

# Sustainable Development and Corporate Banking Responsibility

Carmen GHELASE<sup>\*</sup>, Mihaela NECULITA<sup>\*\*</sup>, Daniel STADOLEANU<sup>\*\*\*</sup>

## ARTICLE INFO

*Article history:*  
Accepted September 2022  
Available online September 2022  
*JEL Classification*  
G24, G34, O23

*Keywords:*  
banking corporate responsibility,  
sustainable development, green  
credits

## ABSTRACT

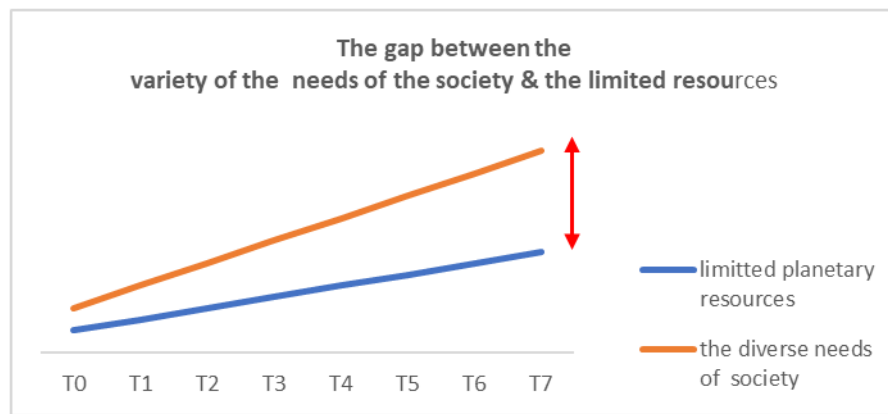
The abstract identifies the challenges of the new paradigm related to corporate responsibility and sustainable development in banking system. Starting from the general meaning of social corporate and integrating new key variables in understanding the actions of banks for sustainable development, the abstract highlights 3 flows through banking system may contribute for promoting and encouraging sustainability in business environment, also evaluates the difficulties in ecologic finance process proposing the ways of conteraction of difficulties. Finally, the abstract concludes the main role of banking system in the process of transition to sustainable economic world.

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## 1. Introduction

Appreciating bussines environment and put it in a new light that extends beyond the conventional boundaries of the current activities, in this new context, we all become aware of the responsibility concerns not only the companies, but every individual that work in them.

Although the problems of the economy are old enough, it can be argued that contemporary forms of environmental degradation are more global than ever in human history and involve risks and threats to human life (Schwartzman, S, 1986).



**Fig. 1. The gap between the the variety of the needs of the society and limited resources**

Source: Data from Study "Limits to growth Donella Meadows, 1972" - author data processing

The environment was compared with a miraculously bank, from which everybody took from it and nobody put it in return, a bank which doesn't credit us because it isn't solvable anymore (Marinela Gheres M, Savoiu Gh, 2010).

There are 3 factors that stands against economical growth (Heinberg, R, 2011):

- ✚ Global environmental degradation; In the 20<sup>th</sup> century were recognized the ecological consequences of industrial production (global warming);
- ✚ Financial disorders due to lack of capability of the monetary and banking system for adapting at shortage resources and at the costs of environment and high government and private debts;

- ✚ Depletion of resources: the table below describes the gap between needs of society, which are more diversified and planet resources, which are limited and this involves from each of us awareness and responsibility;

## 2. Theoretical background

Un hypothetic top of the environment law principles would place the first, the concept of *durable development*, as the specific literature promotes it.

If we think at the economy like a science of administration of rare resources (Pascal Combemale, 1995), then like a sphere of activity together with practices which aim the production of material conditions of our existence (the nature takes part of these conditions), economy like an ideology of modern society (value system which privileges the relations between people and their choices, the dynamic report production-consume, productivity), all these distinctions that allows us to understand that is not necessarily an opposition between economy, finance and ecology.

In this triangle of interconnected concepts, I would like to integrate the fourth concept, without which the other three mentioned above could not coexist in a sustainable manner: the ethics. The figure below shows connection between the three disciplines coexisting with ethics. An economic entitie is social responsible for making profit, acting according to the law, supporting a social need and also having an ethical behavior (Bortun, D, 2010).

Banks, through their activities or transactions that finances may produce an impact on environment or society. Because the social or environmental issues may be risky for banks, these aspects involve identification, evaluation and prevent processes. These processes may lead at detecting finance opportunities with positive results, as a part of social responsibility of bank strategy. Financial system will be part of the the development of a durable economy next years and it will be carefully analyzed by governments, central banks and regulatory authorities (KPMG).

The main goal of this article is to define the way of assessment of the risks associates to the clients and the transactions and to clarify the actions which may be done in and outside the bank and adopting a new business model in relationship with the clients, in case of identifying social or environmental risks.



**Fig. 2. Ethical financing of the economy in an ecological manner**

Source: *Economie et ecologie, Les Menaces globales sur l'environnement* (Frank D. V, 1994)- author data processing (including the fourth concept "ethics")

## 3. Banking social corporative responsibility

Finance is seen as a barrier to prosperity. But the rules of green finance support understanding how the financial sector can impact positively the standards of life. This abstract shows how sustainable finance can be mobilized as a mean to divert the economy and the planet and to help at the transition of the companies to sustainable practices.

The new paradigm changes the way that some banks understand doing business and to integrate the concept in the development process of businesses:

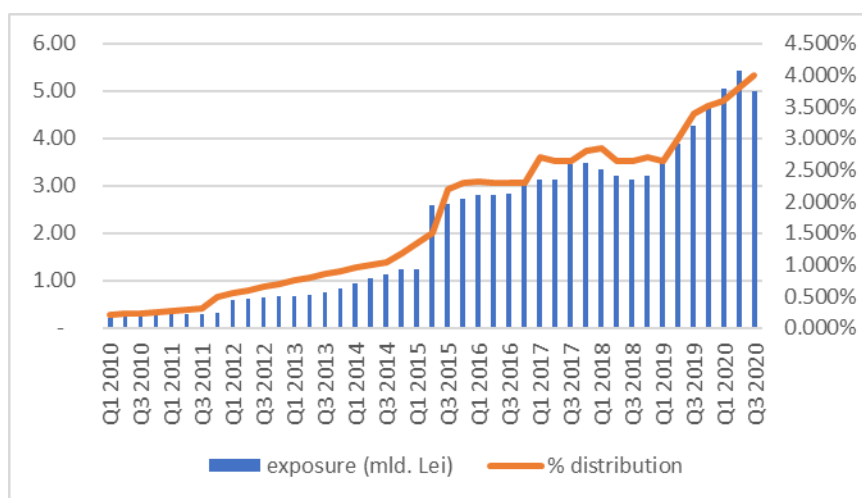
- ✚ Durable development does not mean costs, difficulties, but efficiently using resources for generating opportunities.
- ✚ Encouraging transition to sustainable businesses by financing projects /companies which practice methods to fight against pollution and using technologies less polluted in production.
- ✚ Approching the environmental issues is in responsibility of the banks, not only in the area of experts and the companies.
- ✚ Transparent policy in the place of actual model of business based on confidentiality in finance strategy

Following analysis of the definitions and the points of views regarding corporate social responsibility, from the banking perspective, I offer my own point of view on this concept:

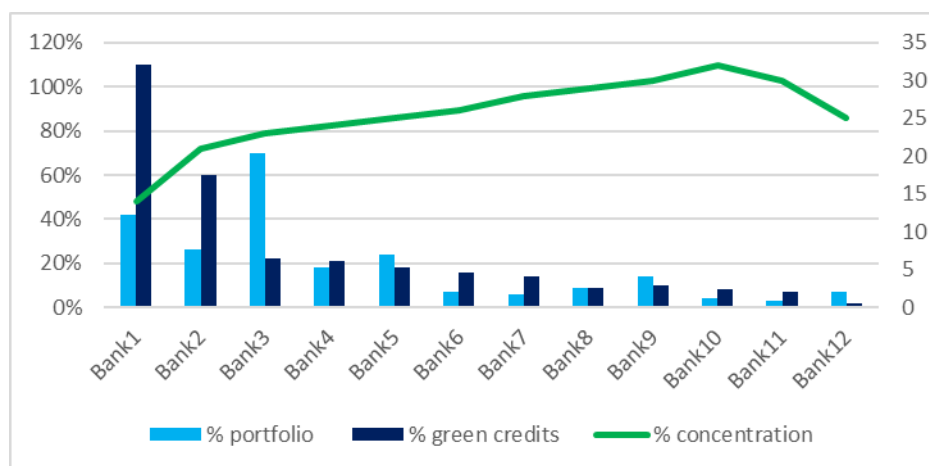
**Banking social corporative responsibility has, in my opinion, two meanings:**

- ✚ **General meaning:** public assumption of the banking system of a commitment of wellness and development of the society as a whole, through eco-banking, namely sustainable administration of credit policy of businesses and individuals also the intermediation of transactions between debtors and creditors in a durable manner, the gestion of the money saved through identification of the origin of the sources;
- ✚ **Restraint meaning:** the administration of the bank as the economic activity has to be profitable, with discretionary compliance of the persons involved in and out of the company, impacted by the activity.

According to the Report of financial stability issued by Romania National Bank for 2021 year, only 4% (€ 1 bil.) of the banking portfolio of loans are green credits, at June 2021, being on an upward trend in the last decade (fig 3), the actual level being at half of the potential volume of Romania. Most banks have a reduced green credit portfolio, only 2 banks contributed to a share of 60% of the total green loans. Regarding the share of green loans in the banks'portfolios, this varies between 3 and 25 % (fig 4).

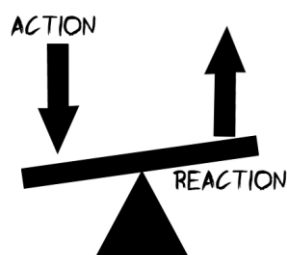


**Fig. 3. Total exposure of green banking credits**  
Source: BNR.ro- Report of financial stability, December 2021



**Fig. 4. The share of green banking credits in Romania**  
Source: BNR.ro

What would be the conteraction for difficulties identified in ecological finance process?



Difficulties existed in ecologic finance process	Conteraction
Banks faces with lack of expertise from the companies of understanding the benefits of green finance and their lack of strategy of durable development and without prioritizing the green investments; lack of access to a knowledge base for identifying the investment opportunities in green economy	Assessment of the experts ecologists before submission the project for finance; Financing green financial education (courses for companies) and consultancy to green transition;
Major costs for implementing green policies and high costs of loans discourage the companies to request green loans;	Although the cost of conventional real estate is lower than the cost of a green builing, after a few years (return on investment) the builing will use less water and less electricity and that generates higher revenue, that is mean higher initial costs will get you higher profits.
There are no specific products and services promoted in banks, which includes the factors ESG (EC 2020), because of the lack of data, a limited know-how and an unadapted framework implementation related to the ESG factors;	Integration of the ESG risks in the strategy of the bank and the credit process Including specific performance indicators related to ESG risks Publishing Nonfinancial report of risks' administration, among the targeted indicators are: the volume of financial durable assets, Green assets ratio, collaterals percentage related to sustenable sectors (ABE 2020)
A poorly developed capital market for green tools; banks from euro zone have increased their role in ecological finance, due to the fact that they have inscreased the share of green bonds in their portfolios, as the Report of financial stability of BCE shows (BCE 2020).	Review of corporative reporting standards and development of reliable and transparent standards for financial products (BCE 2020). The impact of green bonds Projects eligibile for green bonds: energy efficiency, renewable energy, resource efficiency, cleaner technology produccion, sustainable forestry IFC's climate business goals to sustain the companies' transition to a low-carbon. In fiscal year 2021, IFC committed a record \$31.5 billion to private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity as economies grapple with the impacts of the COVID-19 pandemic In perspective and to asses low-carbon investments opportunities and evaluate climate risk using specific tools, working to develop capital market.
The key economic sectors in a durable economy: energy, material recycling and so on are not strategic also for finance;	Inclusion in financing programs of the banks of the durable sectors
The incorrect investment decision -> the distorted signals of the market forces -> the request is increasing, exceeding the limits of the medium;	The correct decision of investment -> ecologic principles > the request adapted resources / potential of the natural systems, investments in energy efficiency (profitable)

Source: BNR.ro-Table of monitoring climate risks on banking sector in Romania, CNSM report December 2021, BCE- The challenge of capturing climate risks in the banking regulatory framework-is there a need to fix a macroprudential response?" –Macroprudential Bulletin, Ed. 15, October 2021; European Commission –Communication strategy for transition financing to a durable economy, July, 2021" – author data processing

Having in mind all these new perspectives, I align the policy of the banking flows at a new paradigm and mention the 3 flows through banking system may contribute for promoting and encourage sustainability in business environment:

- 1. Informational flows:** education through information and encourage green finances and the companies which fulfill the ecologic criteria by the activity carried out.

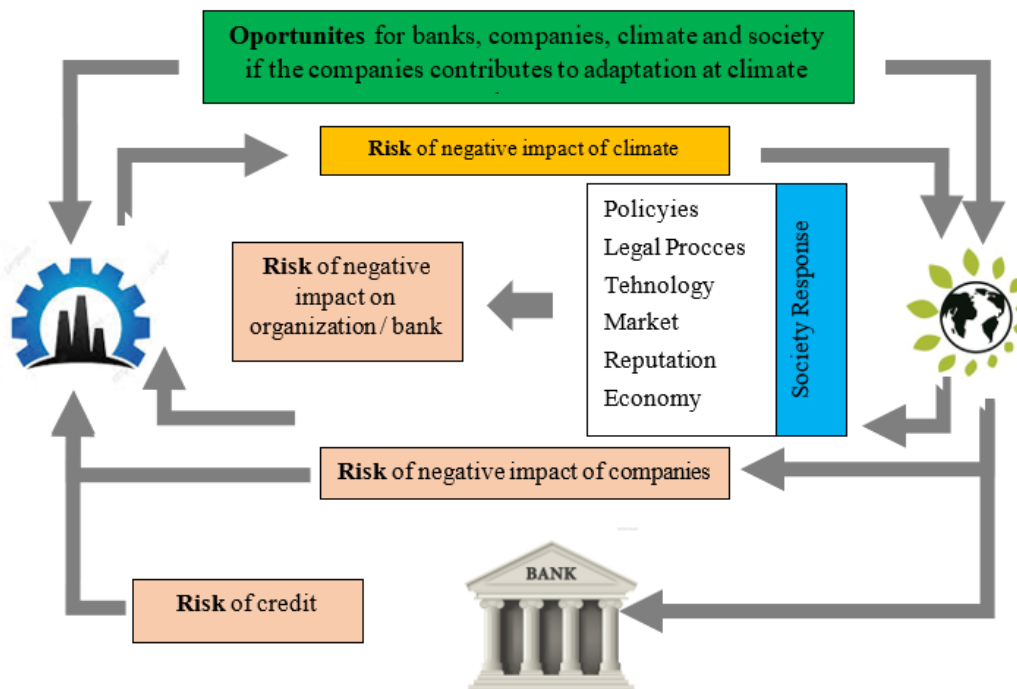


**Fig. 5. The flow of information from market prospecting to banking consulting and implementation**

Source: CNSM REPORT, BNR.ro

**2. The policy of the assumed and promoted risks:** a unitary and common credit policy, which taking into consideration the ecological indicators, having the same importance as the financial one;

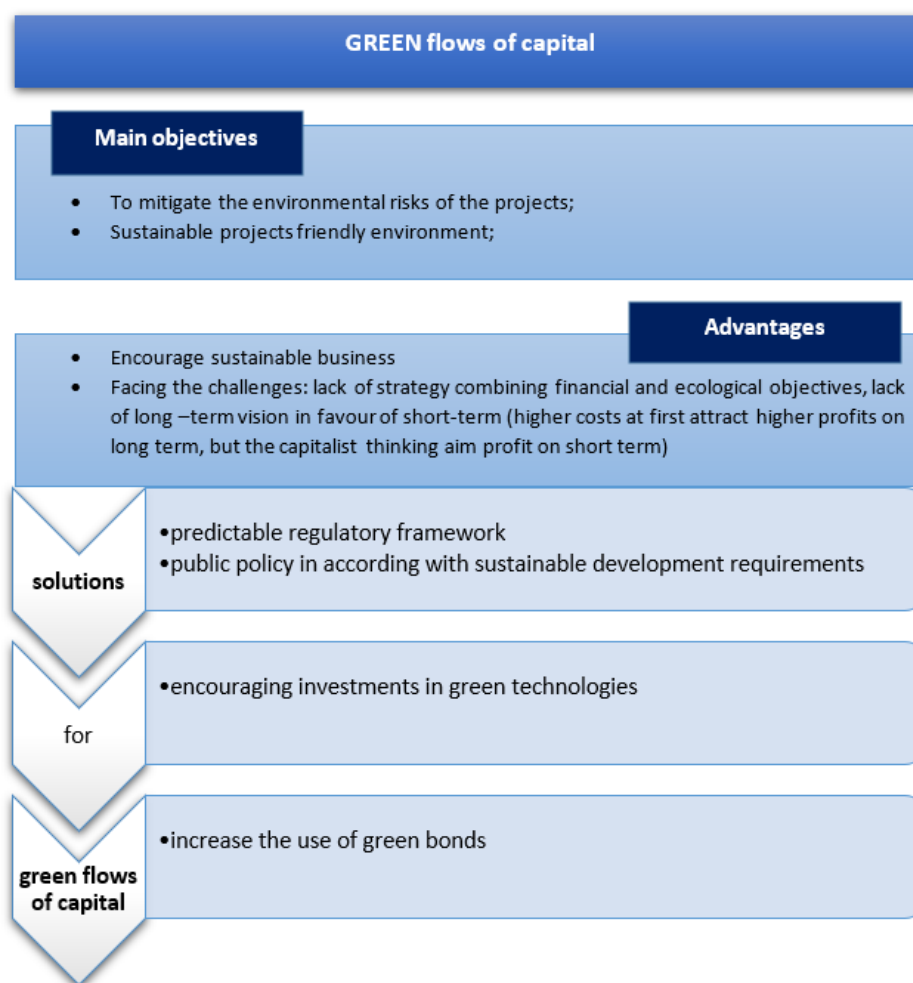
When the companies report informations about the risks and opportunities related to the climate, then they should analyses if it is relevant the entire circle of economic process. For the companies which sell services, they should take into consideration the impact of the activities on the climate and for the companies which produces goods, they have to highlights the climate aspects in the supply chain and during the process of production until the product reaches the end of its life.



**Fig. 6. Risks and opportunities in adaptation at climate changes**

Source: The official Journal of the EU-Risks and opportunities related to the climate, 2019

**3. The flows of the capital:** orientated for green economies, eligibility criteria throw the synergy of the economists and ecologists; the financed project to contribute to a friendly economy with the environment, not the one which self-destruct (Brown L, 2001).



**Fig. 7. Green flows of capital**

Source: The United Nations Environment Programme (UNEP)-author date processing

The main role of banking system is to allocate capital to its productive use in order to stimulate value creation on long term. The financial system can sustain investments in sustainable transactions and companies and to speed up to a sustainable economy.

#### 4. Conclusions

Banking system plays an important role in financing companies with sustainable business models, helping the clients to speed up to transition to a sustainable business practices.

That is why, banks have to integrate sustainability in day-to-day activities, to incorporate solutions as the clients do the right sustainable work.

We could say that what banks can do, to forward the system to a more sustainable business, may be named **the transition banking**. But to sustain green economical activities, it requires to adapt their offer of products into green tools, to diversify their activities and to integrate in their policy the social and climate risks. Banks are playing a major role in climate financing, accelerating the transition **to a low carbon economy**.

I appreciate that it is imperative that banks need **to de-carbonize their credits portfolios**, taking into account the risks of borrowers' profile and also make changes in the credit ratings.

It becomes a pressure for the entire banking system to take real measures for improving the actual situation and to put in place a new business model that involves not only generating profits, but to do business in an ethical manner, respectively, socially and environmentally responsible.

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