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A Study Of The Relationship Between Green Governance And Sustainable Finance In PSU Banks

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Abstract

In order to strengthen its green infrastructure, achieve its sustainable development goals, and address climate concerns like global warming, its enormous population, and enormous green depletion, India must now accept challenges from the international community. Green finance must be used if the nation is to survive. Green finance, often known as climate finance, requires a shift in emphasis and behavior from conventional forms of funding to more environmentally friendly financing. India needs a green finance plan if it is to meet its lofty objectives for sustainable development. It is necessary to persuade Indian, as well as global, financial institutions and corporations, to refocus on the topic of green finance. There have been many opportunities and difficulties on this front. In order to manage India's sustainable development objectives and go forward with green financing, this study aims to comprehend the scenario in which India currently finds itself. This study is descriptive in nature and is based on secondary data referred from government, national, and international institutions.

Keyword-Green Governance, Sustainable Finance ,Indian Banking sector, Environment , NABARD,SIDBI

Introduction

India has a sizable population. 382 people live there per square kilometer, which is a high population density. India, which occupies only 2.4% of the global surface area, is home to 17.5% of the world's population. (Times, undated) Indians have historically been heavily reliant on the country's forests and natural resources. The expansion of the economy, business, industry, and population has had a significant negative impact on the environment's health. India is currently the fifth most vulnerable country to the effects of climate change, with a 2.5% to 4.5% yearly risk to its GDP (Labanya Prakash Jena, 2020). According to a Stanford University research, the Indian economy is now 31% smaller than it would have been without global warming (Times, n.d.). As a result, we can no longer disregard the effects of climate change. In reality, it has evolved into the greatest threat to global GDP

ISSN PRINT 2319 1775 Online 2320 7876
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growth, and financing will be crucial to advancing India's implementation of its commitment to the Paris Agreement and achieving the Sustainable Development Goals. According to various projections, India will need roughly 2.5 trillion dollars to implement the climate action reforms required by the Paris Agreement between 2015 and 2030. Only the public sector or the government can make a sufficient contribution. To achieve sustainable growth, private participation or private-public collaboration has become crucial. Indeed, green financing is now a popular way to adopt sustainability.

Research Objective

- To examine several obstacles to green financing in India.
- To evaluate how green financing has affected India's sustainable banking industry.
- To comprehend the steps done by various Indian agencies to promote green financing.

Green governance

Green governance is the process of rationally regulating human interactions with the natural world to permit the simultaneous, balanced growth of the economy, society, and environment.

Both local and global governments must practice green governance in order to accomplish their objectives. In order to promote sustainable development, we analyze the discrepancy between research and practice and offer a taxonomy for green governance. The purpose of the case study was to assess if a nation's adoption of a green governance policy is necessary for attaining sustainable growth.

Effective green governance procedures

- The state environmental impact assessment authorities will be evaluated based on seven key criteria by the Union Ministry of Environment, Forests and Climate Change (MoEFCC), which will demonstrate their effectiveness and speed in approving environmental projects. This drew criticism from all angles, prompting the Ministry to make the following clarifications:
- Without weakening any regulatory safeguards, the action aims to promote efficiency, openness, and accountability in the operation of SEIAAs.
- No SEIAA will suffer consequences for taking longer to provide permission. Once they determine that these projects have no environmental impact, the SEIAAs are in charge of granting authorization and environmental clearance for more than 90% of infrastructure, development, and industrial projects in the nation.

ISSN PRINT 2319 1775 Online 2320 7876
Research paper UGC CARE Listed (Group -I) Journal Volume 11, Iss 12,Dec 2022

- The ministry has undertaken a number of steps to streamline the EC (environmental clearance) procedure and cut down on the excessive time required for permissions to be granted. A new ranking system for SEIAAs has been implemented as a step further to promote their effectiveness, accountability, and openness.

Challenge of green governance

The following are some of the difficulties facing green governance:

1. There aren't enough regional and international accords.

2. There are numerous issues with development, levels of protection, and available resources. It damages the economy and makes it challenging to implement International Environmental Agreements (MEAs).

3. Fighting for funding for environmental causes resources to be diverted from tackling problems.

4. The policies of the various sectors are incompatible.

5. Insufficient institutional resources

6. The order of importance is unclear.

7. The objectives are unclear.

8. The coordination between the corporate sector, civic society, and the UN is insufficient.

9. A lot of effort needs to be done in the absence of a common vision.

10. Trade, agriculture, food safety, peace, and security all have relationships with economic growth.

11. The World Trade Organization, for instance, falls short in its efforts to safeguard the environment (WTO).

12. The amount of credit that an organization can receive for Global Environment Facility initiatives is capped (GEF) MEAs should be a collaboration between the World Bank, the United Nations Development Program, and the United Nations Environment Program (UNEP).

13. The government is unable to fulfil its obligations to the MEA.

14. Gender equity and environmental governance are not taken into account.

15. Impossibility of influencing public opinion.

16. It may take a while before humans have an effect on the ecosystem. That might last for an entire generation.

17. Environmental issues are a result of complex systems that we don't fully comprehend.

ISSN PRINT 2319 1775 Online 2320 7876

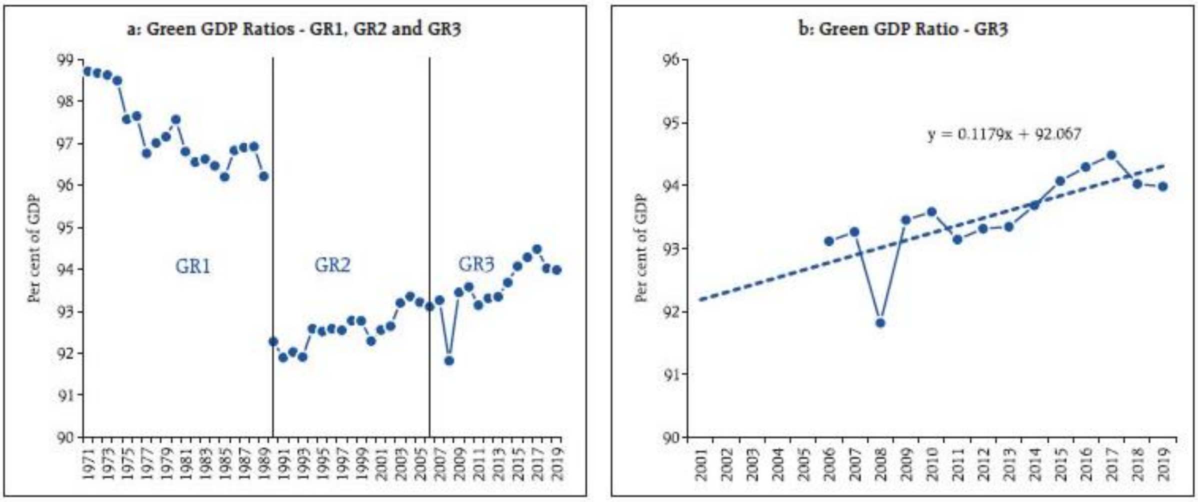
Research paper UGC CARE Listed (Group -I) Journal Volume 11, Iss 12,Dec 2022

Green GDP Ratios in India

The Green GDP ratios for the years 1971 to 1989, 1990 to 2005, and 2006 to 2019 are displayed using the envelope method. Based on the trend of the Green GDP ratio, we identify three major periods. The first phase of the period 1971–1989 shows that the environmental cost of expansion during this phase is indicated by the GR, which primarily shows a decreasing trend with sporadic improvements in the years 1976, 1977–1980, and 1986. The emphasis at this time was on greater economic expansion rather than the environmental costs of deforestation, resource depletion, and harm from carbon emissions. The inclusion of damage data related to particle pollution caused the abrupt decline seen in 1989 and 1990.

The Green GDP ratio typically followed an upward trajectory during the second phase (1990–2006), which saw the 1992 Earth Summit and the Kyoto Protocol16. As India focused on striking a balance between the goals of increased economic growth and environmental sustainability, the declining trend seen in the earlier period got turned into a slightly positive trajectory.

The Green GDP trajectory is shown with all available data in the third phase (2006-2019). The rapid decline in 2007 and ensuing improvement in 2008 are related damages17 caused by the depletion of minerals and energy. After then, there was an upward tendency with a steeper trend than in the prior phase.



Source: RBI staff estimates on the basis of World Bank database.

From the 2012 fiscal year through the 2020 fiscal year, India's forestry and logging industry will add gross value (in trillion Indian rupees)

ISSN PRINT 2319 1775 Online 2320 7876

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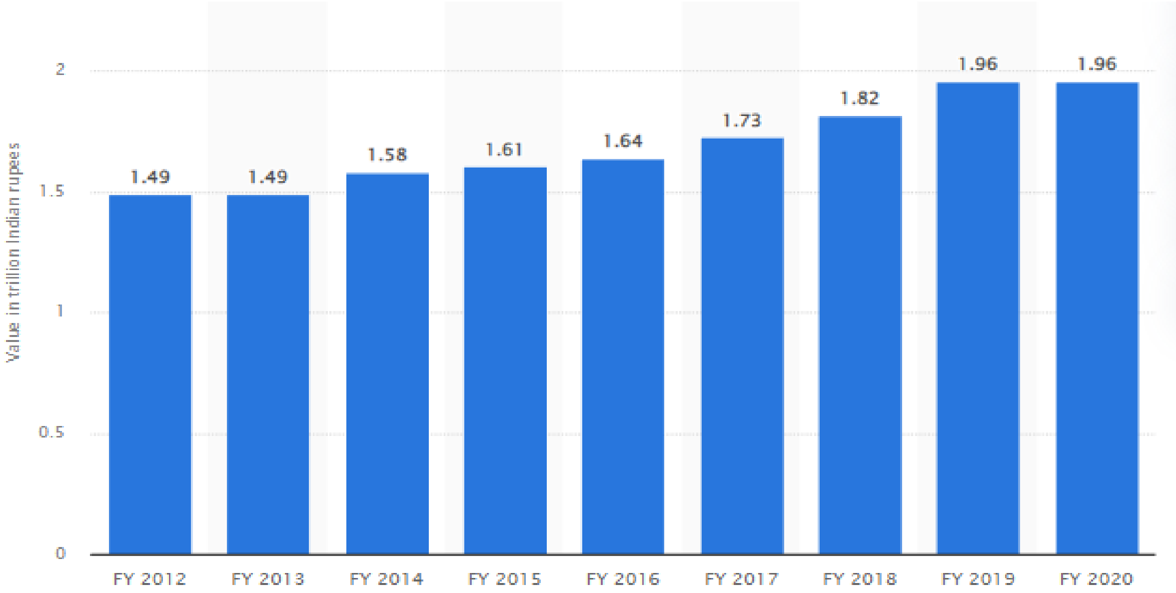

Source- © Statista 2023

In the fiscal year 2020, forestry and logging provided over 1.96 trillion Indian rupees to agricultural gross value. From the 2013 fiscal year, there has been an upward tendency in this sector's contribution.

Sustainable finance

The term "sustainable finance" refers to the practice of considering environmental, social, and governance (ESG) factors when making investment decisions in the financial industry, which results in longer-term investments in sustainable economic endeavors and endeavors.

Investments in the agricultural industry, renewable energy, sustainable transportation, and ecological stewardship are a few examples. Investment vehicles include equity, debt, lines of credit, and loan guarantees and come in a wide range of shapes and sizes around the globe.

- **Environmental considerations**: They include things like protecting the environment, preventing pollution, addressing climate change, etc. For instance, if a company has been connected to substantial carbon emissions, an investor might decide not to invest in that company.
- **Social Considerations:** Socioeconomic factors include racism, inequality, and human rights concerns. Among these factors are deciding not to invest in a firm whose founder or vision is racist or whose products are produced by slaves working in sweatshops.

ISSN PRINT 2319 1775 Online 2320 7876
Research paper UGC CARE Listed (Group -I) Journal Volume 11, Iss 12,Dec 2022

- **Governance Considerations:** This component includes things like management structures, employee remuneration policies, etc. For instance, deciding not to invest in a company because its employees are paid inadequately.

Sustainable finance differs significantly from traditional finance, which primarily focused on profit concerns while making investment decisions. In sustainable finance, one realizes the potential influence that investing in a firm can have and works to take use of it in order to change the world for the better.

Relationship between Green governance and sustainability

With increasing pressure from multiple development-related factors, institutional and non-institutional procedures are becoming more crucial to ensuring the long-term sustainability of natural resources. It is therefore thought that strengthening the governance process of evolution would contribute to increasing the nation's performance in terms of resource preservation and ecological management. The Indian government is involved in numerous activities. Yet, they are divided into a few main categories: international commitments, openness and accountability, conservation of delicate ecosystems, water resources, and domestic research, instruction, and training.

GREEN BANKING PRODUCTS USED IN THE BANKING SECTOR

Go online

Online banking comprises RTGS and NEFT transactions, as well as internet banking, mobile banking, tab banking, phone banking, and other services. Online bill payment, online deposits, fund transfers, account statements, etc. are among the functions involved. Banks ultimately use less paper, less energy, and spend less on natural resources thanks to these financial activities.

Transactions with credit cards:

Banks have launched green channel counters to offer a variety of card-based transactions (GCC). GCC encourages card-based transactions among its clients in order to save time for the clients as well as resources like paper and electricity. Customers can choose from a range of cards, including ATM, Credit and Debit, Green Remit, International Travel, eZ Pay, Gift, and Smart Payout cards.

Green Finance: Banks should provide financing for environmentally friendly projects and goods like solar equipment, recycled furniture, auto loans for cars with low carbon emissions,

ISSN PRINT 2319 1775 Online 2320 7876
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mortgage loans for green homes, etc. while also offering processing fee and interest rate breaks.

Green infrastructure: IT infrastructure (Data Centers), environmentally friendly structures with enough natural light and fresh air, power generation for on-site use, and waste recycling facilities for recycling on-site trash are all examples of green infrastructure. Self-service passbook printers, kiosks (both self-service and multi-function), cash deposit machines, contact centers, and other items may also be categorized as green infrastructure. That makes it easier to lower banks' own carbon impact.

Banks in the public and commercial sectors are actively engaging in a variety of green banking activities. In green banking, banks are primarily raising awareness of environmental issues among bank staff, customers, and the general public. The focus of banks' green banking initiatives has gradually evolved from promoting and implementing e-banking to more efficient trash recycling, water treatment facilities, rainwater harvesting, the use of solar-powered equipment, and the construction of green buildings, among other things.

Sustainable Finance in India

To a large extent, financial institutions determine whether a nation is pursuing sustainable economic development. Through their lending, investment, and other financial actions, banks, insurance firms, pension funds, asset managers, and other financial actors influence environmental, social, and governance (ESG) results.

India is attempting to strengthen the climate consistency of its financial system in light of the pressing problems caused by climate change. As a result, a lot of financial actors are looking into domestic and international prospects for peer learning. For instance, the Reserve Bank of India recently joined the Network of Central Banks and Supervisors for Greening the Financial System (NGFS, 2019), the Indian Ministry of Finance is a pioneer member of the International Platform on Sustainable Finance (European Commission, 2019), and the Indian Banks' Alliance, which represents nearly 250 banks, is a member of the Sustainable Banking and Finance Network (IFC, 2012).

A few financial institutions in India have also started looking into ways to lessen the carbon intensity of their portfolios and their exposure to hazards related to climate change. These initiatives are built upon far more extensive experience dealing with other ESG priorities including social inclusion and gender equity. Other Indian banks have the chance to learn

ISSN PRINT 2319 1775 Online 2320 7876
Research paper UGC CARE Listed (Group -I) Journal Volume 11, Iss 12,Dec 2022

from these industry leaders, allowing success stories to be repeated and expanded throughout the financial sector.

Examples of leading financial institutions

NABARD

The Indian government established NABARD in 1982 as a development finance institution (DFI) to aid small-scale enterprises like textile and handicraft production as well as agricultural production and processing in rural areas. Such funding was intended to support holistic rural development and increase the wealth of rural regions.

Around 30,000 bank branches nationwide now offer official financial services to 14.1 million individuals thanks to the Self-Help Group Bank Linkage Initiative, which NABARD started in 1992.

The program has grown to its current size because to NABARD's efforts to connect self-help groups with wholesale loans. As of March 2021, 13.8 million women were receiving financial services from more than 30,000 bank branches (out of 14.1 million members). Banks had saved $4.3 billion for women's self-help organizations, and they also gave them an additional $12.8 billion in loans, with an average loan amount of $2,394 to each self-help organization (NABARD, 2021a).

The Self-Help Group Bank Linkage Initiative has also provided Indian banks with chances. Millions of bankable clients have been acquired by participating institutions, who also benefit from financial literacy training and have some of their administrative needs handled by a centrally supported Community Resource Person. Although the self-help group members receive interest rates that are lower than those they could get from conventional moneylenders, the banks gain from a rapidly expanding population of new borrowers who pay market interest rates. The number of self-help organizations connected to banks has increased at a 3.6% annual rate during the past ten years. Throughout the same time period, total deposits and total loans disbursed climbed by 15.7% and 20.5%, respectively (Al-Kubati and Selvaratnam, 2021).

The Green Climate Fund's certification of NABARD has given it access to $120.7 million in concessional financing, which it is now on-lending for solar rooftop installation, groundwater recharge, and solar micro-irrigation.

RBL Bank

ISSN PRINT 2319 1775 Online 2320 7876
  UGC CARE Listed (Group -I) Journal Volume 11, Iss 12,Dec 2022

With assistance from the UK Commonwealth Development Corporation, RBL Bank was one of the first banks in India to build an integrated Environmental and Social Management System to evaluate credit risks (now British International Investment). Since 2014, RBL Bank has evaluated all transactions with a value greater than $1 million and a tenure longer than one year using metrics related to, for example, economization, carbon emission intensity, occupational health and safety, and community-associated concerns (RBL Bank, 2019).

RBL Bank has more recently included the physical and transition hazards of climate change in its evaluations (RBL Bank, 2021). In cases where significant environmental or social issues are found, RBL Bank collaborates with clients to create Corrective Action Plans to reduce the risks. While 32% of RBL Bank's exposure in 2017 met the criteria for integrated risk assessment, that percentage has decreased to 32% as a result of the growth of microfinance and retail banking in comparison to wholesale transactions (RBL Bank, 2019; 2021). RBL Bank has been able to steadily lower its exposure to ESG risks throughout its portfolio thanks to the adoption of an integrated social and ecological management system.

The microbanking strategy used by RBL Bank supports a loan portfolio worth $966.2 million and has given 3.3 million people access to formal financial services.

Additionally, RBL Bank has set up special loan lines with competitive interest rates to fund environmentally friendly projects. These credit lines were first made available through collaborations with international organizations that offered RBL subsidized financing so it could test and refine its business ideas.

SIDBI

SIDBI's 4E Finance Program has given 105 micro, small, and medium-sized businesses across India access to low-cost financing totaling $15.4 million, allowing them to make investments in energy efficiency and sustainable production techniques. SIDBI has tested a variety of cutting-edge financial instruments that employ public funding to attract private funding for socially and ecologically beneficial projects. The Sustainable Finance Program, sometimes referred to as the End-to-End Energy Efficiency Investments in MSMEs (4E Financing Scheme), aims to support MSMEs' investments in greener manufacturing by financing any policies and procedures that fall under the Bureau of Energy Efficiency's (BEE) star rating system. With a minimum loan value of $13,300 and a maximum loan amount of $199,500 for each qualifying borrower, the program gives loans worth up to 90%

ISSN PRINT 2319 1775 Online 2320 7876
Research paper UGC CARE Listed (Group -I) Journal Volume 11, Iss 12,Dec 2022

of the project cost. The fixed coupon rate on the Women's Livelihood Bond is set at 3% annually. SIDBI will distribute the funds through financial intermediaries such as banks, non-bank financial businesses, or microfinance organizations, who will lend $133 to $1,995 to female entrepreneurs (World Bank, 2019).

Indian banking sector initiative

Bank Credit Outstanding to Nonconventional Energy as of March 2020 is depicted in Figures 3-5. As part of its push for green financing, the Reserve Bank of India included the small renewable energy sector in its Priority Sector Lending (PSL) plan in 2015. At the end of March 2020, there were around 36,543 crores in total outstanding bank credit for the non-conventional energy sector, which represented 7.9 percent of all outstanding bank credit for the sector of power production (Figure 4), up from 5.4 percent in March 2015. (Figures 3-5). The exposure of commercial banks to non-conventional energy varied greatly throughout India's major states and among bank groups (Figures 3-5).

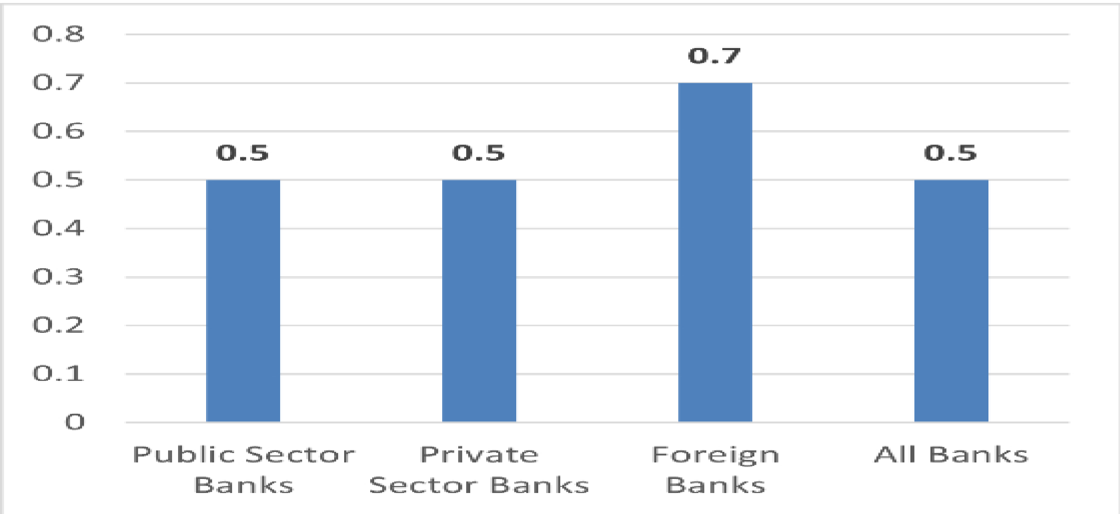

Figure 3. As percent of total bank credit (excluding personal loans). **Source:** BSR, RBI, Authors' calculations.

ISSN PRINT 2319 1775 Online 2320 7876

Research paper UGC CARE Listed (Group -I) Journal Volume 11, Iss 12,Dec 2022

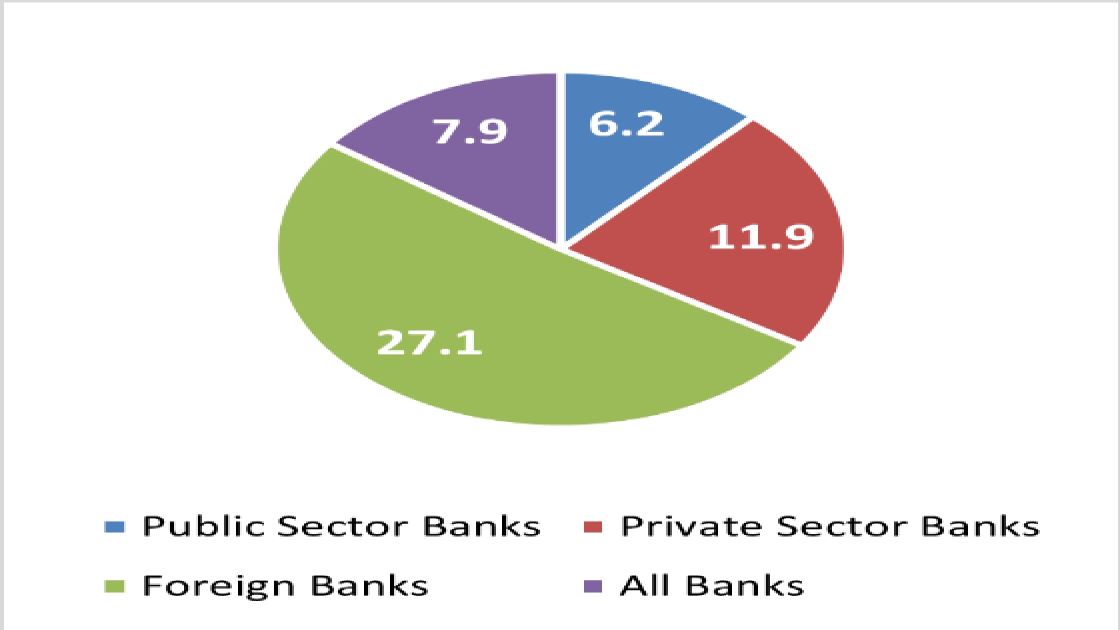

Figure 4. As percent of power sector credit **Source:** BSR, RBI, Authors' calculations.

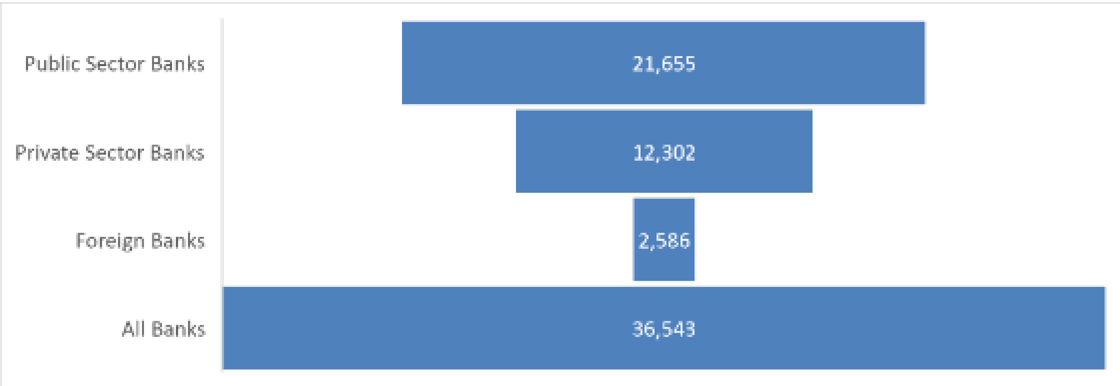

Figure 5. As percent of total bank credit (excluding personal loans). **Source:** BSR, RBI, Authors' calculations.

Conclusion

Public policy is quickly making green finance a top issue. Our findings show that there have been some recent advancements in public awareness and funding alternatives in India as we analyze the evolution of green finance in India. According to existing research, improved information management systems and more coordination among stakeholders may help pave the path for sustainable long-term economic growth by reducing the information asymmetry around green projects. The globe is currently battling COVID-19 and its effects on the expansion of the world economy. Certainly, reviving the world economy is the current policy challenge. But, the epidemic has also given all parties involved the chance to reconsider the long-term environmental sustainability of the political, financial, and operational methods

ISSN PRINT 2319 1775 Online 2320 7876
 UGC CARE Listed (Group -I) Journal Volume 11, Iss 12,Dec 2022

they have so far chosen. Green finance is unquestionably a significant tool that may support such a transition to sustainable economic growth.

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