsidy – the 5-year credit package means that repayments are equivalent to or less than a household's energy bills when they use dim, toxic, and dangerous kerosene lanterns. This means the programme has great potential for replication through other rural banks and finance providers across India and elsewhere.
- The 'Credit Automation Project' of South Indian Bank ,which is expected to improve the Bank's efficiency in credit processing and sanctioning of corporate loans , was today inaugurated by Dr.V.A.Joseph , MD&CEO of the Bank in the presence of Mr B Suresh Kamath, MD of LaserSoft Infosystems and Mr.M.Valsan ,Executive Director of the Bank. LaserSoft Infosystems has provided the software for the implementation of this project. This 'paperless flow" of the loan sanctioning is a unique process and is being introduced for the first time in the banking industry.[3]
- RBI has referred to the IFC Principles on project finance (the Equator Principles) and carbon trading and advised banks/Financial Institutions to keep themselves abreast of the developments on an on-going basis and dovetail/modify their strategies/plans, etc. in the light of such developments. The progress made there under could be placed in the public domain along with the annual accounts of banks.
- As a Public Trust Institution, the (YES) bank takes responsibility for augmenting sustainable development in India and has therefore adopted principles of

sustainability, encapsulated within its business through its Responsible Banking strategy[5].

- RBI adopt Green finance strategy (i.e. finance eco-friendly project) because it is consider that rapid economic growth achieved along the environment degradation that create hazardous public health and pose challenge to sustainable economic growth.
- In order to attain the sustainability, various flagship program started like Principles for Responsible Investment (PRI), Equator Principles (EP) for financial institutions, United Nation's Environment Programme (UNEP) and Statement of Commitment by financial institutions on sustainable development suggest ways for implementing green finance among the signatories.
- Sustainable Stock Exchange is an initiative that recommends the signatory countries' stock exchanges to come up with stock price indices that track the stock performance of a set of companies operating in these countries, which are leaders in recognising the Environmental, Social and Governance (ESG) principles[4] into their financing aspects. These indices are aimed at guiding investors who are interested in investing in green activities. Two major stock exchanges in India, the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) are part of this initiative and publish separate ESG indices.

Table 1 Participation of Asian Financial Institutions in Global Initiatives

Name of the initiative	Global signatories	Asian Signatories	Global signatories	Asian Signatories
	From Volz, 2018		As at end 2019	
Principles for Responsible Investment	1,874	122	2,698	387 *
Equator Principles Financial Institutions	91	12	101	22 **
UNEP Statement of Commitment by Financial Institutions on Sustainable Development (2011)	214	38		
Sustainable Stock Exchanges	66	14 ***		

Source: Volz, U. (2018, March). The latest information collected from the programmes' websites.
Notes: Asia includes Australia and New Zealand.
*: Includes 3 from India: SBI Funds Management Private Limited, Equicap Asia Management Private Limited and Indus Environmental Services Pvt. Ltd.
**: Only IDFC from India.
***: Includes both Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) from India.

The Business Side

- Renewable energy financing
- Indian Renewable Energy Enterprise and Development Fund (IREED) (2005)
- Bank of Baroda -Energy efficiency financing for SMEs (2006)
- Financing CDM projects: SBI+MITCON+EcoSecurities (2007)
- ICICI Bank finance to HMX Sumaya (2007)
- ABN Amro MF's Sustainable Development Fund (2007)
- Deutsche Bank –wind turbines, energy efficiency
- IFC+Aloe Equity –private equity fund (2008)

Policy/Management Side

- RBI circular for banks to go green –Dec 2007
- At present banks' focus is to meet minimum compliance standards
- Absence of environment cell/team, policy and systems
- No signatories to Equator Principles
- RBI circular and CII paper on the "Low Carbon Economy" force us to think, without giving direction on Sustainable Banking

Step other than India

- Standard Lesotho Bank drew up an Easy Aid Guide for its employees to increase their environmental awareness. The guide encourages employees to save electricity, employ double-sided printing and dispose of paper in the recycle bins provided. Furthermore, the bank auctions off old furniture and equipment to employees.
- As a major sponsor of Innibos, a music festival in Mpumalanga, South Africa, Standard Bank gave its support to the Innibos Green Ambassador initiative. We teamed up with pulp and paper company, Sappi, and their War on Waste recycling programme. We will be implementing a paper-recycling programme in selected branches in the region, with the view to expanding this throughout the province at a later stage
- Standard Bank's London head office relocated to a new building during the year, and took the opportunity to introduce various initiatives to reduce its environmental impact. These include recycling points throughout the building, the use of recycled and recyclable disposable packaging in the staff café, installing fewer multifunction printing devices to reduce energy and consumables usage, and sensor taps in bathrooms to minimise water wastage
- Standard Bank signed a carbon emissions reductions purchase agreement with Guodian Power Development Company Limited which operates three newly built hydropower plants in north-eastern China. Once the plants are registered under the United Nations Framework Convention on Climate Change, four million tons of CO2 emission reductions are expected to be generated during the 21-year crediting period, with 320 000 tons of this being realised before 2013

CONCLUSIONS

From my study that i conclude that sustainability is necessary for socio environmental growth which can be possible with the help of banking /financial institutions because bank can reduce risk by financing eco-friendly project.

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