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Bridging the gap: Ethical Finance and Microcredit through Bangladesh and India from 1928 to today

Relatore
Chiar.mo Prof. Marco Bertilorenzi

Laureanda:
Andreoli Elena
Matricola: 2035057

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ABSTRACT

The thesis explores the intersection of economics and ethics, focusing on ethical finance and microcredit. It covers the principles, benefits, and challenges of ethical finance, with a case study on India's economic landscape, including the caste system and Narendra Modi's influence. Furthermore, the thesis exams the practical application of ethical finance through microfinance, particularly Muhammad Yunus' Grameen Bank. The study highlights issues of wealth distribution, poverty and workplace safety, using the Rana Plaza disaster as a case and examining the underlying problems. The conclusion addresses whether economics can be ethical, discussing global development dilemmas and proposing solutions to integrate ethics into economic practices.

INTRODUCTION

The relationship between ethics and finance has long been the subject of intense debate, especially in the context of developing economies.

The thesis project investigates the topic of ethical finance and microcredit, focusing on two countries: India and Bangladesh. The research examines the European genesis of ethical finance, tracking back to the first ethical fund, the Pioneer Fund, established in 1928. Furthermore, it explores the Asiatic application and evolution of ethical finance, which is not necessarily connected with its origins. Despite its European genesis, the evolution of ethical finance in Asia occurred in different socio-economic and cultural contexts, with solutions tailored to local needs. As a consequence, the Asian initiatives respond to specific challenges, rather than following the European model.

The research aims to understand how financial systems can be designed to be both economically practicable and ethically possible, particularly in regions marked by economic disparities and social stratification, such as India and Bangladesh.

The primary research questions guiding this study are: can finance be inherently ethical, or are the concepts of profit and ethics fundamentally incompatible? What are its impacts on economic development and social structures?

These questions aim to challenge the traditional dichotomy between economics and ethics, seeking instead to identify areas where they may intersect and reinforce one another. The thesis will investigate whether financial practices can promote not only economic growth but also social justice, environmental sustainability and equitable wealth distribution.

This thesis is organized into four chapters. The first chapter explores the theoretical foundations of ethical finance, examining its origins, principles and practical applicability. The second chapter offers an analysis of India's economic landscape, focusing on the challenges and opportunities posed by its caste system, political leadership and role in the global economy. The third chapter shifts the focus to Bangladesh, exploring its intersection with India's social and financial contexts. It highlights the emergence of microcredit as social and financial tool, emphasizing Muhammad Yunus' work with the Grameen Bank, wealth inequality, workplace rights, and environmental sustainability in Bangladesh. The final chapter synthesizes the findings, addressing the initial paradox of whether economics can truly be ethical and proposing potential pathways for integrating ethics into global financial systems.

The study of economics traditionally focuses on the allocation of resources to maximize utility. Despite the apparent incompatibility between economics and ethics, the ethical implications of these decisions are often underexplored, underestimating the importance of ethical considerations in order to understand and address economic issues. Is essential to comprehend the fact that a robust economic system cannot exist without a foundation in ethical principles, which guide the behaviour of individuals, corporations, and governments[1]. A structure guided by the insatiable pursuit of profit raises questions, such as: can economy be ethical? At what point will economic growth cannibalize human balance? Or it already happened?[2]

The aim is to reconcile the demands of an economy predicated on perpetual growth with the preservation of human dignity, promoting the harmonious relationship between sustainability and economy. The challenge is to confront broader implications of our consumption, reimagining progress in terms of quality of life and environmental safeguard[3].

Bangladesh, with its microcredit initiatives, provides a model of how finance can be used as a tool for social good, also in India, which on the other hand offers a complex case study of a rapidly developing economy with deep-seated social inequalities and challenges. By comparing these two nations, the study seeks to uncover the broader implications of ethical finance for global development, addressing the ethical dilemmas that arise when profit and progress are pursued at the expense of human dignity and environmental administration.

[1]Friedman, *The Social Responsibility of Business is to Increase its Profits*, *The New York Times Magazine*, 1970.
[2] Ma, *Between Profit and Humanity: A Balancing Act,* Kenan Institute of Ethics, 2019.
[3] Rawls John. *A Theory of Justice: Original Edition*. Harvard University Press, 1971.

Chapter 1: Ethical finance

1.1 Origin and fundamental principles

The expression “ethical finance” refers to a specific field of finance with a social and environmental focus in relation to credit activity and investments. Ethically oriented finance differs from traditional finance by the prevalence of financial inclusion and access to the credit for fragile social categories. The caring about these topics doesn’t impede economic profit, but instead it adds values that combine and enrich the financial part. The major goals of ethical finance are common wellness, safeguarding of ecosystem and respect of social and individual rights[4].

It is essential to underline that a precise definition of sustainable finance does not exist, his on the one hand is helpful, because it has allowed to build different approaches for this way of seeing investment, but on the other hand, it is a problem because it can be confusing. Moreover, there is no specific agreement on the terminology: we talk about ethical finance, socially responsible finance, green finance, impact finance, ESG finance, which integrates environmental, social and governance considerations.

The history of ethical finance is closely linked to the history of religious orders. During the 18th century, Quackers distinguished themselves by their refusal to invest in companies involved in slave trade, laying the foundation for a financial ethical approach[5].

Even earlier, Franciscanism emphasized the centrality of poverty and care for creation. These propositions found a concrete application in the Monti di Pietà institutions, born in the Middle Ages to offer loans for the most economically disadvantaged people[6].

In the 1920s, inside the Protestant world, the concept of “sin stocks” was born. This expression was used in reference to the actions of companies engaged in controversial sectors, such as tobacco, alcohol and gambling[7].

The exclusion of these investments led to the creation of the first ethical found, the Pioneer Fund, on February 13 1928 in Boston. It followed the wave of Prohibitionism

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[4] Becchetti, Fucito. *La finanza etica: considerazioni teoriche e simulazioni empiriche*. Università degli studi di Roma" Tor Vergata", 1999.

[5] Burton, Sinnicks, M. *Quaker Business Ethics as MacIntyrean Tradition. J Bus Ethics,* 2022.

[6] Orelli, Del Sordo, Fornasari, *Credit and accounting in early modern Italy: the case of the Monte di Pietà in Bologna*. Accounting History Review, 2013.

[7] Rayer. *A short history of ethical investing*, The Private Investor, the newsletter of the UK Shareholders’ Association, 2019.

and Methodist Church and proposed to religious investment funds and private individuals' financial products, excluding sin stocks. The reflection of social and environmental impact of investments was stimulated thanks to civil rights movements and protests, leading to contemporary consciousness on the matter[8].

The fundamental principles of ethical finance are expressed in the Manifest of Ethical Finance by Ethical Finance Association (1998), signed in Florence during the conference "Towards a charter of intent for Ethical Finance", and can be summarized in seven main points. The first is the belief of credit as a human right, without any discrimination based on sex, ethnicity, religion or heritage. In relation to this, the importance of access to microcredit assumes a crucial valency, especially for weaker social sections. Secondly, one of the main points is the efficiency of ethical responsibility. With it comes the consciousness of ethical finance as an economic valid activity, and its consequential trustworthiness. In the third place, it's essential to underline the concept of enrichment, which refers to something more than disinterested possession and money exchange. According to this view, interest rate has to be weighed considering social and ethical factors. Additionally, it's essential to underline the transparency of ethically oriented finance, whose duty is to provide information channels to grant the clearness about its service and investments assets. Fifthly, ethical financial approach envisages the participation of savers in business choices, promoting economic democracy. Moreover, ethical finance's policies focus of social and environmental responsibility, excluding business ties with activities that hinder human rights and development. Lastly, said financial system demands global and coherent adhesion of the participants. Furthermore, ethics does not come after the market has operated, but is a constituent part of its smooth functioning [9,10].

Inside financial systems, competition is functional to generate progress; in a prevailing logic, if competitors are harmed by the use of incorrect information or even by recourse to corruption, the competition does not produce progress but involution. Ethics is about considering how an individual ought to use their freedom in the context of potential or

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[8] Garonna, Spaolonzi. *Ethics in finance, finance in ethics: new approaches to financing and solidarity.* Luiss university, 2016.

[9,] Associazione Finanza Etica. *Il manifesto della finanza etica,* 1998.

[10] Hemphill, Lillevik. *The Global Economic Ethic Manifesto: Implementing a Moral Values Foundation in the Multinational Enterprise. Journal of Business Ethics*, 2011.

real conflict with others, and these others' use of their individual freedom. This definition embodies the understanding that human beings are different. Nonetheless, the fact that individual differences will always prevail means that there are also an immense variety of ways in which human beings can make use of their freedom in ventures of "social cooperation to mutual advantage"[11].

This observation also holds in the context of the financial system, which means that the potential for individuals to use their freedom in a way which can create either conflict or mutual benefit deserves analysis[12].

1.2 Ethic of responsibility in business cultures and institutions

The prevailing nature of globalization is not only economic, but also highly political and ethical. Global development's phenomenon suggests the need for reflection on ethical values, the explicit call is to form a global civic and ethic with specific rights and responsibilities, in order to shape the so-called Global Neighborhood[13].

The central focus is on the humanization of the impersonal working of bureaucracies and markets, avoiding the tendency of emphasizing rights while forgetting responsibilities[14]. According to an ethical approach of business, is relevant to underline the importance of human dignity, which represents an end, and not simply a means to the fulfilment of other's purposes. An intriguing viewpoint on the matter remands to the Japanese concept of "Kyosei", which refers to the achievement of the common good through collective life and work, enabling co-operation and healthy competition[15].

The expression "ethic of responsibility" (Verantwortungsethik) was proposed by Max Weber in the winter of 1918 and pertains to the predictable consequences of our action and the consequential responsibility taken[16].

In 1980 the Society of Business Ethics (SBE) was founded, after being envisioned by a few philosophers meeting in Washington D.C. in 1978. By 1980 the SBE was

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[11] Rawls, *A Theory of Justice: Original Edition*. Harvard University Press, 1971.

[12] Dobson, *The Role of Ethics in Finance*. Financial Analysts Journal, vol. 49, no. 6, 1993.

[13] Commission on Global Governance. *Our Global Neighborhood: The Report of the Commission on Global Governance*. Oxford University Press, 1995.

[14] Hemphill, Lillevik. *The Global Economic Ethic Manifesto: Implementing a Moral Values Fundation in the Multinational Enterprise.* Journal of Business Ethics, 2011.

[15] Argante. *Vivere e lavorare insieme per il bene comune: cos'è la filosofia "Kyosei"*. Forbes, 2021.

[16] Weber, Conference on the theme of Politics as a profession and a vocation, 1918.

established and in 1997 incorporated as a non-profit organization to promote the advancement and understanding of ethics in business through discussion forums[17].
As a consequence, firms began to highlight their ethical stature, in an attempt to distance themselves from business scandals of the time, such as the saving and loan crisis. Business individuals should take the repercussion of economic operations into account, and there should be a presumption in favour of decisions that have both satisfactory economic and good social-environmental consequences. In its purest form, ethic of responsibility can be supported for its own sake simply because it is the right way for a business to behave. The most frequent ethical issues in business involve employment practises, human rights, environmental regulations and corruption. It's necessary to remark that basic human rights taken for granted in the developed world are, unfortunately, by no means universally accepted.[18]
Governments use laws and regulations to point business behaviour in what they perceive to be beneficial directions. Ethics implicitly regulates areas and details of behaviour that, in some cases, lie beyond governmental control.
Inside this context, institutions play a crucial role as intermediate structures. Economic systems are built upon the foundations of the ideas and values of a particular society, and on a number of institutional and social norms, whose main function is to limit and guide human actions and behaviours. In the perspective of institutional ethics, the institution is seen as a moral agent per se and as such it can be the object of moral evaluation. Institutions and norms appear in specific recurrent situations, but ethics applies also to non-recurrent situations and isn’t described in a universally official form. The consequence is the absence of a measure to grant the application of ethics in business and institutions, that’s the reason why responsibility is such a dominant segment[19].
Business values are internally and explicitly recognized, placing a strong emphasis on ethical behaviour, using a formal statement of the ethical priorities a business adheres to: the code of ethics. Content and development of universally recognized norms is a

[17] Carroll, *Societies for Business Ethics*, Wiley Encyclopedia of Management, 2015.
[18] Larreina. *Overcoming Recklessness in Finance and the Urgent Need for Strengthening Ethics.* Revista Portuguesa de Filosofia, vol. 74, 2018.
[19] Elliot. *Institutional issues involving Ethics and Justice: Ethics fundamentals and approaches to ethics.* Vol. 1, 2009.

significant groundwork for business ethics scholarship. Norms are obliged to address difficult practical and moral problems facing enterprises and institutions[20].
The establishment of universally accepted ethical rules is seems unlikely. Universal ethics could be founded on natural law, which could be understood in a context of cultural and financial diversity. Evolution of multiple international policy fragmented regimes is more probable. Alternatively, universal ethics could be based on a single supreme principle independent of worldwide: human dignity. As is learnt more about human impact on the world, the need of precautionary principles came, due to the necessity of minimizing harmful impacts. The set of proposition includes reverence for life in all forms, global justice reflected by international laws and environmental stewardship. Each individual influences the planet, the economics, the society and the culture by simple be a part of it. Principles can only describe commonly recurring patterns that can be embodied in different ways. Responsibility comes with power and global ethics can inspire us to accept shared responsibility[21].

1.3 Analysis of benefits and disadvantages

The analysis of the impact of ethical approach in financial sectors is useful to understand the dynamics inside markets and economy. The British ethicist Philippa Foot elaborates that morality does not seem to have any special binding force, and she clarifies that people only behave morally when motivated by other factors[22]. The behaviour of a company has mayor consequences in its accounting, commerce and relationship with costumers. Nevertheless, the leading of a business in a cost-effective manner in the short-term is ordinary, which is what shareholders fancy, due to their preference of a cost-effective management.
The last few decades have seen major changes in the globalized market, as many manufacturing giants in the United States of America and Europe have set up production units, Research and Development Centres in other countries, for instance China, India or Bangladesh. The main purpose is to take advantage of the cost of labour, which is relatively cheaper as compared to the domestic country of the manufacturing

[20] Windsor, *The Development of International Business Norms*. Cambridge University, 2004.
[21] Winkler, *Are universal ethics necessary? And possible? A systematic theory of universal ethics and a code for global moral education.* 2022.
[22] Foot, Stanford Encyclopedia of Philosophy, 2018.

giants. The principal intent is to cut down cost of production and maximize profit. Practices acceptable and widespread in a specific country, regarding for instance labour conditions or safety, are often not tolerated according to the values of an ethical approach. Ethical finance reduces a corporation's freedom, but the restrictions benefit wider society and environment[23].

The pressure from the community and institutions can lead to a hijacking of the "traditional" trend. Ethical finance offers a competitive advantage; indeed, companies increasingly recognize the need to commit to an ethical approach. Unilever survey shows that thirty tree percent of costumers choose to invest on brands that shape a positive social and environmental impact[24]. Among the merits of ethics there are higher revenues, new source of capitals and improved recognition and reputation. Companies report their performances based on a triple bottom line: people, planet and profit. It's accredited that huge earning can be derived from healthy environmental practices, as opposed to what it's put as truthful[25].

In the 18th century, Adam Smith laid the theoretical foundations of what we now call a modern economy; in his vision, production and trade are placed in the context of civil society where citizens and economic agents, while pursuing selfish interests, act correctly and are linked by a common feeling. This has led to the consciousness that the operation of the market maximizes the well-being of the community[26].

1.4 Practical applicability of ethical finance

It can be stated that: "Managing ethical behaviour is one of the most pervasive and complex problems facing business organizations"[27]. This can lead to situations in which none of the available alternatives seems ethically acceptable: the so-called ethical dilemmas. Rights theories recognize that human beings have fundamental rights that transcend national and economic boundaries and culture, this was the underlying motivation for the Universal Declaration of Human Rights[28].

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[23] *The importance of Ethics in Applied Economics and Public Policy.* Boston College, Woods College of Advancing Studies.
[24] Uniliver. *GlobeScan-SustainAbility Survey, 2023 Sustainability Leaders*. 2023.
[25] MacDonald. *Advantages & Disadvantages of Business Ethics*. Chron, 2019.
[26] Smith, *The Wealth of Nations,* 1776.
[27] Edward, Worrell & Stead, *An Integrative Model for Understanding and Managing Ethical Behavior in Business Organizations*, Journal of Business Ethics, 1990.
[28] Universal Declaration of Human Rights, 1948.

The statement specifies the basic principles that should always be adhered, regardless of the culture in which one is doing business. Specifically, the article 23 of UDHR reads: "(1) Everyone has the right to work, to free choice of employment, to just and favorable conditions of work and to protection against unemployment. (2) Everyone, without any discrimination, has the right to equal pay for equal work. (3) Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection. (4) Everyone has the right to form and to join trade unions for the protection of his interests."[29].

From the first investment fund in 1928, Boston's Pioneer fund, huge progress has been made. From 1967 was activated the suspension of the discriminatory policies of racial segregation adopted in some production sites. In 1976 the Organization for Economic Co-operation and Development (OECD) published the first guidelines for multinationals, in which the idea of corporate social responsibility first appears. In 2002 the European Investment Standard Ethics Agency and its subsidiaries were the first case of investment structures explicitly delegating the ethical definition of their investment meta-strategy to the United Nations, also introducing the principle that investment constraints shouldn't be just social but also regulatory[30].

According to the British economist John Maynard Keynes, the complete integration of ethics and economics is contingent on the rate of economic development. From the end of the 1920s, with the great crisis, Keynes' studies led the state to assume the task of ensuring the development, stability and balance of the economic system, and to direct the activities of private individuals to this end[31]. This active role of the state agency thus brings a functional finance. Economic agents use normative ethics in making decisions, while also seeking to maximize their payoffs. It's declarable that systemic stability is a collective good, on which the efficiency of a single institution is inescapably dependent. This led to the fact that the realization of social and environmental aims requires effective coordination amongst regulators and financial institutions. This coordination,

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[29] Universal Declaration of Human Rights, 1948.
[30] *OECD guidelines for multinational enterprises: a glass half full*, 2018.
[31] J.M. Keynes. *Am I a Liberal?* 1925.

or its lack, occurs on the basis of a shared understanding of the financial game, conducive to safeguarding the efficiency and stability of the financial system[32].
In recent times, sustainable development played a fundamental role, due to the fact that it allows the present generation to meet its needs without compromising the possibility of future generations to meet their own[33]. This explains the frequent use of the acronym ESG: environmental, social and governance dimension. ESG abbreviations was invented in 2004 in Geneva during the United Nations environment project by James Gifford, head of sustainable & impact advisory of Credit Suisse. ESG is fundamental to verify, measure, control and support the commitment in terms of sustainability of a company or an organization. According to a future perspective, the adhesion of financial systems to progress is expected, leading to a reshaping already happening of the classic logics[34].

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[32] Kleinau. *Ethics in Finance: Applying Ethical Theory to Guide Decisions and Analysis in Finance*. SSNR, 2014.
[33] Kung Hans. *A Global Ethic in an Age of Globalization.* Vol. 7, 1997.
[34] de Souza Barbosa, A., da Silva, M.C.B.C., da Silva, L.B. *et al*. *Integration of Environmental, Social, and Governance (ESG) criteria: their impacts on corporate sustainability performance*. Humanit Soc Sci Commun, 2023.

Chapter 2: Framework of India

2.1 Origins and overview

India’s economic and financial landscape is a testament to the dynamic and multifaced history of the country. As one of the world’s oldest civilizations, India has witnessed the rise and fall of various economic systems, from ancient trade empires to the complexities of modern global markets. Understanding India’s economic history is essential to gasp the underlying factors that influence its modern economy.

India’s economic journey began with its primordial agrarian society, characterized by advanced agricultural techniques and extensive trade networks. During the Mauryan (322-185 B.C.E) and Gupta (320-550 C.E.) empires, India established itself as a vital economic hub, as a result of administrative prowess and economic policies[35].

This period saw the development of complex banking and financial systems, including early forms of credit and investment, for instance the presence of state loans to stabilized the economy during times of distress, individual or public investments in infrastructure projects, the acceptance of deposits or the provisions of loans by associations of merchants. These early forms of credit and investment laid the groundwork for a complex financial system that supported economic activities across the Indian subcontinent. The practices continued to evolve, influencing subsequent economic developments in India[36].

During the medieval era, this legacy continued with the expansion of trade. However, the advent of European colonialism during the 17th century, particularly the British rule, brought significant economic changes, for instance the deindustrialization of India’s traditional industries and the economic transformation to serve British interests.

The British colonial period represents a critical phase in the country economic history that altered India’s economic landscape, by focusing on transforming India's economy into a supplier and a market for British manufactured goods[37].

The British rule imposed high tariffs on Indian textiles while allowing British goods to enter the Indian market duty-free. This policy led to the decline of the Indian textile

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[35] Irin Akter, *Economic System of Ancient India: Maurya and Gupta Empire*, American Journal of Humanities and Social Sciences Research, 2020.

[36] Sarkar, Benoy Kumar. *Public Finance in Ancient India, The Annals of the American Academy of Political and Social Science*, 1921.

[37] *Impact of British Rule in India-Impact on Economy, Society, Culture and More,* Testbook, 2023.

industry, resulting in widespread unemployment and economic dislocation. The exploitation of India's resources included the extraction of raw materials like cotton, jute, and tea, which were exported to Britain at low prices, creating a trade imbalance that drained wealth from India. The British also invested in infrastructure, such as railways and ports, but these investments were primarily aimed at facilitating the extraction and export of resources rather than promoting internal economic development[38].

The economic policies of the British colonial period had long-term consequences for India's development. The deindustrialization and decline of traditional industries left a lasting impact on the Indian economy, contributing to widespread poverty and unemployment. The agrarian policies introduced by the British led to the commercialization of agriculture, increased indebtedness and frequent famines, such as the Great Bengal Famine of 1943[39].

The Indian Independence Act was passed in 1947. The post-independence era was characterized by a focus on industrialization, infrastructures and poverty reduction. The issue of financial development has played a crucial role in shaping the economic history of India, deeply influencing its growth and development trajectory, both during and after the colonial period. After gaining independence in 1947, India faced the challenge of building an autonomous and self-sufficient economy.

India adopted an economic model heavily influenced by socialism, characterized by strong central planning, with a predominant role of the State in the economy. The primary goal was to create a self-sufficient nation and reduce dependency by promoting heavy industry, nationalizing key resources and implementing five-year plans for economic development[40]. However, financing this development was a significant challenge. India had to rely on a combination of internal resources, such as taxation and public savings, and external financing, through loans and international aid, to support its ambitious development programs[41].

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[38] Fabriclore, *How Did British Rule Impact Indian Textile,* Fabriclore, 2022 ; Tirthankar, *Economic History and Modern Indi: Redefining the Link,* Journal of Economic Perspectives, 2002.

[39] *The economy during medieval India*, Unacademy.

[40] Adhia, *The History of Economic Development in India since Independence,* Association for Asian Studies, 2015.

[41] *75 Years of Independence: Self Reliance, Idea of India and Road to the Future,* All India People's Science Network (AIPSN) website.

Central planning was intertwined with the reality of a society rigidly structured by caste. This social system, based on strict hierarchies and hereditary divisions, significantly limited social mobility and economic advancement opportunities for much of the population. The State's economic policies, often focused on supporting large industries and the public sector, failed to create a favourable environment for small entrepreneurship, which was stifled by oppressive bureaucracy and limited access to credit and resources. The role of the State mixed with the Indian model of society, divided in castes, enforced and perpetuated a cycle of poverty and social exclusion, where the State ended up reinforcing existing inequalities[42].

The early 1990s marked a turning point in India's economic history, when India faced a balance of payments crisis that led to the adoption of market-oriented economic reforms. The economic liberalization of India is the series of market-oriented reforms aimed at opening up the country's economy to global trade and investment, leading to a rapid economic growth, transforming India into a global economic player. These capital flows have contributed to rapid economic growth, but they have also exposed India to global market fluctuations and created new challenges in terms of debt management and economic inequality[43].

Starting from a state of underdevelopment, India has faced the challenge of finding a balance between state-led development and integration with the global economy. This balance continues to evolve, profoundly influencing the economic trajectory of India, facing the problem of financing development, especially in the context of a rapidly growing economy but with serious regional and social disparities.

2.2 Economic and financial development issue in India

The issue of access to credit in India is complex and multifaceted, profoundly affecting economic development, poverty and inequality in the country.

One of the biggest problems is the limited financial penetration, indeed a significant portion of the Indian population remains without access to formal banking services.

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[42] Jaipal, *Caste system and its impact on Indian society,* International Journal of Advanced Research in Commerce, Management & Social Science, 2018.

[43] Sarkar, Benoy Kumar. *Public Finance in Ancient India, The Annals of the American Academy of Political and Social Science*, 1921.

Banks, if properly managed, can act as a driving force for economic development. By providing credit to small and medium-sized enterprises, banks can stimulate innovation and employment while reducing poverty. However, limited access to credit is an obstacle for entrepreneurial potential and economic growth in India. This limits the ability of individuals and small businesses to obtain necessary funding for investment and growth[44].

Small businesses, in particular, are often excluded from formal credit due to bureaucratic barriers and perceived risks by banks. When access is available, the cost of credit can be prohibitive. High interest rates and additional fees make credit less accessible and sustainable, especially for small businesses and the poor, blocking economic expansion and innovation[45].

Moreover, banks tend to be reluctant to extend loans due to perceived risks, leading to disparities in credit access and accentuating the differences between developed and underdeveloped regions. Banks tend to concentrate their branches in urban and semi-urban areas where operations are more profitable, leaving rural areas under-served. This geographical disparity increases inequality by providing better financial services to already more affluent urban populations while neglecting poorer rural regions. Research by the Reserve Bank of India (RBI) shows that 60% of rural households lack access to formal bank loans, due to the fact that traditional financial institutions often do not reach rural and low-income populations[46].

Formal banks often charge higher interest rates on loans to small borrowers compared to larger and more established businesses, due to perceived risks and operational costs associated. Furthermore, Indian banks often impose strict eligibility criteria for loans, such as high credit scores and collateral requirements, which many low-income individuals cannot meet. Essentially, financial system often prioritizes larger corporations and wealthier individuals who represent lower credit risks and offer higher returns. This bias results in an inequitable distribution of credit, where wealthier segments of society have easier access to financial resources, enabling them to grow

[44] Sehrawat, Giri, *The impact of financial development, economic growth, income inequality on poverty: evidence from India*. Empir Econ, 2018.

[45] Hussain, Tyagi, *Political connections and credit access: evidence from small businesses and microenterprises in India,* 2024.

[46] Report: *National Strategy for Financial Inclusion (NSFI): 2019-2024,* Reserve Bank of India official site.

their wealth, while poorer individuals and small businesses struggle to obtain the credit needed for economic advancement[47].

In addition to that, Indian banks often face high levels of non-performing assets, such as loans that are not being repaid, especially in the context of public banks. The high level of non-performing assets limits banks' ability to lend new money, further hampering economic development. With the increasing digitization of banking services, there is a risk that those without access to digital infrastructure or the necessary skills will be even more excluded from financial services, for instance people living in rural areas[48].

This situation raises questions on whether the Indian growth process reduces or increases inequality. In recent decades, India has experienced strong economic growth, especially since the 1990s, thanks to economic reforms that have liberalized the economy, stimulated industry, services and foreign investment. This growth has had a positive impact on the reduction of absolute poverty. According to data from the World Bank, millions of people have emerged from extreme poverty, especially in urban areas. However, growth has not been evenly distributed. The benefits of economic growth have been strongly concentrated in urban areas, among the more educated classes and in technology industries, while rural areas and less privileged castes and communities have benefited less. This has led to an increase in relative inequality, with a growing gap between rich and poor[49].

2.3 System of Indian castes

The caste system in India traces its origins to the ancient Hindu text called Rigveda (1500 BCE), where the creation of four main castes is described: the Brahmins refers to priests and teachers, in the Kshatriyas warriors and rulers are collocated, the Vaishyas include traders and agriculturists and the Shudras take in servants and labourers. This mythological structure laid the foundation for the Indian social division[50].

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[47] Sehrawat, Giri, *The impact of financial development, economic growth, income inequality on poverty: evidence from India*. Empir Econ, 2018.
[48] Suhrab, *Digital financial inclusion and income inequality nexus: Can technology innovation and infrastructure development help in achieving sustainable development goals?*, Technology in Society, 2024.
[49] Nayyar, Gaurav, *Economic Growth and Regional Inequality in India*, Economic *and Political Weekly*, 2008.
[50] Nikul Joshi, *Caste System in Ancient India*, World History Encyclopedia, 2017.

Initially the Varna was flexible and outlined the duties and responsibilities of each caste to maintain social order. Over the time the Varna system evolved into the more complex Jati system, which included thousands of sub-castes based on occupation and birth[51]. During the Mauryan and Gupta empires, the caste system was formalized to organize society and during the colonial period the British rule rigidified the caste system through policies that favoured certain groups, solidifying social division. After 1947, independent India sought to eliminate caste-based discrimination with its Constitution, to ensure social justice through anti-discrimination laws and affirmative action policies to support marginalized communities[52].

Despite legal measures to eradicate caste-based discrimination, the caste system remains deeply connected with Indian contemporary society, influencing various aspects of life, from politics and education to marriage and social interactions. The rise of regional political parties representing specific caste groups has led to a complex political landscape where caste dynamics intersect with regional and national interests[53].

Caste-related inequalities persist in contemporary India, with marginalized groups facing significant socio-economic challenges, such as Dalits and Adivasis. Despite affirmative action policies, these communities often experience limited access to education, healthcare, and employment opportunities. Discrimination in rural areas remains widespread, where traditional practices continue to dominate social relations. Urbanization and modernization have brought some shifts in caste dynamics. In urban centres, where anonymity and economic opportunities prevail, caste identities may hold less shake than in rural settings. However, caste-based networks often provide social capital and influence employment and business relations[54].

Numerous social movements have emerged to challenge caste-based discrimination and promote equality, to empower marginalized communities and dismantle oppressive structures. In recent years, movements like #DalitLivesMatter have gained traction, highlighted ongoing injustices and advocated for social reform. For instance, “Dalit" refers to individuals from the lowest caste in India, historically oppressed and excluded,

[51] Goghari, Kusi, *An introduction to the basic elements of the caste system of India*, Frontiers, 2023.
[52] Deshpande, *History of the Indian caste system and its impact on India today*, California Polytechnic State University, 2010.
[53] *“What is India’s caste system?”,* BBC News, 2019.
[54] Srinivas, *Caste in Modern India*, The Journal of Asian Studies, 1957.

who face ongoing social and economic challenges despite legal protections and affirmative action [55].

The future of the caste system in India is shaped by ongoing efforts to address historical injustices and promote social equality. While legal measures have made significant improvements, social change requires sustained efforts. The Indian government implemented policies aimed at reducing caste-based disparities, including educational reservations, economic empowerment programs, and legal protections against discrimination, even though the effectiveness of these measures often varies. Education plays a crucial role in challenging caste-based prejudices and promoting social mobility. Increasing awareness about the effects of caste discrimination is essential in fostering an inclusive society[56].

2.4 Role of Narendra Modi

Narendra Modi (September 17, 1950, Vadnagar, Gujarat) is the 14th and current Prime Minister of India and represent a figure whose influence and leadership have significantly shaped contemporary Indian politics and governance landscape.

Narendra Modi's political career began as a campaigner in the Rashtriya Swayamsevak Sangh (RSS), a Hindu nationalist organization. He was appointed as the Chief Minister of Gujarat in 2001, a position he held until 2014, focusing on economic development, infrastructure, and industrialization, which earned him both praise and criticism[57].

In 2014, Narendra Modi led the Bharatiya Janata Party (BJP) to a historic victory in the general elections, becoming the Prime Minister of India. His campaign, marked by the promise of economic growth, transparency, and good governance, resonated with millions of Indians, and the slogan "Achhe Din" (Good Days) became synonymous with Modi's vision for a transformed India[58].

As Prime Minister, Modi has implemented a series of ambitious economic reforms aimed at transforming India into a global economic powerhouse. His government

[55] Official DalitLivesMatter site (https://dalitlivesmatter.org)
[56] Desai, Dubei, *caste in 21st Century India: Competing Narratives,* 2012.
[57] D'Souza, Shanthie Mariet, *Narendra Modi*, Encyclopedia Britannica*,* 2024.
[58] Burke, Narendra Modi's landslide *victory shatter: Congress's grip on India*, The Guardian, 2014.

launched the “Make in India” initiative to encourage manufacturing and attract foreign investment[59].

The Goods and Services Tax (GST), implemented in 2017, aimed to unify the country’s fragmented tax system, although it faced initial implementation challenges.

Modi’s push for digitalization is another significant aspect of his economic policy. The “Digital India” campaign aims to enhance internet connectivity and digital infrastructure, promoting e-governance and digital literacy. Additionally, the “Start-up India” initiative supports entrepreneurship and innovation, reflecting Modi’s focus on a modern, tech-driven economy[60].

Modi’s government has also launched several social initiatives targeting various aspects of Indian society, for instance the improvement of sanitation and cleanliness across the country (Swachh Bharat Abhiyan or Clean India Mission) or the promotion of the financial inclusion by providing banking services to the unbanked population[61].

The “Ayushman Bharat” scheme, also known as the National Health Protection Scheme, aims to provide health insurance to millions of underprivileged Indians, making healthcare more accessible and affordable. These initiatives reflect Modi’s commitment to addressing fundamental social issues and improving the quality of life for ordinary Indians[62].

Under Modi’s leadership, India’s foreign policy has seen a proactive and dynamic shift. Modi has sought to strengthen India’s global presence through strategic partnerships and active diplomacy. His government has focused on improving relations with neighbouring countries, engaging with major global powers, and enhancing India’s role in international organizations. Modi’s leadership style is characterized by his strong, charismatic persona and a direct approach to governance. He is known for his ability to connect with the masses, using modern technology and social media to communicate his policies and vision[63].

[59] Major Initiatives-*Make in India*, PMINDIA website (pmindia.gov.in)
[60] Sridharan, *How PM Modi transformed India’s economy*, 2018.
[61] *Swachh Bharat Abhiyan (Clean India Mission*), United Nations.
[62] *Ayushman Bharat*, National portal of India (india.gov.in)
[63] Sridharan, *How PM Modi transformed India’s economy*, 2018.

2.5 Economic growth and role in global economy

India, the world's most populous democracy and one of the fastest-growing major economies, has experienced a transformative journey over the past few decades. From being a largely agrarian economy to becoming a significant player in the global economic landscape, India's growth story is marked by significant milestones in economic reforms, industrialization, and technological advancements[64].

India's economic role has evolved significantly since independence in 1947. Initially characterized by a state-led development model, the country's economic policies have undergone substantial transformation, particularly since the economic liberalization of the 1990s. This shift has paved the way for India to emerge as a major global economy[65].

One of the Indian key contributions to the global economy is global trade, including textiles, pharmaceuticals, automotive products, and, notably, information technology (IT) services. India is also one of the largest producers of agricultural products, for instance exporting of rice, spices or tea[66].

Moreover, India has entered into various bilateral and multilateral trade agreements, enhancing its market access and trade relationships. Examples include agreements with Association of Southeast Asian Nations (ASEAN) countries, Japan, and the European Union[67].

Further investigations reveal the importance of outbound Investments. Indian multinational corporations (MNCs) are increasingly investing abroad, acquiring businesses, and establishing operations in foreign markets. This trend reflects India's growing economic influence and integration into the global economy.

India's strategic location and growing economic power have enhanced its geopolitical influence. The country is a key player in regional and international forums, including BRICS (Brazil, Russia, India, China, South Africa), the G20, and the World Trade Organization (WTO)[68].

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[64] Mukherji, The State, Economic Grpwth and Development in India, 2009.

[65] Sarkar, Benoy Kumar. *Public Finance in Ancient India, The Annals of the American Academy of Political and Social Science*, 1921

[66] Borse, India's Global Trade Contribution: A Journey Through History, Present and Future, 2024.

[67] Sen, Rajan, ASEAN-India Economic Relations: Current Status and Future Prospects, 2004.

[68] Sudhakar, Velmurgan, Impact of foreign direct investemnts in Indian economic growth, Karpagam Academy of Higher Education, 2023.

India’s economic role in the global economy is multifaceted and growing in importance. Through its contributions to global trade, investment, technology, and geopolitical dynamics, India is not only shaping its own economic destiny but also influencing global economic trends. By addressing existing challenges and capitalizing on emerging opportunities, India is assured to further enhance its position as a key player in the global economy. The country’s journey towards inclusive and sustainable growth will undoubtedly have significant implications for the global economic landscape[69].

2.6 Macroeconomic framework of India

India's macroeconomic framework is essential to understand the country's economic policies, growth patterns, and resilience in the face of global economic shifts.
Fiscal policy in India is primarily concerned with government revenue collection (taxation) and expenditure to influence the economy. The Ministry of Finance oversees this policy, with the Union Budget being the most significant annual fiscal document. The primary sources of government revenue include direct taxes (income tax, corporate tax) and indirect taxes (Goods and Services Tax, customs duties). The government spends money on infrastructure, social programs, and operational costs. This spending is divided into capital expenditure (long-term investments) and revenue expenditure (day-to-day expenses), as in almost all countries[70].
The fiscal deficit is another essential aspect, representing the gap between what the government earns and spends. The Fiscal Responsibility and Budget Management (FRBM) Act aims to reduce this gap. Others Indian economic challenges are balancing the budget, to ensure enough spending on development without overspending, and improving tax system, while making taxes more efficient and fairer[71].
Monetary policy represents another fundamental ingredient in the economic context. Banks play a crucial role by providing loans to people and businesses, while also keeping people's money safe and help manage financial transactions[72].

[69] Borse, India’s Global Trade Contribution: A Journey Through History, Present and Future, 2024.
[70] Union Budget 2024 | What is fiscal policy?, Deccan Herald, 2024.
[71] What Is Fiscal Deficit? Effects Of Fiscal Deficits On Indian Economy, HDFC BANK; 2024.
[72] Monetary Policy Of India: From types, tools and composition, details you need to know, India Forbes, 2024.

The functions of banks have evolved over time, adapting to the economic, social and technological needs of different eras. In particular, the British banking system contributed significantly to the development of modern banking and financial practices, profoundly influencing the banking systems of many nations, including India and other former British colonies. Its model introduced key concepts such as the stabilization of the financial system or the creation of central banks, serving as a prototype for the Reserve Bank of India (RBI).

The Reserve Bank of India (RBI), established in 1935, controls the money supply and interest rates to maintain economic stability, aiming to keep inflation in check while supporting economic growth. Balancing inflation control with the need to support economic growth is a delicate task. Ensuring adequate liquidity in the banking system without causing inflationary pressures is another key challenge[73].

Investments come from within the country and from abroad. Businesses and individuals invest in factories, technology, and infrastructure, which helps the economy grow. Foreign companies also invest in India, bringing in capital and creating jobs[74].

In simple terms, India's economy is like a big machine where people, businesses, government, and financial institutions all work together. The goal is to produce goods and services, create jobs, generate income, and improve the standard of living for everyone.

[73] Study of role of R.B.I. as Regulator, International Emerging Technologies and Innovative Research, 2018.

[74] Sudhakar, Velmurgan, Impact of foreign direct investemnts in Indian economic growth, Karpagam Academy of Higher Education, 2023.

Chapter 3: The lesson from Bangladesh

3.1 Framework of Bangladesh and intersection with India

Bangladesh, with a population exceeding 170 million, has emerged as one of the fastest-growing economies in South Asia. Its gross domestic product (GDP) growth, that measures the size of an economy and the value of total final output of goods and services produced by that economy in a certain period of time, has averaged over 6% annually since the early 2000s, reaching approximately 7.8% in the pre-pandemic period[75].

Historically, agriculture has been the core of the economy of Bangladesh, employing nearly half of the workforce, but its contribution to GDP has declined to around 13% due to productivity and environmental challenges.

During modern times the manufacturing sector has been the primary driver of Bangladesh's economic growth, accounting for over 80% of the country's export earnings and employs millions of workers, predominantly women. However, challenges such as labour conditions, compliance with international standards and environmental sustainability remain significant[76].

Bangladesh's large and youthful population presents both an opportunity and a challenge. The country has benefited from a growing working-age population that has supported economic growth. However, the labour market is characterized by a high degree of informality and underemployment and child labour remains a huge issue, with currently, 3.45 million children, between the ages of 5-17, engage in child labour and working in different sectors. Enhancing labour productivity and creating high-quality jobs are critical for sustaining long-term growth[77].

The Bangladeshi government has implemented a range of fiscal policies aimed at promoting economic development and reducing poverty. Investment in infrastructure, healthcare, and education has been a priority.

Despite this, infrastructure development remains a critical area for Bangladesh, with gaps in transportation, energy, and logistics infrastructure that continue to impede

[75] Munir, Chakraborty & Ishtiaque, *Bangladesh's Economy Is Growing, and So Are Its Emerging Champions,* BCG, 2023.
[76] Sen, Topon, *Key Economic and Social Determinants in Bangladesh: A Multi-Faced Analysis,* North South University, 2024.
[77] *Employment and environmental sustainability fact sheets 2019*, International Labour Organization.

economic efficiency and competitiveness. Addressing these deficiencies is essential for sustaining growth and attracting foreign investment. Additionally, corruption, bureaucratic inefficiencies and weaknesses in regulatory frameworks can undermine economic performance and investor confidence[78].

Talking about Bangladesh relating to India is particularly useful. India and Bangladesh, while distinct in many respects, face several common economic and socio-political challenges. Despite having different economic models, both countries share many similarities because of their history, geographical proximity and social problems.

India and Bangladesh have to sustain high growth rates while advocating global economy and domestic challenges. They share a long land border of over 4,000 kilometres, making them immediate neighbours. This proximity has facilitated significant cultural, economic, and social interactions over centuries. Socially, culturally and religiously, they have deep ties, as they were once part of the same political entity before the partition of India in 1947 and Bangladesh's independence in 1971. In India and Bangladesh income inequality and regional disparities persist, with significant differences in wealth and development between urban and rural areas. In this context persistent poverty, uneven access to opportunity and rising income inequality represents hard challenges to face. Climate change vulnerability, environmental degradation, healthcare development and access to education add worries to the context.

India and Bangladesh share a complex set of economic and social challenges that represent crucial issues to achieve sustainable and inclusive growth, reduce poverty and inequality and improve the overall quality of life for their populations.

In these conditions, the advent of microcredit, also known as microfinance, represents a solution and aims to address several critical issues in both India and Bangladesh by providing financial services to underserved and low-income populations.

3.2 Practical applicability of ethical finance: microfinance and credit problem

The subject that has had the greatest impact on the world economy in the last 20 years is globalization. It radically changed the development of the original economic system and contributed to the process of social transformation, whose effects are still being experienced today. As a consequence, social and environmental change are followed by

[78] *Sector assessment: finance (infrastructure finance and investment funds*), Asian Development Bank.

formal and legal implementations, for instance the EU 2020/852 regulation, that establishes the general framework in order to determine whether an economic activity can be considered as environmentally sustainable, as a way to identify the degree of environmental sustainability of an investment[79].

Regarding legal and formal aspects, there are many instruments adopted by countries and organizations to stimulate the evolution of ethical finance. Ethical banks and sustainable investments funds are major examples of sustainability promotion. These realities underly the importance of the selection on investments based on ESG (Environmental, Social, and Governance) criteria, excluding companies that do not meet certain ethical and environmental standards and promoting the community well-being[80]. Others useful moves are ESG standards and mandatory reporting, governments incentives or certification and standards such as B Corp as a warranty of transparency and social commitment[81].

The base of the ethical and financial consciousness is set by education and awareness initiatives, promoting the acknowledgement among individuals and institutions about the reality of ethical finance.

3.3 The birth of modern microcredit: the Grameen Bank of Muhammad Yunus

Microcredit has become a powerful tool in the fight against global poverty. The term "microcredit" refers to the provision of small loans to individuals or groups who typically lack access to traditional banking services. These loans are designed to help low-income individuals start or expand small businesses, improve their livelihoods, and escape poverty. Microcredit is a key component of microfinance, which also includes other financial services like savings, insurance, and training.

Microcredit has been credited with improving the lives of millions of people by enabling economic independence and promoting entrepreneurship. It also faces criticism regarding high interest rates charged by some microfinance institutions and the potential for borrower over-indebtedness[82].

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[79] *Regolamento EU 2020/852*, Gazzetta ufficiale dell'Unione Europea, 2020.

[80] Driessen, *Sustainable Finance: An Overview of ESG in the Financial Markets*, 2021.

[81] Kim, S.; Li, Z. *Understanding the Impact of ESG Practices in Corporate Finance. Sustainability* 2021

[82] Snow, *Development and the Role of Microcredit*, Policy Studies Journal, 2001.

The concept of microcredit became widely known through the work of Muhammad Yunus and the Grameen Bank in Bangladesh, founded in 1976.
Muhammad Yunus (Chittagong, 1940), also known as the banker to the poor[83], is a Bengali economist, banker and professor of economics at Chittagong University. He is considered the originator and implementer of modern micro-credit and thanks to his efforts in this field he won the 2006 Nobel Peace Prize.
Yunus' academic journey began at Dhaka University, where he earned his Bachelor's and Master's degrees in Economics. His academic capacities were further sharpened at Vanderbilt University in the United States, where he completed his Doctorate of Philosophy (PhD) in Economics in 1969. This international exposure and advanced education provided Yunus with a robust theoretical foundation and a global perspective on economic issues [84].
Before pioneering microcredit, Yunus held academic positions and served as an economic advisor. He was a professor at Chittagong University, where he taught economics and conducted research. His role as an advisor to the government and various international organizations gave him insight into the systemic challenges of poverty and economic development. After observing the famine of 1974, he became involved in poverty reduction and established a rural economic program as a research project[85].
On 6 August 2024, following weeks of violent protests and the departure of Prime Minister Sheikh Hasina as a victory for the courageous student movement, Muhammad Yunus was nominated Prime Minister of Bangladesh ad interim by the president Mohammed Shahabuddin in order to lead the country smoothly and peacefully to new elections. Yunus' figure is characterized by a Yunus a strong sense of social responsibility and a commitment to helping others.[86].
Furthermore, Yunus is the founder of Grameen Bank, which he was director from 1983 to 2011. He first encountered the crippling effects of poverty during a visit to a village near his university in the 1970s. He discovered that small loans of a few dollars could

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[83] Muhammad Yunus, *Banker to the Poor: Micro-lending and the Battle Against World Poverty*, 2003.
[84] *The Editors of Encyclopaedia: Muhammad Yunus*, *Encyclopedia Britannica*, 2024.
[85] Jolis, *Banker to the Poor: micro-lending and the battle against world poverty*. New York: Public Affairs, 2003.
[86] *Nobel laureate Muhammad Yunus to lead Bangladesh interim government*, Al Jazeera, 2024.

make a significant difference in the lives of the poor, enabling them to escape the cycle of poverty by starting or expanding small businesses. This realization led to the experimental microcredit project in the village of Jobra in 1976, which eventually grew into the Grameen Bank[87].

In 2006 he declared "*I became involved in the poverty issue not as a policymaker or a researcher. I became involved because poverty was all around me, and I could not turn away from it. In 1974, I found it difficult to teach elegant theories of economics in the university classroom, in the backdrop of a terrible famine in Bangladesh. Suddenly, I felt the emptiness of those theories in the face of crushing hunger and poverty. I wanted to do something immediate to help people around me, even if it was just one human being, to get through another day with a little more ease*."[88].

His work focused on improving the living conditions of poor people, especially in rural areas of Bangladesh. During his carrier he reflect on the existence of a poverty cycle in which individuals find themselves trapped in a pattern. The lack of access to finance prevents them from starting or expanding economic activities, perpetuating their state of indigence.

In 1983, the Grameen Bank was formally established as a full-fledged financial institution with a focus on providing credit to the rural poor, particularly women, who were typically excluded from traditional banking services[89].

In the Grameen bank's model the process of giving loans requires no collateral and the majority of borrowers are women, as Yunus believed that empowering women leads to broader social benefits. Beyond financial services, the Grameen Bank also provides education, health, and social development programs to its borrowers[90].

The Grameen bank's data updated in December 2023 reveal that the total number of clients funded is over 10 million, with around 97% being women. The bank has 2568 branches and the repayment rate of loans is 96.71%. The total loans granted since the start of banking activity amount to US$ 37,578.78 million, with US$ 35,356.16 million returned[91].

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[87] *About Grameen Bank,* Grameen Bank: Bank for the Poor official web site.
[88] The Nobel Prize official site, Nobel Lecture, Oslo, 2006.
[89] *About Grameen Bank,* Grameen Bank: Bank for the Poor official web site.
[90] Schuler, Ruth & Hashemi, *Credit Programs, Women's Empowerment, and Contraceptive Use in Rural Bangladesh*, Studies in Family Planning, 1994.
[91] Muhammad Yunus, *Grameen Bank Monthly Report 12-2023*, *grameen-info.org*, 2023.

The Grameen bank's mission is based on a set of principles called the sixteen decisions, developed in a 1984 workshop of Grameen Bank members with the aim of guiding the behaviour of people and serving as a framework for personal and community development. They were developed in response to the realization that financial support alone was insufficient to bring about lasting change in the lives of the poor. The bank recognized that social and cultural practices, as well as personal habits, played a critical role in maintaining the cycle of poverty.

Firstly, Yunus stated the four principles of the bank: discipline, unity, courage and hard work. The subjects range from the importance of the dwelling place to the attention towards education, injustice, collectiveness, health, prosperity, sustainable development and social cohesion. The primary objective of the Sixteen Decisions is to empower individuals to take control of their lives by adopting positive behaviours and attitudes. These decisions encourage members to improve their living conditions, prioritize education, maintain discipline in financial matters, and contribute to the welfare of their community[92].

The Grameen Bank has had a profound impact on poverty alleviation in Bangladesh. By providing credit to those who were previously considered "unbankable", the bank has enabled millions of people to start small businesses, improve their livelihoods, and lift themselves out of poverty[93].

One of the most significant achievements of the Grameen Bank is the empowerment of women, helping them gaining financial independence[94].

The Grameen Bank, under the leadership of Muhammad Yunus, has revolutionized the concept of banking by demonstrating that the poor are bankable. Its innovative approach to microcredit has had a lasting impact on global poverty alleviation efforts and has paved the way for the broader microfinance movement. However, the challenges and criticisms faced by microfinance today highlight the need for ongoing vigilance to ensure that the original social mission of microcredit is preserved.

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[92] Grameen Bank's Sixteen Decisions, villagevolunteers.org.

[93] Snow, *Development and the Role of Microcredit*, Policy Studies Journal, 2001.

[94] Schuler, Ruth & Hashemi, *Credit Programs, Women's Empowerment, and Contraceptive Use in Rural Bangladesh*, Studies in Family Planning, 1994.

3.4 The impact of microcredit

Microcredit brought significant transformations in India and Bangladesh' economic landscape. It tried to correct poverty cycle, financial exclusion, economic underdevelopment, gender inequality, vulnerability to financial shocks and lack of entrepreneurship and innovation. These problems are caused by social and economic issues, for instance diffused poverty and poor financial infrastructure[95].

During the 1970s, extreme poverty was disseminated in Bangladesh, with a large proportion of the population living below the poverty threshold. Poor people, especially in rural areas, had no access to basic economic resources such as land and capital, necessary to improve their situation. Most of the population was engaged in subsistence farming, which generated very low incomes that combined with the lack to credit access[96].

Microfinance aim was to providing access to credit without collateral, promoting rural entrepreneurship and creating a sustainable long-term model. Microcredit promoted financial inclusion and access to credit by offering financial products to those excluded from the formal banking system. Microcredit initiatives often include savings accounts and insurance products, helping low-income individuals manage their finances, save money, and protect themselves against financial shocks.

Additionally, microfinance worked in favour of poverty alleviation, economic empowerment and job creation, leading to increased income, local financial stimulation and economic stability. It had a fundamental social and cultural impact, especially regarding the empowerment of women, leading to improved living standards and long-term development outcomes[97].

The impact of microcredit on poverty reduction represents a subject of controversy between microfinance supporters and opponents. The economic definition of poverty states that an individual is deemed poor if unable to attain a minimal standard of living. Poverty is still one of the world's greatest problems, such that one of the millennium development goals (MDGs) was to reduce the poverty headcount rate worldwide, and in

[95] United Nations official website, *Role of microcredit and microfinance in the eradication of poverty,* 2006.

[96] Hossian, Sen, *Rural Poverty in Bangladesh: Trends and Determinants,* Asian Development Review, 1992.

[97] *The 34-billion-dollar question: Is microfinance the answer to poverty? Global Agenda*. World Economic Forum, 2018.

2015, the first sustainable development goal (SDG) from the SDG agenda continues to be to "end poverty in all its forms everywhere"[98].

Critics say that microcredit has driven people into a debt trap, without increasing incomes or using the money from loans for productive investments. Research on microfinance sits somewhat uncomfortably across disciplines, for instance finance, economics, management and development studies[99].

To fill this gap, a number of research teams across the world started randomized evaluations (large field experiments) to rigorously measure the impact of access to microcredit on borrowers. Research took place in both urban and rural areas and evaluated both individual-liability and joint-liability loans. Some of the participating microfinance institutions (MFIs) were for-profit organizations and others were non-profits[100].

The data collected by the research teams show that households with access to microcredit enjoyed greater freedom in deciding how they earned and spent money. Microcredit represents a way of rethinking financial tools. Traditionally, financial institutions excluded the poor, finding it too costly to make small loans to borrowers without credit histories or collateral. With the evolution of financial systems, substantial changes have been done.

The United Nations designated 2005 as the International Year of Microcredit, and, in 2006, microcredit was the basis of the Nobel Peace Prize[101].

The economic filed is governed by rapid changes following global events, therefore systems including microcredit have to keep up with financial evolutions. Amartya Sen, the Nobel Prize-winning economist, eloquently argues in her book called "Development as Freedom" (1999) that development can be seen as a "process of expanding the real freedoms that people enjoy"[102].

Evaluations of innovations to microcredit products, such as targeting high-potential entrepreneurs or providing flexible repayment options, led to higher business and

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[98] World Health Organization, Millennium Development Goals (MDGs), 2000.

[99] *The 34-billion-dollar question: Is microfinance the answer to poverty? Global Agenda*. World Economic Forum, 2018.

[100] The impact of microcredit: Evidence from across the world, Office of the Chief Economist EBRD, 2015.

[101] United Nations official website, *Role of microcredit and microfinance in the eradication of poverty,* 2006.

[102] Sen, *Development as Fredoom*, 1999.

household outcomes and show promise for financial service providers looking to reduce poverty through credit[103].

3.4.1 Inequalities in wealth distribution

The expression “wealth inequality” refers to the uneven distribution of wealth in a society. If wealth inequality is extreme, most of the wealth is in the hands of a very small group of people, typically less than 1% of the population, and this intense polarization is only increasing in modern society. However, it is essential to recognize that wealth inequality is prevalent and expected in any market economy: a competitive economy inevitably leads to wealth inequality. Nevertheless, extreme wealth inequality can be severely damaging for the society, because the overwhelming majority of the wealth is concentrated at the top and in the hands of relatively few people, leading to a severe imbalance of power[104].

As a consequence of the control that few people have over the life of others, extreme wealth inequality leads to lower population satisfaction and less social cohesion, making extremely difficult for those who have little to no wealth to build it.

In this context, fewer consumers are able to buy goods and services, leading to less economic growth[105].

Economists measure wealth inequality using the Gini index. It was named after the Italian statistician and sociologist Corrado Gini and it measures the distribution of income across a population. A Gini index of zero represents perfect equality, while a high indicates greater inequality[106].

Economists have long debated the causes and consequences of wealth inequality and economic theories on wealth distribution have evolved significantly over time. Classical economists like Adam Smith and David Ricardo emphasized the role of capital accumulation and the differential returns on assets. In contrast, Karl Marx focused on the exploitative nature of capital and the resulting class divisions. More recently, the

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[103] Abdul Latif Jameel Poverty Action Lab (J-PAL), *Microcredit: impacts and promising innovations*, 2023.

[104] Perez-Arce, Framework for Understanding Inequality in Income and Opportunity. *Inequality and Opportunity: The Relationship Between Income Inequality and Intergenerational Transmission of Income*, RAND Corporation, 2016.

[105] Stiglitz, *The Price of Inequality: How Today's Divided Society Endangers Our Future.* W.W. Norton & Company, 2012.

[106] data.worldbank.org

work of Thomas Piketty has reignited interest in wealth inequality, particularly through his thesis that the rate of return on capital tends to exceed the rate of economic growth, leading to increasing inequality over time[107].

Several key factors influence the distribution of wealth within an economy, for instance capital accumulation or globalization, that has led to increased wealth concentration by enabling capital to flow more freely across borders, often to regions with lower labour costs.

The empirical analysis of wealth distribution reveals that wealth inequality is less pronounced in countries with strong social safety nets and redistributive tax policies, for instance those in Scandinavia. Emerging economies often exhibit significant wealth inequality, with wealth concentrated among a small elite due to factors such as corruption and lack of access to education[108].

Wealth distribution is a complex and multifaceted issue that has significant implications for economic stability and social cohesion. As a consequence, effective policy interventions are crucial in addressing the challenges posed by wealth inequality and ensuring a more equitable distribution of economic resources.

3.5 Environmental sustainability of manufacturing

Environmental sustainability has emerged as a critical issue globally, driven by the increasing recognition of the environmental impacts associated with industrial activities, particularly manufacturing.

From an economic standpoint, the adoption of sustainable manufacturing practices can be assessed through a cost-benefit analysis. Traditional manufacturing methods often prioritize short-term cost savings at the expense of environmental degradation. However, this approach neglects the external costs associated with environmental damage, which can be substantial[109].

Sustainable manufacturing can lead to significant long-term economic benefits. It is associated with resource efficiency because sustainable practices often involve the efficient use of resources, which can reduce production costs over time. In addition to

[107] Piketty, *Capital in the Twenty-First Century.* Harvard University Press, 2014.
[108] *Social safety Nets Help Reduce Poverty and Income Inequality,* World Bank Group, 2018.
[109] Despeisse, Ball & Levers, *The emergence of sustainable manufacturing practices*, 2011.

that, market competitiveness plays a crucial role, following the costumers' tendency in becoming more environmentally conscious and the growing demand for sustainably produced goods[110].

Market and consumer dynamics represents challenges to sustainable manufacturing. While there is a growing market for sustainable products, many consumers still prioritize cost over environmental impact. This can create a disincentive for sustainable manufacturers. In addition to that, various companies may engage in greenwashing, referring to the process of promoting their products as environmentally friendly without substantial backing, eroding consumer trust[111].

Environmental sustainability in manufacturing is not only a moral imperative but also an economic necessity. However, achieving this requires a coordinated effort between governments, industries, and consumers, raising awareness and focusing on educating societies on the matter.

3.5.1 Safety and rights in the workplace

Workers' rights and protection are moral and economic critical factors influencing productivity and social welfare, representing a complex intersection and interaction between employers, workers and regulatory authorities.

In competitive markets, where cost-cutting is essential for survival, employers may underinvest in safety and rights[112].

Regulation plays a crucial role in correcting these market failures. Government intervention, through mechanisms such as safety standards, workers' compensation, and labour rights laws, can realign incentives and ensure that the true social costs and benefits of workplace safety and rights are taken into account[113].

Investments in workplace safety and the protection of workers' rights can have significant economic benefits, indeed studies have shown that safer workplaces lead to higher employee morale and productivity. According to the American economist Greg Becker and his economic approach to human behaviour, there is a clear connection

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[110] Jayaraman, Singh & Anandnarayan, *Impact of sustainable manufacturing practices on consumer perception and revenue growth: an emerging economy perspective,* 2011.

[111] Despeisse, Ball & Levers, *The emergence of sustainable manufacturing practices*, 2011.

[112] Burtless, *workers' Rights: Labor standards and global trade,* Brookings, 2001.

[113] Viscusi, *Regulation of Health, Safety, and Environemntal Risks,* Handbook of Law and Economics, 2007.

between investment in employee welfare and productivity, as healthier and more satisfied workers are more efficient and less likely to leave their jobs[114].

For instance, the industrial sectors in Bangladesh and India have been fundamental in their economic growth, particularly in textiles, manufacturing, and services. However, this growth has often been accompanied by significant challenges in ensuring workplace safety and protecting employee rights[115].

Once again, the presence of a regulatory system represents an essential economic and social point. In India recent reforms have aimed to create a more favourable business environment by simplifying and consolidating existing laws. The Code on Wages in 2019 and Occupational Safety, Health and Working Conditions Act (OSHA Act) in 2020 are part of the recent labour law reforms intended to streamline regulations and improve compliance. They aim to enhance transparency and ensure basic safety and welfare standards across various industries[116].

In Bangladesh, the initial reluctance to enforce labour laws led to tragedies that ultimately harmed the economy. However, subsequent reforms have shown that improving worker safety can lead to economic gains. In India, the challenge lies in balancing economic growth with adequate protection for workers, ensuring that labour law reforms do not undermine long-term economic sustainability.

In this context, the case study of the disaster of Rana Plaza provides a crucial example of the importance of safety and rights in the workplace. Talking about Rana Plaza highlights the fundamental intersection between economy and society, providing an instance of the need for labour rights to be respected and for a dialogue between the Government, employers and trade unions.

3.5.2 Disaster of Rana Plaza

The Rana Plaza disaster occurred on April 24 2013, in Dhaka (Bangladesh) and represents one of the deadliest industrial accidents in history, resulting in the deaths of

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[114] Teixeira*, Gary Becker's early work on human capital – collaborations and distinctiveness.* Journal of Labor Economics, 2014.

[115] Huynh, *Employment, wages and working conditions in Asia's Garment sector: Finding new drivers of competitiveness,* International Labour Organization, 2015.

[116] The Occupational Safety, Health and Working Conditions Code, prsindia.org.

over 1,100 garment workers. It serves as a tragic case study in the intersection of market failures, regulatory gaps, and global supply chains.

Rana Plaza was an eight-story building in Savar, a suburb of Dhaka, Bangladesh. It housed several garment factories, a bank, apartments, and retail shops. The building was constructed with substandard materials, and additional floors were added without proper authorization. On April 23, 2013, cracks appeared in the building, prompting an evacuation. However, factory owners insisted that workers return the next day to meet production deadlines. On April 24, the building collapsed, trapping thousands of workers inside[117].

The garment industry in Bangladesh is the centrepiece of the country's economy, contributing significantly to the Gross domestic product (GDP) and providing employment to millions of citizens. The sector is particularly attractive to international brands due to the low labour costs, which are among the lowest in the world. However, this cost advantage is often achieved at the expense of worker safety and rights[118].

The primary legal responsibility for the Rana Plaza disaster is connected to the building owner, Sohel Rana, and the factory owners who operated within the building. The building owner was directly responsible for the illegal construction practices that led to the structural instability of Rana Plaza. The addition of extra floors without proper permits and the use of substandard materials constituted gross negligence, a clear violation of building codes and safety regulations[119].

Following the disaster, Sohel Rana was arrested and charged with various offenses, including murder and violating building codes. In 2017, he was sentenced to three years in prison for corruption charges related to the illegal construction. The factory owners also faced charges for forcing workers to return to the building despite visible cracks in the structure, which directly contributed to the high casualty rate.

However, the legal proceedings have been slow and fraught with challenges, including corruption, delays in the judicial process, and insufficient existing laws[120].

[117] *Disaster at Rana Plaza*, The Economist, 2013.

[118] Huynh, *Employment, wages and working conditions in Asia's Garment sector: Finding new drivers of competitiveness,* International Labour Organization, 2015.

[119] Glover, *Rana Plaza trial resumes after five years,* 2022.

[120] Hood, *Rana Plaza: does it take a tragedy to make business responsible,* 2015.

The disaster had profound social and economic impacts. Thousands of families lost their primary breadwinners, leading them into poverty. The disaster also drew international attention to the difficulties and conditions of garment workers in Bangladesh, asking for better wages and working conditions.
Economically, the disaster threatened the reputation of Bangladesh's garment industry, which is vital for the country's economy.
In response to the disaster, the Accord on Fire and Building Safety in Bangladesh was established in 2013. This legally agreement between international brands, retailers, and trade unions aimed to improve safety standards in the Bangladeshi garment industry.
The Accord has led to significant improvements in building safety, including inspections, renovations, and the closure of unsafe factories[121].
The Rana Plaza disaster was a preventable tragedy that exposed significant flaws in the global garment industry. From structural failures and poor working conditions to regulatory gaps and corporate irresponsibility, the disaster revealed the vulnerabilities of a system driven by cost-cutting and profit maximization. While some progress has been made in the aftermath of the disaster, much more needs to be done to ensure that such a tragedy never happens again.

[121] Scheper, *Labour Networks under Supply Chain Capitalism: The Politics of the Bangladesh Accord. Development and Change*, 2017

Chapter 4: Conclusion

4.1 Answer to the initial paradox: can economy be ethical?

The question of whether the economy can be ethical is complex and multifaceted.
The development of experimental economics in the late 20th century created an opportunity to empirically verify the existence of normative ethics in economics.
Conclusions from the economic experiments, for instance the one by the American economist and professor Vernon Lomax Smith (1927, Wichita), indicate that economic agents use normative ethics in making decisions while also seeking to maximize their payoffs[122].
Human nature implies the impossibility to make purely rational decisions. Therefore, behavioural economists, aided by neuroscientists, are trying to understand client's psychology, both alone and in groups, so they can anticipate our decisions in the marketplace more accurately[123].
It can be stated that part of economics is pure science that account for the behaviour of people and institutions in the economic arena. But economists have their eye on practical applications and most of them are interested in finding better ways of running the economy, or of structuring the economic system, or of intervening or not intervening in the economy. All of that practical part of economics is considered to be a branch of ethics, confirming an intersection between ethics and economy[124].
The economy can be ethical when it is guided by principles that prioritize the well-being of people and the planet. Through robust regulatory frameworks, sustainable models and the rise of social enterprises, an ethical economy is not only possible but also increasingly demanded by society. These elements show that economic activities can be aligned with ethical principles, creating a system where profit and purpose coexist and demonstrating that economy can support enterprises that are designed to benefit society and not just shareholders.

[122] Storchevoy, Maxim , *Business Ethucs as a Science: Methodology and Implications,* 2018.
[123] Rajko, *Behavioural Economics and Business Ethics: Interrelations and Applications*, 2012.
[124] Broome, *Why economics needs ethical theory*, University of Oxford, 2008.

4.2 Ethical dilemmas of global development: combine profit and progress with ethics

Global development, a multidimensional process aimed at improving the economic, social, and political conditions of countries, faces significant ethical dilemmas. In the era of globalization, the need of ethical behaviour is becoming increasingly important. The pursuit of profit and economic progress often conflicts with ethical considerations, leading to debates on the role of corporations, governments, and international organizations in fostering sustainable development. The ethical dilemma arises when the benefits of growth are not equitably distributed, leading to a concentration of wealth and power among elites, while the poor and marginalized are left behind[125].

The large economic entities tend to undertake extensive efforts to maintain their monopoly positions and to eliminate or weaken smaller competitors. Their ethical viewpoint is more oriented towards self-preservation and market domination rather than pursuing healthy competition or the welfare of society. It is inherently difficult to be ethical in a business, but in international business ethics it is important to remember that developing trust, being sensitive to cultural differences and following moral principles are necessary for long-term success and maintaining global integrity and goodwill among all stakeholders[126].

In 1994 John Elkington created the concept of the triple bottom line. Its aim is to integrate 3 dimensions: people, planet and profits. By balancing economic sustainability, social sustainability and environmental sustainability, this approach seeks to harmonize the goals of economic progress with ethical responsibilities. Implementing this framework requires a shift in both corporate and governmental priorities, where long-term sustainability takes precedence over short-term profits[127].

While economic growth and corporate involvement are essential for development, they must be guided by ethical considerations that prioritize equity, sustainability, and the well-being of all stakeholders. Achieving this balance necessitates a rethinking of development paradigms, where ethical capitalism, inclusive growth, and sustainable practices are at the core of global development strategies. Only by integrating ethics into

[125] Epstain, *The Conflict Between Ethical Values and Financial Success, 2023.*

[126] *Ethical dilemmas in international business, balancing profit and social responsibility,* School of Business and Management ITB, 2023.

[127] Elkington, *Enter the Triple Bottom Line,* 1994.

development efforts can individuals hope to achieve truly sustainable and equitable progress on a global scale.

4.3 Current situation

Ethical finance, which encompasses investments and financial services aligned with social, environmental, and governance ESG criteria, has gained traction in India and Bangladesh.

The Indian government and the Reserve Bank of India (RBI) have introduced guidelines to promote green bonds and ESG-focused funds. As of 2023, India's green bond market has grown to over $16 billion, with the country ranking second in the Asia-Pacific region for green bond circulation[128].

Ethical finance is also playing a crucial role in addressing social inequalities. For instance, ESG (Environmental, Social, and Governance) funds in India saw a growth of 76% year-on-year as of 2022. These funds have been instrumental in supporting initiatives in affordable housing, healthcare, and education, especially in rural and underserved areas. However, challenges remain in ensuring that the benefits of ethical finance are evenly distributed, as most investments are still concentrated in urban regions[129].

The microcredit sector in India is one of the largest in the world. As of 2023, the total loan portfolio of microfinance institutions in India exceeded ₹2.85 trillion ($34 billion), serving over 60 million clients, even though there are concerns about financial stress among borrowers[130].

The Bangladesh Bank has introduced green banking guidelines, encouraging financial institutions to integrate environmental considerations into their lending practices, directing approximately $2 billion toward green projects as of 2022, particularly in renewable energy and sustainable agriculture[131].

As of 2023, the microcredit sector in Bangladesh serves over 32 million borrowers, with a total loan portfolio of $12.5 billion. The sector has been critical in reducing poverty,

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[128] Dill, Hussain, *India incorporates green bonds into its climate finance strategy,* World bank Blocks, 2023.
[129] *ESG Investing In India: Pioneering Sustainable Growth With Top 10 Companies*, Earth5R.
[130] *Microfinance Industry Network Annual Report 23-24: Expanding Horizons.*
[131] *Green banking in Bangladesh: Fostering Environmentally Sustainable Inclusive Growth Process,* Bangladesh Bank.

with a significant portion of loans directed toward income-generating activities in agriculture, small trade, and rural services. Additionally, microcredit has had a profound impact on improving the socio-economic status of the poor in Bangladesh, particularly women, who make up over 90% of microcredit borrowers.
Despite huge improvements, India and Bangladesh face challenges in fully integrating ethical finance into their financial systems, due to limited public awareness and insufficient regulatory oversight.

4.4 Possible solutions

To ensure that microcredit and ethical finance truly benefit the poor and promote equity, it is crucial to strengthen the regulatory frameworks governing these sectors. In both India and Bangladesh, regulatory bodies, such as the Reserve Bank of India (RBI) and Bangladesh Bank, can play a crucial role by enforcing transparent reporting standards for financial institutions or preventing from excessive high interests' rates.
Bangladesh and India are nations of opportunity in terms of expansion and progress. The most efficient method to realize these potentials is to encourage entrepreneurship and investment. New investment generates employment, while technology and management expertise to reduce poverty[132].
Additionally, improved infrastructure and business climate would facilitate the expansion of new job-creating sectors. Investments are vital for the development of an economy's productive capacity since it increases physical capital, which in turn generates employment opportunities. By expanding the amount of capital in the economy, investment enables businesses to purchase new equipment to support increased production[133].
To reduce inequality in Bangladesh and India, the governments need to prioritize policies and programs that address these key challenges. This includes investing in education, healthcare and social protection programs, in order to reduce poverty and inequality. Improving the business environment and promoting private sector development can also help create more inclusive economic growth. Additionally,

[132] *Proceedings seminar on investment in Bangladesh-challenges and prospects for realization of vision 2041,* National Defence College, 2017.
[133] *Bangladesh: Reducing poverty and sharing prosperity,* World Bank, 2018.

addressing vulnerabilities to shocks such as natural disasters and pandemics requires strengthening community and national resilience and preparedness, for instance when COVID-19 occurred[134].

Financially, microcredit has made huge changes and improvements regarding financial inclusion and poverty alleviation, but there is still a long road ahead.

There are some proponents who believe that the income inequality and poverty problem can only be addressed through policies that seek to change the initial unequal distribution of wealth and assets, for instance land redistribution project and improvements in land administration.

A strong protection system is another instrument, especially to promote education and healthcare by raising the share of public spending on these matters, in order to raise awareness and contain inequality. A second area where public spending has to increase concerns rural infrastructure, roads, electricity, irrigation and flood control[135].

This is the example of how social context influence economic landscapes and financial markets. Considering the poverty line, updated to $2,15 per day, it can be stated that more than 320 million of people in Asia live in extreme poverty. Focusing on social protection investments, promoting decent job creation, increasing the effectiveness of fiscal policies and protecting the poor and disadvantaged are key things that need to be done in order to promote better standards of living[136].

This apparently distant issues represent global concerning, by influencing world's markets and financial flows. Therefore, promoting education and raising awareness on these topics is crucial due to the urgency and need of changing things.

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[134] *The World Bank in Bangladesh:* Overview, World Bank, 2022.

[135] Ferdous, *Inequality and prosperity challenges in Bangladesh: experiences from Singapore,* Southeast Asia: A Multidisciplinary Journal, 2023.

[136] *Reducing inequality within and among countries,* UN Economic and Social Commission for Asia and the Pacific (ESCAP), 2019.

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