

## **K C Chakrabarty: Environmental and social sustainability – key issues and concerns**

Address by Dr K C Chakrabarty, Deputy Governor of the Reserve Bank of India, at the Yes Bank–GIZ–UNEP Sustainability Series event on “Environment and social risk management”, Mumbai, 23 April 2013.

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1. Mr. Robert Tacon, Tutor, United Nations Environment Programme- Financial Initiative (UNEP FI); Ms. Stefanie Bauer, Advisor, Private Sector Development, GIZ; Mr. Pralay Mondal, Senior Group President – Retail & Business Banking, Yes Bank; Mr. Mengqi Cai, Programme Officer, Asia Pacific Task Force, UNEP FI; delegates to the event; members of the print and electronic media; ladies and gentlemen. It is a pleasure to be present here today to address this august gathering at this workshop on sustainability. I am, indeed, glad to see different organizations with varied interests and areas of work coming together to address the sustainability issue, a subject which is fast gaining importance, not just in India, but also globally. Today, all stake holders – Government, industry, business, banks and consumers – have increasingly started realizing that if India and Indian businesses have to maintain a high growth momentum in the medium to long run, they have to focus on various facets of sustainability and I am sure, this Conference will serve to underscore this vital aspect. I, therefore, congratulate the UNEP, the GIZ and Yes Bank for this creditable initiative.

### **A. Introduction**

2. Let me start from the very definition. Sustainable development has been defined in many ways, but the most frequently quoted definition is from *Our Common Future*, also known as the Brundtland Report (1987): “*Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.*”

3. There are different aspects to sustainability viz., environmental and social that we need to understand. “*Environment sustainability*” refers to the need to preserve the ecology and ecosystems for sustainable growth. There is no denying that any developmental process that alters the composition of the global atmosphere and puts pressure on ecological and socio-economic systems, that are already under stress due to population and economic growth, is a threat to sustainability. Thus, sustainable development should try to maximize growth while utilizing the limited available natural resources in an efficient and responsible manner so as to ensure that they last long. The other aspect of sustainability is the “*Social sustainability*” that entails that the development process promotes social cohesion and reduces inequities. Any form of social exclusion breeds disharmony that leads to various disruptions owing to which business suffers, growth suffers. Social sustainability focuses both on “inter-generational equity” *i.e.*, future generations should have the same or greater access to social resources as the current generation, and “intra-generational equity” *i.e.*, allowing equal access to social resources within the current generation. A balanced focus on both these aspects is a hallmark of sustainable development.

4. The need for sustainable development has been gaining ground both internationally and at the national level. The Framework for Strong, Sustainable and Balanced Growth is the signature effort of the G20 that was launched in its Pittsburgh Summit (September 2009). The United Nations, post Rio+20 summit held in June 2012, has endorsed the idea of adopting Sustainable Development Goals (SDGs) in the post-2015 period, when the

Millennium Development Goals (MDGs) period of 2000-2015 would end. Leaders at the G20 last year also collaborated to form a Climate Finance Study Group to consider ways of effectively mobilizing resources, taking into account the objectives, provisions, and principles of the UN Framework Convention on Climate Change (UNFCCC). Currently, work is underway to officially launch the public-private Dialogue Platform on Inclusive Green Investments (DPIGI), particularly among developing countries.

5. At the national level, the Twelfth Five Year Plan for India has emphasized the need for faster, more inclusive and sustainable growth for the period 2012–17 and accordingly, has made this the theme of the 12th Plan document. Government's official publication "The Economic Survey" has also introduced a chapter on Sustainable Development and Climate Change since last year so as to focus on the developments in this area at home and abroad. The Prime Minister, in a recent speech, has reiterated the need for economic development to be environmentally sustainable. Against this backdrop, I would like to highlight various issues and strategies linked to the two aspects of sustainability – environmental and social – in the subsequent two sections.

## **B. Environmental sustainability**

### ***Sustainability and growth – The conflict and the balance***

6. Let me begin by highlighting the need for sustainability in the context of the conflict that exists between economic development and environment sustainability. Economic progress improves our standard of living and makes our life more comfortable. On the other hand, it is this very progress that can lead to degradation of the environment. Any increase in national income would arise only from increased production of goods and services involving greater consumption of resources such as land, forest, fuels, etc. whose supply is, essentially, limited. While some of these resources may be renewable, others get depleted and, ultimately, exhausted with continuous use. Any attempt to preserve the non-renewable resources might require compromising on the growth rates.

7. The conflict between economic development and sustainability is, essentially, a conflict between short and long run priorities, between the interests of current and future generations. Large exploitation of natural resources today, while increasing the economic growth for the current generations, would lead to gradual exhaustion and degradation of these resources, thereby reducing their availability to our future generations and adversely affecting their output, income and living standards. So, environmental degradation not only affects us but also has repercussions for our future generations.

8. Ultimately, it boils down to maintaining a balance between economic growth and preserving natural resources, which is an inevitable challenge. By maintaining this balance, we can create a long term self-sustaining system. In this context, a recent committee set up by the Government is developing a framework for "Green National Accounts" for India which is based on the need to measure economic well-being on the basis of a comprehensive definition of wealth that includes natural and human capital and not GDP alone<sup>1</sup>.

9. Globally, the need for sustainable development is being emphasized. Sustainable development attempts to strike a balance between the demands of economic development and the need for protection of our natural environment. The UN's Human Development Report 2013, while appreciating the rise of the South (connoted by the developing countries) in driving growth across the globe in the 21st century, has also pointed out that sustaining the

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<sup>1</sup> India saw a growth rate of 0.9 per cent in terms of Inclusive Wealth Index per capita between 1990 and 2008 as against negative growth for some other countries like Russia and South Africa implying that their productive base has been completely eroded. However, given India's low growth rate vis-à-vis China (2.1 per cent), it has to significantly improve its human capital and ensure that natural capital depletion is kept minimal.

growth momentum requires policy focus on enhancing equity, managing the demographic change and confronting environmental pressures.

### ***Global cooperation and efforts***

10. Environment sustainability has a global dimension. Since Greenhouse Gases (GHG) emission in any country accelerates the process of global warming, this is obviously an area where a solution involving global cooperation is needed. No country will have sufficient incentive to contain its own emissions unless it is part of a global compact. Such a compact, in turn, is possible only if there is a fair distribution of the burden. Developing countries have consistently argued that since it is the industrialised countries that have historically contributed the bulk of the accumulated stock of GHG, and are also the most able to pay, they must bear the burden of global mitigation and adjustment.

11. A comparison of the carbon dioxide (in short, carbon) emissions across the G20 countries shows that, in 2010, the top three carbon emitter countries were Australia, USA, and Canada, with carbon emissions in per capita metric tonnes being 18.8, 18.1 and 16.3, respectively. Brazil, Indonesia and India remain at the bottom among the G20 countries in terms of carbon emissions, with per capita contributions in 2010 being 2.3, 1.6 and 1.4 metric tonnes respectively, way below the developed countries. As per the Economic Survey 2012–13, India's per capita carbon emissions in 2031 will be about 4 tonnes, which will still be lower than the global per capita emission in 2005 of 4.22 tonnes and about 75 per cent lower than the 2010 levels of the top three emitters.

12. Given this data, you would agree that imposing emission reduction commitments on the emerging world at this stage at similar levels as that of advanced countries would be highly unfair. Rather, a logical approach would be that countries which are more developed and have caused greater emission as part of their development process should share a greater responsibility in lowering emissions and the expectations from emerging and less developed nations should be tempered so that they can attain higher growth, thereby improving the quality of lives of the poor. This way, one would achieve balance among countries so that there is equity of development.

13. As regards India, it remains fully committed to the global initiative to address environmental issues. India is participating in the ongoing international negotiations under the UNFCCC and has been part of 94 multilateral environmental agreements. In the recently held Doha Conference (December 2012), India protected its interests fully and succeeded in bringing the equity aspect firmly on the table. India has also voluntarily agreed to reduce the carbon emission intensity of its GDP by 20-25 per cent over 2005 levels by 2020<sup>2</sup>. India was one of the early signatories of the Montreal Protocol on ozone depletion and, as of 1st January, 2010, has completely phased out the production and consumption of ozone depleting substances such as chlorofluoro carbons (CFCs) once used in almost all refrigerators and air conditioning systems<sup>3</sup> and halons, which were used in fire extinguishers. It remains on track towards complete phase-out of production and consumption of hydro CFCs by 2030. Within the country, the Government is also consistently making efforts/policies towards ensuring environmental sustainability. This includes policies like Joint Forest Management, Green Rating for Integrated Habitat Assessment, Coastal Regulation Zone, clean energy drive through eco labeling and energy efficiency labeling, fuel efficiency standards, etc.

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<sup>2</sup> Emissions from the agriculture sector would not form part of the assessment of its emissions intensity.

<sup>3</sup> These exclude use of pharmaceutical grade CFCs in manufacturing of Metered Dose Inhalers for Asthma and Chronic Obstructive Pulmonary Diseases patients.

### ***Reducing global wastage***

14. An integral part of doing business in a sustainable way is to reduce waste and, in the process, decrease operating costs and increase profits. As per estimates<sup>4</sup>, between 30 to 50 per cent (about 1.2–2 billion) tonnes of food produced around the world never reaches a human stomach. While wastage in the sub-Saharan Africa and South-East Asian countries, including India, tend to occur primarily at the farmer-producer end of the supply chain due to inefficient harvesting, inadequate local transportation and poor storage infrastructure, in developed countries such as the UK, produce is often wasted through retail and customer behaviour. Surveys also show that in India, at least 40 per cent of all fruits and vegetables are lost between grower and consumer due to lack of refrigerated transport, poor roads and inclement weather. Wasting food means losing not only life-supporting nutrition but also precious resources, including land, water and energy. About 550 bn cubic metres of water is wasted globally in growing crops that never reach the consumer. Within India, water use efficiency in agriculture, which consumes around 80 per cent of our water resources, is only around 38 per cent, which compares poorly with 45 per cent in Malaysia and Morocco and 50–60 per cent in Israel, Japan, China and Taiwan.

15. Estimates suggest that about 90 per cent of India's waste is currently disposed off by open dumping and landfilling. Presently, the country has more than 36,000 hazardous waste generating industries, producing approximately 6 million tonnes of hazardous wastes per annum. Around 50 per cent of this can be recycled, which is not being done. This leads to hazardous materials getting disposed off into the environment and causing grave danger to living beings. It is also estimated that approximately 55 million tonnes of Municipal Solid Wastes are generated in urban areas of India annually, which otherwise could be a valuable potential source for power generation for an energy deficient country.

16. In order to prevent wastages of this kind, governments and developmental agencies should work together to help change people's mindset on waste and discourage wasteful practices by food producers, supermarkets, industrial units and consumers. Incentives could be provided to encourage adoption and implementation of such policies. The Union Budget 2013–14 has announced that cities and municipalities would be encouraged to take up waste-to-energy projects in public- private partnership (PPP) mode. Such municipalities implementing waste-to-energy projects will be supported through different instruments such as viability gap funding, repayable grants and low cost capital.

### ***Sustainable usage of natural resources***

17. Apart from reducing waste, in order to ensure sustainable development, we also need to use our natural resources judiciously and in an environment-friendly manner. Particular attention is required to be paid to conservation of energy, given that any development process is bound to be energy intensive. As rightly pointed out by the UN Secretary General, Ban Ki-Moon, sustainable energy is the golden thread that links economic growth, social equity and a healthier environment. With global economic development, global energy demand is expected to double between now and 2050, energy prices are projected to rise and remain volatile, making imports a costly proposition for India. For a power deficient nation like India, need of the hour is to explore newer means, particularly, more environment friendly and endogenous ones rather than depending solely on coal and oil, where our dependence on imports is high. In this context, natural gas is a good option where domestic potential is huge given our huge reserves. Our attempt should be to further exploit the huge potential from this environment friendly source. India has also shown commitment towards generation of 22,000 MW of solar energy by 2020. Several parts

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<sup>4</sup> UK's Institution of Mechanical Engineers (IMechE) report on "Global Food; Waste Not, Want Not", January 2013.

of India are endowed with good solar radiation and deploying solar panels even on one percent of the land area could result in over 500,000 MW of solar power. It has considerable advantages for powering the rural areas for education, health and employment. No doubt, it is expensive at this stage; however, with growing manufacturing capacity, short term viability gap support from government, aggressive research and development and large scale deployment, the cost is likely to come down.

18. Inefficiency in usage and theft are also daunting problems facing the power sector, with the transmission and distribution losses amounting to about 22 per cent in 2011–12. Apart from enhancing production, efficiency in usage by generating awareness about the importance of these resources is also crucial. An appropriate pricing regime is also important in this regard. A completely deregulated system of pricing for energy, whereby prices are market-determined, would encourage people to take informed decisions, help tackle the problem of suppressed inflation in the economy and finally, make other alternative forms of renewable energy such as solar, tidal and bio-gas viable.

19. Government has, in recent times, taken steps towards appropriate pricing of non-renewable sources of energy and encouraging Clean and Green energy. Recognizing that consumer pays a high price for renewable energy because of high cost of finance, Government has set up a National Clean Energy Fund by imposing a cess on coal that will provide funds to the Indian Renewable Energy Development Agency (IREDA) for on-lending to viable renewable energy projects. The non-conventional wind energy sector has got special incentives in the recent Union Budget 2013–14. India has recently signed the electric vehicles initiative (EVI) of the Clean Energy Ministerial (CEM) that aims to facilitate the deployment of 20 million electric vehicles globally by 2020. As you are aware, the commercial manufacture of battery-operated vehicles has begun in India.

20. In addition to power, the Indian economy and society faces daunting challenges in water as well. As per World Bank, at current rate, the 1.2 billion people in India will exhaust their fresh water supplies by 2050. While demands of a rapidly developing economy are huge, our potential for augmenting supply is getting limited. Water tables are falling. A recent assessment by NASA showed that during 2002 to 2008, India lost about 109 cu.km. of water, leading to a decline in water table to the extent of 0.33 metres per annum. Water quality issues have increasingly come to the fore. We receive very good rains, yet our inadequate storage and distribution facilities make water a scarce resource in India. Climate change poses fresh challenges with its effect on the hydrologic cycle that might exacerbate impacts of floods and droughts. Estimates suggest that about half of the demand for water will be unmet by 2030. Given these challenges, it is important that we improve efficiency in water usage. Initiatives aimed at recycling and reuse of water, better flood management and ground water management is important. Transforming the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) into a watershed restoration and groundwater recharge programme, as envisaged in the 12th Plan, seems desirable. It could serve the dual purpose of preserving water resources while simultaneously creating employment. Also, appropriate pricing of both water and electricity, will help recharge the depleting aquifers.

### ***Sustainable industrial/business practice***

21. Industry being the catalyst of development, it needs to patronise the concept of sustainability in its various processes. Sustainability is, now, seen as a key challenge as well as an opportunity in business. In future, only companies that make sustainability a goal will achieve competitive advantage. Early movers today can reap the benefits. That means rethinking business models as well as products, technologies, and processes (Prahalad *et al*, 2009). Recognizing this, some of the large multinational corporations like Unilever, Coca-Cola and Walmart have committed, through Consumer Goods Forum, to eliminate deforestation from their supply chains. Microsoft has promised to go carbon-neutral by

2012–13. Markets have also started rewarding sustainable business<sup>5</sup> that further adds to the reputation of a company. Sustainable businesses require innovation in technology, organisation and management (usually all three together). Many of the sustainability gains would require more fundamental organisational shifts, and need to be led by the top-level management.

22. Some of the common characteristics of green companies include: using natural gas for boiler fuel, recycling biodegradable waste, minimum use of plastic material, using recyclable packaging materials, using biomass and solar radiation as sources of renewable energy, generating electricity from hydroelectric plants and reducing toxic emissions. Besides, there are some simple ways to make an office environment-friendly and reducing energy consumption by introducing efficient practices and generating consciousness among the staff.

23. Obviously, there is a perception which is true to some extent that implementing greener business technologies could have an impact on cost, risk and most importantly, profitability. However, one needs to be innovative to find out ways of viability within sustainability. In fact, sustainable practices can also keep the companies competitive. Careful usage of the natural resources, reduction in wastes and exploring ways of minimizing energy usage, saves cost and boosts profitability of the company. Some organizations recycle and reuse their own waste to lower the cost of raw materials in manufacturing. Some companies sell waste to other sustainable organizations for recycling and reuse and, in the process, create a new stream of revenue. To give you an example of sustainable business, in Ford Car Maker Company, the seat fabric is made from 100 per cent post-industrial materials and renewable soy foam. Many companies choose to become greener by neutralizing (or offsetting) their carbon emissions by buying carbon credits, which are used in various projects, such as reforestation projects, and balance their emissions. There are now many companies specializing in calculating and trading carbon credits and this is becoming a very popular trend.

### ***Sustainable agricultural practices***

24. In India, with the average annual rate of growth of foodgrains production and population being at 1.2 and 1.6 per cent, respectively, over the past decade, per capita availability of foodgrains, has started declining. Yield levels are stagnating and are below our counterpart emerging economies. With increasing income levels, there has been an increase in demand for protein items, in which we are not self sufficient. Given that poor spend more than 60 per cent of their income on food, any hike in food prices due to lower production hurts the poor the most. In India, eight million people were kept in income poverty from the increased food prices in 2010–11 (UN ESCAP estimates). The Right of all people to Food was reaffirmed by various countries at the Rio+20 United Nations Conference on Sustainable Development held in June 2012.

25. Recognizing the impact of demographic trends on food demand, food supply has to keep pace. FAO estimates show that food production has to grow by 60-70 per cent to feed the expected 9 billion people by 2050. However, any attempt to increase food production will put pressure on the resources that it requires like land, water and energy. Several parts of food system, like the production of nitrogen fertilizers, are highly energy intensive. Hence the thrust of agricultural development in coming years has to be on sustainable agricultural practices.

26. The National Agricultural Policy in India focuses on sustainable development of agriculture by promoting technically sound and economically viable, environmentally non-

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<sup>5</sup> For example, ITC limited, Wipro Technologies, HCL Technologies, IndusInd Bank are identified among India's top 10 green companies.

degrading and socially acceptable uses of the country's natural resources. Towards this end, productivity enhancements are needed through higher investments in agriculture, greater research in the area of regionally adapted varieties and hybrids, adoption of eco-friendly integrated pest management technologies and use of manure and compost instead of artificial fertilizers. With limited scope for increasing cultivable land in India, more dynamic ideas for using arable land elsewhere, as being done by China and Japan, could also be explored.

### **Green banking**

27. You would agree that apart from industry and agriculture, banks as the financing agent of the economic and developmental activities of the world, could also play a crucial role in promoting overall sustainable development. It is in this respect that the concept of green banking has emerged and is recognized as an important strategy to address sustainable development concerns and creating awareness among people about environmental responsibility. Green banking has two dimensions. First, the way the banking business is being done – is it paperless or not. There is often a doubt that what big impact a monthly paper statement can have. It could be enormous. Estimates for US suggest if every household were able to switch to paperless bank billing, this would save an estimated 16,500,000 trees per year or about a 46,000 acre forest, 396,000 tonnes of CO<sub>2</sub> a year, 495,000 tonnes of air pollution per year and gain almost 2,145,000 tonnes of oxygen per year. There are several guidelines from the Reserve Bank on e-banking and banks are also putting sincere efforts towards adopting paperless banking.

28. The second dimension of green banking relates to where the bank puts its money. Green Banking entails banks to encourage environment friendly investments and give lending priority to those industries which have already turned green or are trying to go green and, thereby, help to restore the natural environment. There are no specific RBI regulations/guidelines for banks on green banking. However, in its circular on Corporate Social Responsibility, the Reserve Bank has advised banks to familiarise themselves with the issue of Corporate Social Responsibility, a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis. They are also required to put in place a suitable and appropriate plan of action towards helping the cause of sustainable development, with the approval of their Boards. In this context, particular attention has been drawn in the circular to the International Finance Corporation Principles on project finance and carbon trading. Further, banks /financial institutions have been advised 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. Albeit all this is voluntary on the part of the banks, the underlying objective of the Reserve Bank is to sensitise banks on the issue so that they can help contribute to this effort by playing a more meaningful role.

29. Let me emphasise that environmental viability is not very independent from commercial viability. That is why some banks have begun considering environment viability along with commercial viability while deciding on lending decisions. Reason being that if a debtor company goes out of business due to environmental issues, the bank is exposed to credit, legal and reputational risks that hinder the commercial viability of the project as well. However, unlike the foreign banks, Indian banks have a long way to go in this area.

## **C. Social sustainability**

### **Need and importance**

30. We now move on to the other dimension of sustainability i.e., social sustainability. You would agree that no programme for controlling environment degradation can be effective without education, jobs for everyone and without a visible rise in the standard of living of common masses. Unless we are in a position to provide employment and purchasing power

for the daily necessities of the people living around forests, we cannot prevent them from combing the forest for food and livelihood. This does not necessarily mean an inherent conflict between the two dimensions. We need to strike a right balance between our development needs and environmental commitments to ensure long run growth sustainability.

31. Over the past ten years, many developing countries, including India, have achieved strong growth rates and increased economic prosperity, laying the foundations of a better life for their citizens. And yet, in several of these countries, the benefits of high growth have not penetrated uniformly across all citizens and societies. Estimates suggest that the gap between rich and poor has widened in most OECD countries over the last 30 years. The average income of richest 10 per cent of population is about nine times that of the poorest 10 per cent<sup>6</sup>. These inequalities are reflected in strong sentiments of disconnect between the concerns of ordinary citizens and those of political elites, even in developed countries. Growth itself can be destabilising if it is not inclusive (Subbarao, 2012). The eradication of poverty and inequality remains the greatest global challenge facing the world today and is an indispensable requirement for sustainable development, as recognized by the UN Rio+20 outcome document.

32. Looking at India, it grew at an average rate of 7.8 per cent during the Tenth Plan and at about 7.9 per cent during the Eleventh Plan despite the global crisis, which is praiseworthy. While this has also been associated with reduction in unemployment and poverty levels, yet these remain much above the tolerable levels. Despite improvement in literacy and health outcomes as reflected in Census 2011 data, India is still not on target to meet some of the MDGs by 2015. Despite being one of the fastest growing economies of the world, India's rank in terms of the global Human Development Index (2013) as brought out by the United Nations is 136th among 187 countries. It is clear that the country has major challenges to address, particularly in terms of making the growth process more inclusive and socially sustainable.

### ***Investing in human capital and jobs***

33. India's demographic dividend presents the country with a great opportunity to enhance its growth and seek convergence of per capita incomes with that in the developed world. Median age for India's population is about 27 years compared with over 40 for most OECD economies. There will be significant addition to India's labour pool and even as the median age bucket rises, it will still be at a relatively young 30–34 age bracket by 2026. Clearly, India has a potential advantage of demographic dividend over its emerging market peers and, in case we want to reap its benefits, we need to invest in human capital. The World Bank's World Development Report 2013, commenting on India, has also observed that providing key services like health and education can help create the right jobs that will lead to improved standards of living and inclusive growth, which would be relevant for India as it is expected to contribute a significant proportion of global labour force in the coming years. More importantly, focus should be on women education as mother's education is observed to be more important than household income for her child's survival (HDR, 2013).

34. The combined expenditure of central and state governments on education is just about 3.3 per cent of GDP, while that on health is another 1.3 per cent of GDP. In contrast, the European Union countries spend from their general government account, 5.5 per cent of GDP on education and 7.5 per cent of GDP on health. Canada's public spending on health alone is over 11 per cent of its GDP and that on education is nearly 5 per cent. India needs to step up its public spending on education and health considerably over the next five years.

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<sup>6</sup> Even in the United States, average income of 20 per cent at the top of the distribution is almost 8 times higher than that of bottom 20 per cent.



In addition to higher spending, quality of such spending is important. Right skilling of our work force by adequate focus on technical education is the need of the hour. Our technical institutes should get connected to the industry and the market and take inputs from there.

35. In the face of various constraints, the expenditure by the Central and State Governments on education alone will not be sufficient to make a difference. The private sector would also need to pitch in for improving the quality of education and educational system in the country. The banks have a very crucial role in facilitating pursuit of education by the resource-constrained youth. As we are all aware, the cost of education, in particular that of higher education, has risen very substantially. This is likely to result in exclusion of poor, but meritorious and deserving youth from obtaining quality education unless suitable funding is made available to them. In the year 2001, Indian Bank Association (IBA) prepared a Model Educational Loan Scheme (since revised) which forms the basis for banks' loans to students for pursuing various educational courses. RBI, on its part, has permitted banks to classify loans and advances granted to individuals for educational purposes, including vocational courses up to ₹10 lakh for studies in India and ₹20 lakh for studies abroad, under "priority sector". Further, the loans granted to educational institutions are eligible to be classified as "priority sector" advances under micro and small (service) enterprises, provided they satisfy the provisions of MSMED Act, 2006. The banks have been mandated not to obtain collateral security in the case of educational loans up to ₹4 lakh.

36. The statistics on the education loan granted by banks in India, however, portray a disconcerting picture, especially in terms of performance by the private sector and foreign banks. While the public sector banks accounted for 96 per cent of total outstanding education loan by the commercial banks as on March 31, 2012, the comparative figure for private sector stood at only 3.46 per cent ([Annex 1](#)). The share of foreign banks in the outstanding education loan is virtually negligible. I urge the representatives of the private sector and foreign banks present here to make sincere efforts towards correcting this anomaly and be partners in development of human capital which would serve as the principal driving force for economic growth in the coming years.

37. Given that social services are primarily state government responsibilities, with more than 80 per cent of combined government expenditure in these areas being incurred by the states, the necessary public interventions would largely have to be at the state level. It is observed that states lagging behind with regard to expenditure on social sector have not attempted to catch up with the better-performing states by allocating a larger share of their aggregate expenditure for human development, as their per capita social sector expenditure has remained significantly lower than that of the leading states, resulting in the persistence of disparities in human development indicators across states during the 2000s (RBI, 2013). There is also a need to encourage cooperation between the public and private sector in achieving human capital goals. A step towards increasing private expenditure on social sector is the corporate social responsibility clause incorporated in the new Companies Law that mandates a company making profit during a year to spend at least 2 per cent of the average net profit during the three immediately preceding financial years on corporate social responsibility. It is important for companies to regard this as a good practice rather than as a tax.

38. The biggest challenge is to ensure jobs for the additional supply of labour that comes in to join the workforce. On a rough basis, about 10 million people would enter the job market every year for the next 15 years. Finding productive jobs for such huge numbers is a big challenge, and clearly, the answer lies in stepping up the employment intensity of growth. While the services sector has led India's growth and employment story for some time now, India's growth pace may not be sustained unless the manufacturing sector becomes more competitive and creates lot more jobs. This poses a significant challenge in employment generation and skilling our work force. While Government's attempt should be to improve the playing field, it is the private sector that has to take the lead in this move of creating jobs to convert the demographic dividend to our advantage. Again, in the context of employment

creation, the banks have a very major role to play. We are all aware that MSEs are a primary driver for job creation and GDP growth in our economy and, therefore, fostering a dynamic MSE sector should be a policy priority. The statistics, however, present a sorry state of affairs insofar as the performance of banks in lending to MSE sector is concerned. The number of borrower accounts has remained virtually stagnant over the past three years. If the banks have to make a significant contribution to creation of jobs in the economy, they would need to lay sharper focus on their financial inclusion and financial literacy initiatives so that not only demand for financial services is generated, but millions of micro-entrepreneurs also get created in the process.

### ***Financial inclusion***

39. Financial inclusion has been a focus area for the Reserve Bank and we consider it to be an imperative for achieving inclusive growth and for promoting social sustainability. We all know from personal experience that economic opportunity is strongly intertwined with access to financial system. Such access is especially powerful for the poor as it provides them opportunities to build savings, insure themselves against income shocks and to meet emergencies without falling into the clutches of the usurious money lenders. Financial inclusion will also pave the way for Electronic Benefit Transfer (EBT) for payment of social security and other benefits, which will minimize transaction costs as well as leakages. In parts of the country where such EBT has already taken off, the results are impressive and the experience of both payers and recipients extremely satisfying. Financial inclusion is a global public good; for the poor, for the banks and for the nation and hence, the Reserve Bank remains deeply committed to the Financial Inclusion Agenda.

40. Our approach has been threefold – first, increasing the reach of banking by providing doorstep banking in remote areas using technology based solutions; second, fostering innovation through the introduction of new products and services designed for the poorer segments and third, ensuring a supportive and enabling policy environment.

41. There is strong research evidence to suggest that this social banking experiment in India has been successful in improving the credit flows to the rural population and even in lowering poverty as a result. Looking at the numbers, the average population per bank branch has improved from 15,583 in 2001 to 12,601 in 2012. As per latest census, 58.7 percent households were availing banking services in 2011 as compared with 35.5 percent in 2001. Notwithstanding these efforts by the Reserve Bank and the financial sector, the challenges are enormous. Providing banking coverage to a population of 1.2 billion and ensuring transactions in these accounts is a daunting task. The synergy between Aadhaar cards, mobiles, banking accounts and electronic benefit transfer has to be fully utilized to make banking in the unbanked regions a viable, low cost business. Simplification in KYC documentation requirements for small accounts done recently will also go a long way in fostering financial inclusion.

### ***Financial outreach and literacy***

42. Along with improving aggregate literacy levels, promoting financial literacy among masses is now well recognized as an important demand side input towards achieving the goal of financial inclusion. Lack of financial awareness and literacy is one of the main reasons behind low level of transactions in the accounts newly opened under our financial inclusion initiatives. By making the poor financially literate, we can empower them to take informed decisions with regard to their savings, borrowings and investment. By bringing the poor into banking business, overall domestic and household savings rate could rise, thus, leading to higher and more sustainable growth.

43. Recognizing this, the Reserve Bank, through its financial outreach programmes, has helped in spreading awareness and improving financial literacy. As part of these programmes, the Top management visits villages across the country to interact with the villagers to understand their problems and expectations and, at the same time, tell them

about Reserve Bank's policy initiatives and the advantages of being linked to the formal banking sector. With an objective of promoting financial literacy, Reserve Bank had advised banks to set up Financial Literacy Centres (FLCs). The FLCs are expected to impart financial literacy in the form of simple messages.

44. In order to ensure effective coordination of the efforts made by all the financial regulators and other stakeholders, a Technical Group on Financial Inclusion and Financial Literacy has been constituted under the aegis of the Financial Stability and Development Council (FSDC) having representation from the Reserve Bank, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Government of India, State Governments, Central Education Board, etc. The group is in dialogue with NCERT, CBSE and state education boards for inclusion of financial literacy in school curriculum.

#### **D. Conclusion**

45. To conclude, today the definition of development is fast changing. The feeling is growing that we should re-order our priorities and move away from the single-dimensional model which has viewed economic performance only in terms of growth (GDP), without really considering the social and environmental sustainability of our growth.

46. From the central bank point of view, environmental issues are not usually a matter of primary concern considering that its core function is to safeguard monetary stability with focus, primarily, being on price stability, growth and financial stability objectives. While environmental issues do not directly impact a central bank's objective function, indirectly and in the long term, they do (Provopoulos, 2011). IMF estimates point to a mean GDP loss of 0–3 per cent of global GDP for a 3 degree Celsius global warming. The economic impact could be seen in terms of contraction in economy's productive capacity, lower growth rates and higher prices. Given that the performance of the financial sector is closely linked to the macroeconomic scenario, its impact on the financial system could be significant, through increased exposure of the financial system to risk, both its own and through its clients, as well as possible damages to its assets (Nijathaworn, 2008). Addressing the sustainability issue surely requires more efforts and initiatives on the part of the Government and the industry, but we definitely share the concern and will continue to do our bit where ever possible.

47. As regards climate change related issues, multilateral negotiations should respect equity and fair burden sharing among nations, keeping in mind both the historical emission levels of the developed world as well as the future growth prospects of the developing world. While global arrangements continue taking shape, India remains committed towards the implementation of several steps that have already been accepted to promote green growth in the context of sustainable development.

48. Industry should try and adopt sustainable practices and reduce industrial wastes via encouraging in-house recycling and waste reduction. The role of all concerned stakeholders is crucial for this movement. However, I would emphasize that any attempt to achieve a green economy should not be at the cost of local communities. The poor and the underprivileged have to be protected and involved. Green economy has to be bottoms up and democratized.

49. I hope today's event helps in generating awareness and throws up practical ideas on how to balance the goals of growth and sustainability and also how as bankers we can integrate these considerations into our financial appraisal and risk assessment of projects. I am quite sure that the distinguished speakers who would be speaking on this subject through the day and the learned audience gathered here will collectively find out new models of doing business with environmental and social sustainability goals in mind. I believe that the senior bank management would also be encouraged to adopt these practices. I once again thank the organizers for inviting me and giving me an opportunity to share my thoughts on the subject.

Thank you.

## Annex 1

### Outstanding Educational loans

(No. of A/cs in thousands and Amt.O/s in Rs.million)

Year	Public Sector Banks		Private Sector Banks		Foreign Banks	
	No. of accounts	Amount O/s	No. of accounts	Amount O/s	No. of accounts	Amount O/s
2003	239	28703	10	1164	2	662
2004	347	41795	11	1919	3	220
2005	470	63978	16	2760	3	205
2006	641	108038	21	3808	3	348
2007	1002	140120	24	3777	Negligible	13
2008	1298	198442	33	5093	-do-	10
2009	1580	269127	47	7967	-do-	1
2010	1912	352921	61	10676	-do-	1
2011	2213	413438	76	16524	-do-	Negligible
2012	2371	467405	110	16750	-do-	-do-

## Annex 2

### Outstanding Credit to Micro & Small Enterprises

(No. of A/cs in Thousands) (Amt. in Rs. Million)

Year	Bank Group	No of Accounts	Balance Outstanding
<b>2008</b>	Public Sector Banks	3967	1511375
	Private Sector Banks	819	469119
	Foreign Banks	65	154893
	<b>All SCBs*</b>	<b>4851</b>	<b>2135386</b>
<b>2009</b>	Public Sector Banks	4115	1914083
	Private Sector Banks	678	466563
	Foreign Banks	58	180634
	<b>All SCBs</b>	<b>4851</b>	<b>2561281</b>
<b>2010</b>	Public Sector Banks	7217	2763190
	Private Sector Banks	1131	648247
	Foreign Banks	157	211471
	<b>All SCBs</b>	<b>8505</b>	<b>3622907</b>
<b>2011</b>	Public Sector Banks	7398	3694301
	Private Sector Banks	1718	881158
	Foreign Banks	186	209813
	<b>All SCBs</b>	<b>9302</b>	<b>4785272</b>
<b>2012</b>	Public Sector Banks	7129	3963432
	Private Sector Banks	2262	1105136
	Foreign Banks	525	217600
	<b>All SCBs</b>	<b>9915</b>	<b>5286168</b>
<b>Sep-12</b>	Public Sector Banks	6968	3924609
	Private Sector Banks	2272	1116925
	Foreign Banks	358	164347
	<b>All SCBs</b>	<b>9598</b>	<b>5205881</b>

\* SCBs- Scheduled Commercial Banks

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