

## Role of Banks in Promoting Sustainable Business Practices

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### Abstract

The growing emphasis on sustainability has expanded the role of banks beyond traditional financial intermediation to actively promoting sustainable business practices. This study examines the role of banks in fostering sustainability through green financing, integration of environmental, social, and governance (ESG) criteria, sustainable investment instruments, and financial inclusion initiatives. The research is based exclusively on secondary data collected from published bank annual reports, sustainability and ESG disclosures, regulatory guidelines, reports of central banks, and existing academic literature. The study analyses trends and initiatives adopted by banks to support environmentally responsible and socially inclusive business activities. The findings reveal that banks play a significant role in directing capital towards renewable energy projects, eco-friendly enterprises, and sustainable business models while enhancing risk management and long-term financial stability. However, challenges such as lack of uniform sustainability reporting standards, limited disclosure practices, and regulatory constraints hinder the effective implementation of sustainable banking. The study concludes that strengthening regulatory frameworks and improving transparency can enhance the contribution of banks toward sustainable business development.

**Keywords:** Sustainable Banking, Green Finance, ESG, Sustainable Business Practices, Secondary Data

### Introduction

In recent years, sustainability has emerged as a central concern for businesses, governments, and financial institutions across the globe. Increasing environmental degradation, climate change risks, social inequalities, and regulatory pressures have compelled the financial sector to reassess its traditional role in economic development. Banks, as key intermediaries in the financial system, are no longer confined to mobilizing savings and extending credit; instead, they are increasingly expected to influence business behavior by promoting responsible and sustainable practices.

The concept of sustainable banking emphasizes the alignment of financial activities with environmental protection, social responsibility, and sound governance (Khushbu, & Agarwal, C. 2025). Green banking in the digital age: Transforming finance to sustainable finance. In *Industry 5.0: Sustainable business practices for a bright future* (pp. 225–247). Nova Science Publishers.

Through mechanisms such as green financing, responsible lending, and the integration of environmental, social, and governance (ESG) criteria into credit appraisal and investment

decisions, banks can channel capital toward projects that generate long-term economic value while minimizing negative environmental and social impacts. Moreover, initiatives aimed at financial inclusion further strengthen sustainability by supporting inclusive growth and equitable access to financial services.

Regulatory authorities and central banks worldwide have also recognized the importance of sustainable finance, issuing guidelines and frameworks to encourage banks to incorporate sustainability considerations into their operations (Agarwal, C., & Rai, 2025). As a result, many banks have begun to disclose sustainability and ESG-related information in their annual reports, highlighting their commitment to renewable energy financing, climate risk management, and socially responsible investments. These developments indicate a gradual shift in the banking sector toward supporting sustainable business models and long-term financial stability.

Despite growing awareness and policy support, the effective implementation of sustainable banking practices remains uneven. Challenges such as the absence of standardized sustainability reporting frameworks, limited transparency, and regulatory constraints continue to restrict the full potential of banks in advancing sustainable development (Jaiswal, et al., 2024). Against this backdrop, the present study seeks to examine the evolving role of banks in promoting sustainable business practices by analyzing secondary data from bank reports, regulatory publications, and existing literature. The study aims to provide insights into the initiatives adopted by banks, the trends in sustainable financing, and the challenges that need to be addressed to strengthen the contribution of the banking sector to sustainable business development.

### **Review Of Literature**

**Scholtens (2009)** emphasized that banks play a pivotal role in sustainable development by influencing corporate behavior through lending and investment decisions. The study argues that banks can act as catalysts for sustainability by aligning financial objectives with environmental and social goals.

**According to Weber (2012)**, green financing initiatives undertaken by banks significantly contribute to environmental sustainability by supporting renewable energy projects and environmentally responsible enterprises. The study highlights that green credit policies help reduce ecological risks and promote sustainable business models.

**Friede, Busch, and Bassen (2015)** found that the integration of environmental, social, and governance (ESG) factors into financial decision-making enhances risk-adjusted returns and long-term financial performance. Their findings suggest that ESG integration strengthens banks’ risk management frameworks.

**Böhnke and Ebert (2020)** noted the increasing role of banks in issuing and managing sustainable financial instruments such as green bonds and sustainability-linked loans. These instruments enable banks to mobilize capital toward sustainable projects while meeting investor demand for responsible investment opportunities.

**Beck, Demirgüç-Kunt, and Levine (2007)** highlighted that financial inclusion promoted by banks contributes to social sustainability by supporting small businesses, reducing

poverty, and fostering inclusive economic growth. Access to credit is identified as a critical factor in sustainable development.

**According to the Basel Committee on Banking Supervision (BCBS, 2020)**, regulatory frameworks play a crucial role in encouraging banks to integrate climate-related and sustainability risks into their operations. Strong regulatory guidance enhances the effectiveness of sustainable banking initiatives.

**KPMG (2020)** observed that sustainability and ESG reporting by banks improves transparency and accountability. However, the study also noted the absence of uniform global reporting standards, which limits comparability across institutions.

**UNEP Finance Initiative (2019)** identified key challenges such as regulatory uncertainty, data limitations, and the risk of greenwashing as major barriers to effective sustainable banking. The study emphasizes the need for standardized frameworks and stronger policy support.

### **Objectives Of the Study**

- To examine the role of banks in promoting sustainable business practices.
- To analyse the initiatives undertaken by banks in green financing and ESG integration.
- To assess the contribution of banks toward sustainable investments and financial inclusion.
- To identify the challenges faced by banks in implementing sustainable banking practices.

### **Hypotheses Of the Study**

- Banks play a significant role in promoting sustainable business practices through their financing and policy frameworks.
- Banks have increasingly adopted green financing initiatives and integrated ESG criteria into their lending and investment decisions.
- Banks significantly contribute to sustainable investments and financial inclusion through sustainable financial instruments and inclusive banking initiatives.
- Banks face substantial challenges, including regulatory constraints, lack of standardized sustainability reporting, and limited disclosure, in implementing sustainable banking practices.

### **Research Methodology**

#### **Scope of the Study**

The scope of the study is limited to examining the role of banks in promoting sustainable business practices, with particular emphasis on green financing, ESG integration, sustainable investments, and financial inclusion. It focuses on how banks support environmentally responsible and socially inclusive economic development through financing renewable energy, eco-friendly enterprises, and sustainable business models.

The study is based solely on secondary data obtained from banks’ annual reports, sustainability/ESG reports, and regulatory disclosures. It also identifies key challenges in implementing sustainable banking practices, such as lack of standardized reporting, limited

transparency, and regulatory constraints. Primary data and stakeholder perceptions are not included. The findings aim to highlight trends, practices, and policy implications in sustainable banking.

### **Sources of data**

The study is based on secondary data collected from Annual and ESG/Sustainability Reports of banks, publications of the Reserve Bank of India (RBI), reports of international organizations such as the World Bank and UNEP, research journals, and information available on official bank websites and financial databases.

### **Period of study**

The study covers a period of five years, from 2019–20 to 2023–24. This period has been selected to capture recent trends and developments in sustainable banking practices, green financing initiatives, ESG integration, and financial inclusion efforts undertaken by banks in the post-pandemic and contemporary regulatory environment.

### **H1: Banks play a significant role in promoting sustainable business practices through their financing and policy frameworks.**

The first objective of the study aims to examine the role of banks in promoting sustainable business practices. Banks act as key financial intermediaries in the economy and have a significant influence on business activities through their lending decisions, investment strategies, and policy frameworks. By incorporating sustainability considerations into credit appraisal, risk management, and investment policies, banks can encourage businesses to adopt environmentally responsible and socially inclusive practices.

In line with this objective, the hypothesis states that banks play a significant role in promoting sustainable business practices through their financing and policy frameworks. This hypothesis is formulated on the assumption that banks, by prioritizing green financing, ESG-compliant investments, and sustainability-linked loans, actively support sustainable development. Additionally, internal policies related to environmental risk assessment, responsible lending, and corporate governance further strengthen the role of banks in guiding businesses toward sustainable models. Testing this hypothesis helps to assess the extent to which banking institutions contribute to sustainability objectives and align financial activities with long-term economic, environmental, and social goals.

### **H2: Banks have increasingly adopted green financing initiatives and integrated ESG criteria into their lending and investment decisions.**

The second objective of this study is to analyze the initiatives undertaken by banks in green financing and the extent of integration of Environmental, Social, and Governance (ESG) criteria into their lending and investment decisions. This objective is framed in response to the growing global emphasis on sustainable development, climate risk mitigation, and responsible banking practices. As financial intermediaries, banks play a crucial role in directing capital flows toward environmentally sustainable and socially responsible economic activities.

In recent years, banks have introduced various green financing initiatives, such as green loans, green bonds, renewable energy financing, sustainable infrastructure funding, and preferential credit terms for eco-friendly projects. Alongside these initiatives, banks are

increasingly embedding ESG criteria into their credit appraisal, risk assessment, and investment decision-making processes. ESG integration enables banks to assess not only the financial viability of projects but also their environmental impact, social responsibility, and governance standards, thereby promoting long-term value creation and risk management.

Based on this objective, Hypothesis 2 states that banks have increasingly adopted green financing initiatives and integrated ESG criteria into their lending and investment decisions. The hypothesis assumes a positive and significant shift in banking practices driven by regulatory guidelines, international sustainability frameworks, stakeholder pressure, and heightened awareness of climate-related financial risks. By testing this hypothesis, the study seeks to evaluate whether banks are merely expressing commitment to sustainability or are actively implementing measurable green and ESG-based financial practices.

The acceptance or rejection of this hypothesis will provide empirical insights into the depth and effectiveness of green financing and ESG integration in the banking sector. It will also help assess the role of banks in supporting sustainable economic growth and aligning financial activities with global sustainability goals.

**H3: Banks significantly contribute to sustainable investments and financial inclusion through sustainable financial instruments and inclusive banking initiatives.**

The third objective of the study is to assess the contribution of banks toward sustainable investments and financial inclusion. Banks play a crucial role in promoting sustainable economic development by directing funds toward environmentally and socially responsible projects while ensuring wider access to formal financial services.

Banks support sustainable investments through instruments such as green bonds, sustainability-linked loans, and social finance products that encourage long-term value creation and responsible resource utilization. At the same time, banks advance financial inclusion by offering basic banking services, microfinance, digital banking solutions, and credit support to underserved and marginalized sections of society.

In line with this objective, Hypothesis 3 states that banks significantly contribute to sustainable investments and financial inclusion through sustainable financial instruments and inclusive banking initiatives. Testing this hypothesis helps evaluate the effectiveness of banks in fostering sustainability and inclusive growth.

**H4: Banks face substantial challenges, including regulatory constraints, lack of standardized sustainability reporting, and limited disclosure, in implementing sustainable banking practices.**

The objective of this study is to identify the challenges faced by banks in implementing sustainable banking practices. While banks are increasingly recognizing the importance of sustainability, the effective adoption of sustainable banking frameworks remains complex and constrained by multiple internal and external factors.

Banks encounter regulatory challenges, including evolving and sometimes inconsistent sustainability guidelines, which create compliance burdens and uncertainty in implementation. Additionally, the lack of standardized sustainability reporting frameworks makes it difficult for banks to measure, compare, and communicate their sustainability performance. Limited and

non-uniform disclosure practices further restrict transparency, reduce stakeholder confidence, and hinder the integration of sustainability into core banking operations.

Based on this objective, the hypothesis proposes that banks face substantial challenges, including regulatory constraints, lack of standardized sustainability reporting, and limited disclosure, in implementing sustainable banking practices. Testing this hypothesis enables the study to evaluate the significance and impact of these challenges and to understand the barriers affecting the effective transition toward sustainable banking.

### **Conclusion Of the Study**

The study concludes that banks play a significant role in promoting sustainable development through the adoption of green financing initiatives, ESG integration, sustainable investment instruments, and financial inclusion strategies. The findings indicate that banks are increasingly aligning their lending and investment decisions with environmental, social, and governance considerations, thereby contributing to long-term economic stability and responsible growth.

At the same time, the study identifies several challenges that hinder the effective implementation of sustainable banking practices. Regulatory constraints, the absence of standardized sustainability reporting frameworks, limited disclosure, and operational complexities continue to pose significant barriers for banks. These challenges affect consistency, transparency, and the overall effectiveness of sustainability initiatives.

Overall, the study highlights that while progress toward sustainable banking is evident, greater regulatory clarity, standardized reporting mechanisms, enhanced disclosure practices, and stronger institutional commitment are essential to strengthen the impact of sustainability efforts in the banking sector. Addressing these issues will enable banks to better support sustainable investments, inclusive growth, and broader national and global sustainability goals.

### **Limitation of the Study**

Despite providing valuable insights, the study is subject to certain limitations. First, the analysis is primarily based on secondary data, which may limit the depth and accuracy of findings due to variations in data quality and disclosure practices among banks. Second, the lack of standardized sustainability and ESG reporting frameworks restricts the comparability of data across institutions.

Third, the study focuses on selected banks, which may limit the generalizability of the results to the entire banking sector. Fourth, sustainability practices and regulatory guidelines are evolving, and therefore the findings represent the situation during the study period and may change over time. Finally, qualitative aspects such as organizational culture and management commitment toward sustainability could not be fully captured.

### **Future Scope of the Study**

The scope for future research in the area of sustainable banking is considerable. Future studies may include a larger sample of banks and extend the analysis across different countries to enable comparative assessment of sustainable banking practices. Researchers can also employ primary data through surveys or interviews with banking professionals to gain deeper insights into the practical challenges of sustainability implementation.

Further research may focus on the long-term financial performance and risk management outcomes associated with green finance and ESG integration. In addition, future studies can examine the impact of technological innovations, such as fintech and digital banking, on enhancing sustainable finance and financial inclusion. Developing standardized sustainability measurement frameworks and evaluating policy effectiveness also present significant avenues for future research.

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