ROLE OF BANKING SECTOR TOWARDS SUSTAINABLE FINANCE

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Abstract

In an era marked by extraordinary global challenges, the financial sector stands at the forefront of driving positive change. The role of banking sectors in fostering sustainable finance has gained prominence as societies worldwide dealing with environmental degradation, social inequality, and economic uncertainties etc. As a response to these challenges, sustainable finance has emerged as a key driver for positive change. Within this context, the present research paper delves into the pivotal role of the State Bank of India (SBI) in the sample shift towards sustainable finance. Being a giant in the banking sector, the SBI exercises influence over various economic domains, highlighting its dedication to sustainable finance as a crucial component of worldwide endeavours for environmental and social responsibility. This study investigates the approaches utilized by SBI to incorporate sustainable finance into its fundamental operations. It explores the bank's involvement in initiatives such as green financing, the introduction of inventive financial products, the implementation of risk management practices, and its efforts to promote financial inclusion. By analysing SBI's involvement, advocacy, and collaboration with stakeholders, this study highlights the transformative impact of one of the world's largest banks in driving positive change. Through a comprehensive examination of SBI's initiatives, the research adds to our understanding of how banking sectors can spearhead the promotion of sustainable finance, offering insights into the potential for a more inclusive and sustainable financial future.

Key Words: Sustainable Finance, ESG Approach, SDGs, SBI.

Introduction

The banking sector plays a vital role in sustainable finance by directing funds to projects that benefit the environment and society. This helps promote sustainable development. Banks achieve this by practices like green lending, impact investing, and considering environmental, social, and governance (ESG) factors in their decision-making. By doing so, banks help tackle climate change, foster social equality, and ensure economic stability in the long run. Aligning financial activities with sustainability goals not only helps manage risks but also opens up avenues for innovation and growth in a changing global environment.

- Concept of Sustainable Finance:

According to Ziolo, M., Bak, I., & Cheba, K. (2020) , Sustainable finance includes the following mechanisms:

Green finance fosters environmentally friendly practices within businesses, mitigating the adverse effects of traditional finance on the environment (Wang, Zhi, 2016).

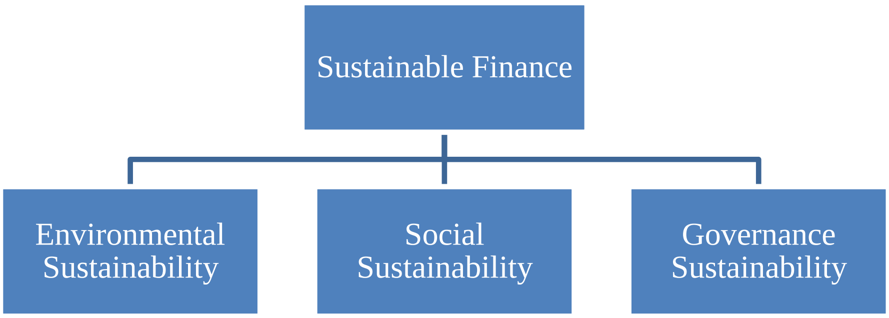
Supporting decarbonization efforts, carbon finance addresses the impact of carbon dioxide emissions on health and climate (Simon, Bumpus & Mann, 2012). Environmental finance, encompassing green and carbon finance, influences various sectors, including markets, business models, regulations, public finance, and infrastructure, as noted by Nyangon (2016). Development finance pertains to the financial aspects of economic development, involving funding from governments and international organizations to support developing countries' welfare (Tierney et al., 2011). Microfinance addresses social exclusion by offering financial services to low-income individuals (Ravi, 2012; Hazudin et al., 2022; Adda et al., 2021), while responsible finance impacts both environmental and social spheres through investments (Scholtens, Cerin & Hassel, 2008). Described by Schoenmaker (2017), sustainable finance integrates financial activities such as investments and loans with economic, social, and environmental considerations.

According to the European Commission, sustainable finance entails providing financial support for investments while considering environmental, social, and governance factors(European Commission, 2019).

The G20 Sustainable Finance Study Group defines sustainable finance as encompassing financial services, products, processes, institutional setups, and market arrangements that both directly and indirectly support the achievement of the Sustainable Development Goals (SDGs) (United Nations Environment, 2019).

UN Environment and the World Bank Group define a sustainable financial system as one that remains stable while facilitating the creation, valuation, and exchange of financial assets. It serves the long-term needs of a sustainable and inclusive economy across economic, social, and environmental dimensions, including employment, education, retirement planning, innovation, infrastructure, and climate action. (United Nations Environment Programme and the World Bank Group, 2017)

The below diagram exhibits the major components of Sustainable finance;



The widespread adoption of sustainable finance and fostering its growth across the market depend on a coordinated financial system with a robust framework. This supportive structure combines voluntary and mandatory policies, considering ESG factors. Managing environmental and social (E&S) risks entails utilizing policies, regulations, guidelines, and disclosure practices to integrate and assess these risks within strategic, governance, and management systems at both strategic and transactional levels. Similarly, redirecting capital towards sustainable and green finance involves implementing initiatives, defining terms, creating market instruments, and establishing monitoring mechanisms. These efforts aim to promote the flow of capital towards environmentally friendly and socially inclusive investments.

Literature Review

The financial aspect plays a pivotal role in advancing sustainability. Zioło et al. (2020) find a strong correlation between robust sustainable finance models and SDG attainment, particularly in countries with integrated financial systems. This correlation is echoed by Perdana et al. (2023), who emphasize the significance of sustainable finance in enhancing firm value, especially in ASEAN-listed banks. Meanwhile, Weber (2012) highlights initiatives promoting sustainability in finance, highlighting the integration of ESG issues with fiduciary duty. Additionally, De Souza Cunha et al. (2021) stress the need for theoretical research in sustainable finance literature to address unanswered questions and challenges.

Furthermore, Webber & Olaf (2014) advocate for a proactive approach to sustainability in the financial sector, emphasizing the importance of internal leadership and private codes of conduct. Moreover, Akomea-Frimpong et al. (2021) discuss challenges and opportunities in green finance in banking, underscoring the need for more research and policy interventions to promote sustainability. Lastly, Durrani et al. (2020) emphasizes the importance of addressing climate-related financial risks in the Asia-Pacific region, proposing actions for regional cooperation and policy implementation.

In a recent speech, Swaminathan (2023), the Deputy Governor of RBI, emphasizes the critical importance of sustainable finance amidst global challenges such as climate change, social inequalities, and governance issues. Financial institutions worldwide are increasingly incorporating Environmental, Social, and Governance (ESG) criteria into their decision-making processes, recognizing the resilience and profitability of sustainable businesses. Furthermore, the G20 reaffirms its commitment to expanding sustainable finance, supporting measures to enhance climate finance mobilization. This focus prompts the authors to concentrate on sustainable finance, particularly State Bank of India's contribution, in this research paper.

SBI's Financial Sustainability Initiatives

According to Sustainability Report of SBI , its operations are guided by a set of five core values encapsulated in the acronym STEPS i.e., Service, Transparency, Ethics, Politeness, and Sustainability. The bank's sustainability endeavours are directed by its Board-approved Sustainability and Business Responsibility Policy. This policy defines the integrated approach taken to manage SBI's economic, environmental, and social performance, while also addressing the principles outlined in the National Guidelines on Responsible Business Conduct (NGRBC). In the fiscal year 2023, the policy experienced revisions in line with the Securities and Exchange Board of India (SEBI) guidelines on Business Responsibility and Sustainability Reporting (BRSR). SBI has introduced various key codes and policies to support sustainability in banking and to strengthen its governance and commitment to Environmental, Social and Governance (ESG) principles, ensuring the adoption of suitable practices at all operational levels. They are;

1. Environmental Aspects

- Focus on lending for Renewable energy projects to boost investment.
- Establishment of Digital banking platforms.
- Implementation of energy conservation and energy efficiency initiatives.
- Reduction of Greenhouse Gas (GHG) emissions.
- Management of Waste generation and disposal (hazardous and non-hazardous).
- Reduction of Paper consumption.
- Reduction of Water consumption.
- Adoption of environmental best practices, including establishment of an environmental management system. This includes conserving natural resources through the "3 R" approach (Reduce, Reuse, Recycle) for pollution prevention and effective waste disposal, including electronic waste.
- Adoption and integration of energy and environmental considerations for all new infrastructural facilities, and obtaining relevant certifications wherever possible.
- Support for Biodiversity & Habitat.
- Exploration of avenues and promotion of transition to non-polluting transportation.
- Efforts to procure products that are environmentally friendly and energy efficient.

2. Social and Governance Aspects:

- Enforcing ethical banking standards
- Advocating for Human Rights
- Encouraging Gender diversity
- Talent development and retention
- Promoting healthy work-life balance
- Constructive engagement with all internal and external stakeholders
- Increasing access to banking services
- Promoting financial inclusion and enhancing financial literacy
- Ensuring customer satisfaction
- Customer Data privacy and robust cyber security mechanism
- Building communities
- Establishing strong grievance redressal mechanisms

1. Combination of the Sustainability and Business Responsibility Policy withthe Risk Management Framework:

As a major banking institution, SBI faces intrinsic risks in its business activities, including its reputation, products, strategic decisions, market presence, operations, and environmental and social impacts. SBI believes that investing in sustainable practices can effectively manage these risks. Therefore, the Sustainability Policy will support SBI's Risk Management framework by identifying measures to mitigate risks arising from emerging economic, environmental, and social factors.

2. SBIs business ethics towards sustainability

SBI supports professional conduct through its code of conduct, emphasizing zero tolerance for unethical practices. The bank's belief in being a trustee of public funds drives its commitment to maintaining public trust. The sustainability policy of SBI aligns with the bank's corporate governance and code of conduct, emphasizing ethical business practices and legal compliance. Employees are expected to follow professionalism, integrity, and legal standards. To enforce the code of conduct, SBI has a vigilance mechanism and whistle-blower policy to address concerns confidentially and anonymously.

The following information highlights the contribution of SBI towards sustainability in financial capital, natural capital, social capital, and human capital till previous year 2023.

Table 1: SBIs Financial Sustainability highlights

Type of Bank's Capital	Particulars	Values (Amt & No. in Crores)
Financial Capital	Net Profit	50,232
	Deposits *	44,23,778
	Advances *	32,69,242
	Net NPA	0.67%
	Registrations on YONO (in num.)	1.22
	Share of transactions through alternate channels	97%
	Customer Base*	48 +
	Foreign offices*	235

Note: *Indicates numbers that are cumulative in nature up to FY-2023.

The table shows important details about the bank's money and how it operates. It made a profit of INR 50,232 crore, and people deposited a lot of money, INR 44,23,778 crore, and the bank gave out loans worth INR 32,69,242 crore. The bank also has a small amount of bad loans, called non-performing assets, which is only 0.67%. Many people are using the bank's digital platform called YONO, with 1.22 crore people signed up, and most transactions, 97%, are done online. The bank has a lot of customers, more than 48 crores, and offices in 235 countries. These numbers, collected up to FY23, show that the bank is doing well financially and has lots of customers worldwide.

Table 2: SBIs Environmental Sustainability highlights

Type of Bank's Capital	Particulars	Values
Environmental/ Natural Capital	Renewable Energy Financed*	23,679.55 MW
	Loan portfolio mapped for SDGs *	2.34 lakh crore
	Renewable Energy financed portfolio*	36,243.42 crore
	Captive Renewable Energy Capacity*	37 MWp+
	Green Building Certifications*	32
	EV chargers Installed	46
	Trees planted	8 lakhs+
	GHG emission avoided with newer interventions	28,633.02 $MtCO_2$ e

Note: *Indicates numbers that are cumulative in nature up to FY-2023.

$MtCO_2$ e: Metric tons of Carbon dioxide equivalent

The table highlights the bank's environmental initiatives. It has financed 23,679.55 MW of renewable energy and mapped a loan portfolio of 2.34 lakh crore for Sustainable Development Goals. Additionally, the bank has financed 36,243.42 crore for renewable energy projects, installed 46 electric vehicle chargers, certified 32 green buildings, and planted over 8 lakhs trees. These efforts have helped avoid 28,633.02 $MtCO_2$ e of greenhouse gas emissions.

Table 2: SBIs Social Sustainability highlights

Type of Bank's Capital	Particulars	Values
Social Capital	CSR Spend	316.76 crore
	CSR Beneficiaries	54 lakhs+
	Villages covered	19,074
	Business correspondents*	76,089
	No. of Financial Literacy camps held*	2 lakh+
	Beneficiaries of Financial Literacy Camps	12.5 lakh

Note: *Indicates numbers that are cumulative in nature up to FY-2023.

The table shows how the bank invests in social initiatives. It spent 316.76 crore on Corporate Social Responsibility (CSR), benefiting over 54 lakhs people. The bank also covered 19,074 villages and works with 76,089 business correspondents to reach more areas. Additionally, the bank organized over 2 lakh Financial Literacy camps, benefiting 12.5 lakh individuals. These efforts aim to make a positive impact on communities, promoting financial education and improving livelihoods.

SBIs Contribution towards Sustainable Development Goals (SDGs)

SBI, a leading financial institution, actively contributes to achieving the UN's Sustainable Development Goals (SDGs) by aligning its products and services with these objectives. The State Bank of India (SBI) has strategically introduced a range of financial products between 2021 and 2023, each meticulously designed to address environmental, social, and governance (ESG) aspects while aligning with the Sustainable Development Goals (SDGs). Initiatives such as Surya Shakti Solar Finance and Finance for Biofuel Projects promote clean energy adoption, reducing carbon emissions and mitigating climate change (SDG 7, 13). By financing solar installations and supporting projects that replace fossil fuels with biomass, SBI contributes to sustainable energy production and industrialization while fostering environmental stewardship.

Socially, SBI's initiatives focus on promoting inclusivity, empowerment, and access to opportunities. Programs like Student Loan and Stand-Up India Scheme offer financial support to marginalized groups, including women and those from Scheduled Castes and Tribes, fostering economic empowerment (SDG 1, 5, 8). Additionally, initiatives such as Self-Help Group (SHG) Financing and Stree Shakti Entrepreneur Loan promote gender equality and financial inclusion by providing access to credit and resources for women entrepreneurs, contributing to poverty reduction and partnerships for the goals (SDG 1, 5, 17).

In terms of governance, SBI's digitalization efforts streamline processes, enhance transparency, and improve accessibility, reflecting good governance practices (SDG 9). Leveraging technology for paperless and real-time processing of loans enhances efficiency and trust among customers. Moreover, partnerships with international organizations like the World Bank and UN Women underscore SBI's commitment to inclusive governance practices, promoting financial inclusion and gender equality (SDG 8, 5). Through these integrated ESG initiatives, SBI demonstrates its commitment to driving positive impact across various sectors while advancing sustainable development goals.

Conclusion:

From our study, it's evident that the State Bank of India (SBI) plays a vital role in promoting sustainable finance amidst today's complex global challenges. SBI has incorporated sustainability into its operations, covering environmental, social, and governance aspects. It supports renewable energy, financial inclusion, and ethical banking, showing its commitment to positive change. Also the paper shows how SBI's efforts align with Sustainable Development Goals (SDGs), emphasizing the significant impact a leading bank can have on creating a more inclusive and sustainable financial future. Through leveraging its influence and forming strategic partnerships, the State Bank of India (SBI) effectively navigates risks, encourages innovation, and tackles a range of environmental, social, and economic concerns.

SBI stands as an example of sustainable finance, illustrating how banks can promote environmental and social responsibility while ensuring economic stability. It urges other financial institutions to follow suit, contributing to a more resilient and fair global economy.

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