The 30th Annual Sir Purshotamdas Thakurdas Memorial Lecture

Finance and Sustainability: Regulatory and Strategic Dimensions

Subir Gokarn
Director of Research, Brookings India

Mumbai, December 3, 2013

1. Introduction

Good Evening.

It is my great privilege to be delivering the 30th Sir Purshotamdas Thakurdas Memorial Lecture. I follow a long list of very eminent people, who have, by sharing their thoughts at this forum, paid tribute to a very significant personality in India's economic history. As is well known, he was one of the key architects of the Bombay Plan, which, in 1944, in anticipation of independence, provided a broad strategic framework for the country's economic policy. Much has been written and said about that plan, some for, some against, but that is now more a matter of academic than of practical interest. In my view, though, whatever the specifics of that strategy may have been, it was one of the first attempts to think strategically about the long-term trajectory that a newly independent country would need to move along. And, it is significant that this attempt was made not within government circles, but in the private sector. This reflects the shared sense of purpose that different stakeholders had in economic outcomes.

I have to admit that there is no direct connection between the topic I chose to speak on today and the legacy of Sir Purshotamdas Thakurdas. But, in thinking through the issues that I plan to cover today, I believe that the concept of sustainability must have been very much on the minds of the people who formulated the Bombay Plan. The essence of sustainability, after all, is that it is based on the persistent alignment of interests between different stakeholders. We may define the groups and parameters differently these days, but the emphasis on shared purpose that motivated the Bombay Plan is still central to any meaningful discussion of sustainability.

Before I get into the substance of my talk, let me briefly speak about my own involvement with the issue. In 2006, a group of us in CRISIL and Standard and Poor's submitted a proposal to a competition being conducted by the International Finance Corporation. The objective was to design a product for an emerging market economy that would facilitate "socially responsible investment" into that market. It was a fascinating journey for all of us as we pooled our various skills to propose the development of an index comprising Indian companies selected on the basis of their scores on an Environmental-Social-Governance (ESG) metric.

Many investors in the developed economies used ESG criteria in their portfolio selection and, although it was not really in the mainstream of fund management, it was a growing niche. Most importantly, serious long-term investors like pension funds were building these metrics firmly into their decision processes. We felt that such an index for India would be appealing to foreign investors who would make their global investment decisions based on such criteria.

To cut a long story short, we were one of two winners of the competition and, during 2007, worked on developing what came to be known as the S&P ESG India Index, launched on the NSE in early 2008. In the process of developing this index, my colleagues and I came into contact with a whole range of organizations and individuals who are involved with these issue, typically with a great deal of passion. Over the past few months, I have begun to renew those contacts and revive my activities in this very important knowledge domain. When I was invited to deliver this lecture, I thought that this would be a good opportunity to share some thoughts and perspectives on an issue that would not ordinarily get very much attention. I hope that the topic, even if it is a little off-beat, provokes your interest.

Coming to the substance of the lecture, I will divide it up into three broad sections. First, I will lay out a framework, which highlights the close links between finance and sustainability from the perspective of different groups of stakeholders. Then, I will explore some of these links in terms of the benefits or trade-offs that materialize when sustainability considerations are brought into financial decisions. Finally, I will draw some implications, as the title of the lecture indicates, for regulators and company managements. I will conclude by highlighting some key messages from the preceding three sections.

2. A Sustainability Framework

The building blocks of ESG

In my introductory remarks, I used the word "sustainability" a number of times, without really defining it. At one level, it seems a commonsense term' everybody knows what it means without it being formally defined. However, as we begin to think about it in a more structured way, it is useful to have a working definition.

So, let me define sustainability in two dimensions: as an objective and a process. As an objective, it means alignment between the long-term interests of all the stakeholders involved in a particular activity. An activity is sustainable as long as it continues to maintain such alignment. As a process, it refers to the mechanisms that are in place to create and monitor this alignment. The likelihood of an activity being sustainable is enhanced by its having robust mechanisms in place.

Of course, this is all very abstract, so we need to place these definitions in concrete contexts. At a policy level, these concepts play out in what is now understood as "sustainable development". This means that a development strategy needs to take into account the perceptions of interest of the entire range of stakeholders, present and future, while deciding on patterns of investment and technology choices. We have so many examples of narrow and short-term considerations dominating these choices, with some horrendous consequences for air, water and noise pollution, not to mention adverse impacts on communities. In any sense of the term, these are not sustainable because, ultimately, they begin to hurt the interests of the groups that they were intended to benefit. Contemporary global thinking on development policy and strategy emphasizes the value of sustainability both as an outcome and in terms of the choice and administrative processes that are required.

In this lecture, though, I want to focus on the applicability of the concept at a corporate or business level, eventually linking it up to finance. The idea is essentially the same. Corporate sustainability comes from the ability of a company to align the interests of its various stakeholders. A company has two categories of stakeholders. Internal ones are shareholders, employees, suppliers and, most importantly, customers. External ones are the larger communities in which they operate and, the future members of these communities, who are represented mainly by the impact of business operations on the environment.

This is the basis of the ESG framework. The E and S components reflect the interests of external stakeholders, while the G broadly looks at how the company aligns the interests of the internal stakeholders as well as between the internal and external groups. There are both process and outcome dimensions to the framework. Companies can be assessed on the outcomes they achieve with respect to each group of stakeholders as well as on the processes that they put in place to pursue these outcomes. In reality, many outcomes are unobservable. For instance, a company following environmentally shoddy practices may survive for a long time without an accident. This is why the process aspect of the evaluation is so important. Whether a company is actually following good environmental practices is the basis of judgement, implying that if it were, the risks of an accident occurring would be lower. Beyond this, the question is what policies and protocols it has in place to respond to an accident. And so on.

The Finance –Sustainability Architecture

The broad conceptual framework that I described above is the foundation for a comprehensive global institutional architecture that promotes sustainable strategies by companies and gives finance a central role in incentivizing these strategies. The United Nations Organization has played a critical role in creating this architecture. There are four components in it and I want to briefly describe the functioning of each one with reference to the larger objective of sustainability. Of the four, three have a direct link to the financial sector.

Pillar 1: The United Nations Global Compact (UNGC): Initiated in the year 2000, this is a structure that encourages companies to build their business strategies and operations in compliance with ten core principles, covering the domains of human rights, labour, environment and anti-corruption. As of 2013, there were over 8000 companies that had signed on to the Compact and this was supplemented by about 4000 civil society organizations, who effectively become monitors of corporate compliance. The compact defines corporate sustainability as "...a company's delivery of long-term value in financial, social, environmental and ethical terms". It treats as equivalent the terms "corporate sustainability" and "corporate responsibility", an issue which I shall come to a little later in the lecture. In effect, the signatories are committing to honour each of the ten principles in the conduct of their business.

The UNGC publishes annually the Global Corporate Sustainability Report (GCSR), which provides a tracking of the signatories' compliance with the principles over time. Clearly, it is a huge challenge for companies to be consistently compliant with all the principles all the time. Compliance is, as is often said, a process, not an event. The importance of the structure, though, lies in the fact that it provides an internal compass for companies as they seek to find the alignment within and between internal and external stakeholders that promotes sustainability. The tracking helps point out the principles which pose the greatest compliance challenges and, over time, can become a useful input for regulators and policymakers, who obviously have a strong interest in corporate sustainability, since it feeds directly into sustainable development.

One interesting issue highlighted by the GCSR of 2013 is that, notwithstanding the willingness of companies, both large and small, to sign on to the Compact, it is extremely difficult to monitor and enforce adherence to the principles along the entire supply chain. Companies always have to deal with the trade-offs in relation to costs, reliability of delivery and so on when they develop their supply chains and it is difficult to enforce the conditionality of compliance with the principles of the Compact once the chain is in place. However, over time, companies that are committed to the principles will presumably nudge and push their suppliers into compliance. Even if not all producers sign on to the Compact, there will be a positive externality from the sustainability viewpoint as more and more producers, particularly small and medium-sized ones, find that it actually helps their businesses do better.

As regards the participation of Indian companies in the structure, India has the 13th largest number of company signatories, above 150, a list which includes both large corporates and SMEs.

Pillar 2: Global Reporting Initiative: (GRI): A critical requirement for sustainability is information. All stakeholders need to know what the organization is doing with respect to their and other's interests. Every policy decision or action taken by a company can potentially help or hurt the interest of one or the other stakeholder group. GRI is a structure that facilitates this level of transparency and disclosure by companies. It lays out guidelines for sustainability reporting, which allows all stakeholders to compare and contrast across companies, not just within a country, but across them as well.

Sustainability reporting, to put it simply, discloses the company's policies and actions with reference to an ESG template. It can be used in conjunction with standard financial reports to make a comprehensive assessment of the company's overall balancing of stakeholder interests. Since information is the main input into investment decisions, these reports provide the basis for the two financial pillars of the architecture.

Over 5700 institutions globally publish sustainability reports, with about 80 Indian companies now on the list.

Pillar 3: Principles for Responsible Investment (PRI): This structure was set up in 2003, as a partnership between the United Nations Environmental Programme Finance Initiative (UNEPFI) and the UNGC. It began signing on members in 2006 and currently has over 1200 signatories.

The mode of operation is essentially the same as the UNGC, in the sense that the signatories commit to carrying out their business in compliance with some core principles. The difference is in the target group. The signatories to the PRI are essentially fund managers – large, small, long-term, short-term – the whole range of entities that manage money is included. There are six principles in this structure, which essentially require investors put emphasis on ESG criteria while making their portfolio choices. They also agree to take active interest in the practices and compliance with ESG standards by the companies they invest in and encourage them to comply with the reporting standards of the GRI. As a way to broaden the base of responsible investors, they are expected to engage with other investors to persuade them to adopt the six principles.

This is one of two pillars that relate to the actual deployment of funds. It means that as more funds are managed according to the principles, more companies will have an interest and incentive in adhering to the principles laid out by the UNGC and communicating them as transparently as possible through the sustainability reports that the UNGRI supports. Of course, the effectiveness of this mutually reinforcing mechanism depends entirely on how much money is managed by signatories to the agreement. This year, the total amount managed by signatories was about $2.2 trillion, not a very large proportion of the global fund pool, but no small change either.

Pillar 4: The Equator Principles: This set of principles is the other financial pillar of the sustainability institutional structure. It applies to institutions that lend for business purposes, both banks and non-banks. The signatories to this agreement, referred to as the Equator Principles Financial Institutions, agree to base their lending decisions on the basis of adherence of projects to ten core principles, which cover the now familiar territory of ESG. The principles are not brought into transactions retrospectively and are accepted as being applicable to relatively large projects (above $10 million), which obviously have far more significant risks relating to impacts on communities and the environment. The reason they are called "Equator Principles" is that they were viewed by the founding institutions as applying equally to the northern and southern hemispheres, hence creating a structure of some global uniformity. Currently about 76 lending institutions are signatories, one of which is from India.

So, what does all this add up to? In an idealized state, the four pillars and the platform that they create reflect a "perfect information" framework for sustainability. Under the UNGC, companies make certain commitments to executing their business in full compliance with a set of principles. They then report their levels of compliance with these principles by means of their sustainability reports, based on the common template created by the GRI. These reports are used by investors who have signed on to the PRI to make their portfolio allocations, putting more weight on companies which show higher levels of compliance with the principles. These reports are also used by lending institutions who have signed on to the Equator Principles to decide on which companies and what projects to lend to. The loop between finance and sustainability is thus closed; companies that are achieving higher sustainability standards are able to mobilize more resources, gradually shifting more and more corporate activity up the sustainability scale. Investors and lending institutions are contributing to this virtuous dynamic by allocating their resources based on these criteria.

But, we are obviously not in an idealized state. In reality, as was alluded to in the discussion of the UNGC earlier, compliance is a process, not an event. There are risks of failure and backtracking that both companies and financial channels have to deal with. From the financial perspective, as we saw, significant resources are allocated without reference to ESG benchmarks. This reduces the incentives that companies face to comply with the principles. Investor horizons are particularly important in this regard. A dominance of short horizons in the market tends to penalize companies which are more committed to the sustainability agenda, which are typically preferred by long-term investors, for obvious reasons. So, the entire process needs to be seen in terms of convergence to the objectives that each of the pillars has set for itself.

3. Sustainability and Financial Performance

This convergence is more likely to take place if there is a high degree of alignment between traditional investment motivations. In other words, do companies that put a priority on the sustainability agenda generally do reasonably well on narrower financial metrics?

There is an enormous amount of evidence on this question. Based on this, can one make the case that investors, whatever their motivations, be generally better off by building sustainability criteria into their portfolio allocations?

A recent article[1] categorizes the findings of 159 research papers looking into the correlation between sustainability and financial performance for the period 1972-2008. Keeping in mind the evolving concept and definition of sustainability over this period, the following picture emerges. In studies carried out by practitioners, 78 per cent of the papers show a positive correlation between sustainability and financial performance, while 13 per cent reveal a negative one. The rest are neutral or mixed. In studies carried out by academics, 60 per cent of them show the positive correlation, 15 per cent show a negative one and 28 are neutral or mixed. Presumably, the academic studies control for other factors more effectively, which explains why the positive findings are somewhat lower; however, they are still in the majority.

Of course, as the article itself points out, correlation does not imply causality. It is quite possible that strong financial performance creates the capacity within the organization to make a greater commitment to sustainability. In fact, going back to the ESG India Index that I mentioned earlier, in the first basket selected in 2008, more than 30 companies that were already in the Nifty 50 made the cut for the 50-stock ESG Index. It appears that many of the most prominent companies in the country put some priority on sustainability. In essence, sustainability is already “mainstreamed” as an investment strategy; investors who might invest passively in an index fund are, even if unwittingly, using sustainability metrics to allocate their funds.

So, can one demonstrate, even if in a limited way, a causal link between emphasis on sustainability and good financial performance? The same article goes on to divide the research papers into two categories: those that use accounting metrics to measure financial performance and those that use market metrics. The pattern emerging from the studies using accounting metrics shows a strong positive bias; about 68 per cent of the papers show a positive correlation between the metrics selected and sustainability practices. However, the studies involving market metrics were almost equally divided between positive and negative correlations, suggesting that investors were not unambiguously benefitted by choosing stocks on the basis of explicit sustainability considerations. While not establishing strong causality, this pattern does suggest that following good sustainability practices at least does not hurt financial performance, as measured by traditional accounting metrics.

[1] Gaspar, Romeu (2013) *Sustainability and financial performance: The chicken-egg dilemma* Greenbiz.com (http://www.greenbiz.com)

The analysis of Indian companies on this basis is nascent. A paper that I co-authored with some members of the ESG index team tried to correlate the governance scores of companies with some indicators of financial performance for a sample of almost 400 companies over three years[2]. The analysis indicated a significant positive relationship between the governance score, which, admittedly is only one aspect of sustainability practices, and some important financial parameters. For instance, after controlling for both firm-specific and time-specific factors, the governance score had a strong positive relationship with market capitalization. Also, there was a negative correlation between the governance score and leverage, suggesting that better governed companies were able to raise equity capital more easily. Importantly, there were signs of a threshold effect; companies had to score above a certain level on the governance scale to realize these benefits.

These results, however preliminary and tentative they may be, are significant because the analysis goes far beyond the NIFTY or SENSEX stocks. They suggest that, even for relatively small and less prominent companies, investors are discriminating them on the basis of at least governance practices. Perhaps this means that good sustainability practices are being rewarded too.

At this point, though, it would be reasonable to conclude that, while there is evidence in favour of commitments to sustainability having a positive impact on financial performance, it hardly clinches the case. First, there is plenty of evidence that suggests just the contrary. Second, there is no clear sense of causality running in a particular direction. So, is the potential virtuous cycle of corporate sustainability generated by the interaction between the four pillars largely a matter of faith?

The answer is yes, to a certain extent. Companies that signed on to the UNGC and the GRI, investors that signed on to the PRI and lenders that signed on to the Equator Principles surely didn’t do it entirely on the basis of expectations or improved financial performance. They did it because they belied that there was some higher purpose being served by pursuing objectives beyond narrowly defined financial benchmarks. In other words, there was a trade-off inherent in their decisions, particularly as far as short-term financial returns went. The true test of the sensibleness of their commitment would have been over a relatively long period; did firms that put a priority on sustainability generate better financial returns over the long haul? It is extremely difficult to answer this, because formally defined sustainability practices are a relatively recent phenomenon and it is difficult to get a large enough set of companies over long periods of time which have been practicing sustainability but didn’t quite know it themselves.

What the empirical evidence cited tells us, though, is that the anticipated trade-off may not be particularly strong, even in the short run. If one is to buy into the evidence of positive correlations between sustainability and financial performance, it would be like having your cake and eating it too. The evidence of zero or negative correlations dilutes the enthusiasm somewhat, but the bottom line is that a combination of faith and empirical evidence is driving the move towards sustainable practices. Either one follows them because they are intrinsically good or because they have tangible financial returns. The trick for companies, perhaps, is to adopt sustainability as an agenda, but to do it smartly, in terms of the goals and instruments, with an eye always on the financial dashboard.

4. Regulatory and Strategic Dimensions

Is there any role for public policy in this process? Clearly, for all companies to put a priority on sustainability is entirely consistent with the larger policy goal of sustainable development. The latter is not going to take place at a macro level unless all individual agents – consumers and producers – go about their daily activities in a consistent manner. However, these objectives are already embedded in statutes and instruments such as the environmental laws and regulations, labour welfare and occupational health and safety regulations, consumer protection, corporate

[2] Banerjee, A., S. Gokarn, M. Pattanayak and S. Sinha (2010) “Corporate Governance and Market Value: Preliminary Evidence from Indian Companies” in *Corporate Governance: An Emerging Scenario*; Mumbai: National Stock Exchange

governance and so on. Most countries, and India is certainly one of them, have elaborate legislative and regulatory frameworks, which impose boundaries on corporate behaviour.

However, as I stated a little earlier, these frameworks have been in place for a long time, and yet, the entities who came together to put the four pillars into place did so because of a shared perception that regulation simply wasn't enough to achieve the objective.

In this sense, the sustainability architecture is a supplement to formal legal structures across countries. At one level, it obliges companies to carefully monitor their internal processes, product quality and external stakeholder engagement to ensure that there is across-the-board compliance with all laws. But, this is only a minimum standard, which, theoretically, all companies should be doing whether they are signatories to any compact or not. What the sustainability architect aspires to is for companies to go beyond mere compliance and actively seek ways in which stakeholder interests can be advanced even while improving financial performance. It is the aggregation of these efforts that could have benefits at the macro level and, here, there may be a role for some regulatory initiative.

First, at a very basic level, there might be value in an overall review of the regulatory architecture to see whether it in its own way is consistent with the sustainability principles. As was indicated earlier in the lecture, the broad principles on which all four pillars of the sustainability architecture are based are quite similar. And, if we look carefully at any legislative and regulatory framework, it is not very hard to see that the same principles are very much at work here.

Yet, we get the feeling that, for whatever reason, the intrinsic desire for businesses to comply is not a good enough guarantee that this will happen; supplementary forces are required. One obvious reason for this is that the costs of compliance are so high that there is always going to be an incentive for profit-oriented businesses to minimize these, which often leads to non-compliance. The question is: can the regulatory framework be designed in such a way as to incorporate all the core principles and yet significantly reduce compliance costs? The less it costs businesses to adopt good sustainability practices, the more alignment there will be between micro behaviour and macro outcomes.

Second, one point that emerged from the compliance tracking of the UNGC was the difficulty that even committed companies had in monitoring and enforcing the Compact through their supply chains. Here, the cost factor is central. Large companies can afford to adopt sustainability agendas but smaller ones find the responsibilities that come with them onerous. Since there is a potentially significant macro outcome from large numbers of SMEs increasing their adoption of sustainability practices, there may be a rationale for the government to incentivize these businesses to adopt these practices. Tax breaks and other fiscal instruments, for example, time-bound subsidies to implement certain changes in process could be considered, though, in the Indian context, the overall fiscal situation needs to be kept in mind. But, short of explicit fiscal commitments, many other ways of incentivizing sustainability practices can be thought of.

Enhancing training and capacity building through the existing service infrastructure for industry could be one of these. On other fronts, for example, the revival of the Industrial Training Institutes (ITIs), the government is partnering with industry to re-orient an outdated training model to what industry actually needs in these times. Similarly, organizations that are committed to the sustainability agenda and have succeeded in implementing it while preserving or enhancing financial performance could be brought in as partners in reviving public channels of knowledge transmission.

To reinforce the value of these new capacities, public procurement systems could give some weight to the adoption of sustainability practices. At the very least, they should take into account the overall compliance record of potential vendors and, once they do this, adding on a few points for going above and beyond shouldn't be too difficult. As always, the challenge is in the monitoring and verification and, here again, SMEs find it extremely difficult and expensive to provide all the information typically sought in a sustainability questionnaire. To link this back to an earlier point, the costs of compliance, which include the cost of disclosure and verification, need to be brought down significantly.

In this overall context, I want to briefly address the issue of Corporate Social Responsibility (CSR) spending. The recent amendments to the Companies Act introduced a mandatory spending on CSR of two per cent of profits on companies. There was some debate on whether this was just a tax by another name and also whether the government was in effect abdicating its responsibilities in providing public services and passing the buck on to the corporate sector. Be that as it may, the mandate is now in place and it is up to everybody to make the best of it.

To refer back to a point I made earlier, the UNGC treats the terms “corporate sustainability” and “corporate responsibility” as equivalent. I personally do not think this is valid, certainly in the Indian context, but, regardless, the mandate provides an opportunity to bring these two concepts into alignment.

We have to think about whether independent and un-coordinated efforts by companies, however sincere, are going to be the most effective way to fulfil this mandate. They will do so in the letter, but what we should be aspiring to is the spirit. Can we aggregate the resources from a large number of organizations in ways that provide a powerful impetus to some key social priorities? And, I do not view this as a mere arms-length contribution of the mandated amount to some third party who then assumes the responsibility of execution. The spirit of CSR requires companies to bring some of their organizational capabilities and values to the activity that they sponsor.

This train of thought leads me to a concept of CSR partnerships or consortia, which brings companies with shared CSR priorities together to create initiatives of significant scale, which in turn justifies efforts in design and monitoring. Companies may spontaneously come to this conclusion and initiate such partnerships, but I think the government has a role in one, signalling some priority areas in which such scaling up could yield significant benefits and two, bringing potential partners together.

Let me now turn to the strategic dimension of sustainability. Do companies have an intrinsic incentive to adopt a sustainability agenda and good sustainability practices? In the contemporary business environment, there are strong reasons why this is so. For many businesses, reputation is a significant asset and the loss of reputation resulting from a governance failure or an environmental accident or a conflict with local communities can create a huge business setback. This is a direct bottom line impact and any good management would be sensitive to it and take the precautions necessary to avoid it. This means doing many things that the sustainability architecture would recommend.

One has to be conscious now of the enormous effort companies are now making to obtain customer feedback; beyond that, companies pride themselves on their rankings on the “best employer” or “best place to work” surveys. These reflect an ongoing change in the overall management paradigm, which is putting more and more weight on the perceptions and assessments of stakeholders other than the owners. This is an unmistakable trend towards sustainability practices and, I think, it will only gain momentum as more stakeholders are formally brought into these feedback loops. However, this is only a beginning. The challenge is to put the feedback to good use, which is often extremely difficult. How many of us, as long-time customers of one or the other company, despair that our constructive suggestions for service improvement are never acted upon? There is a risk that the mere act of getting feedback is seen as an end in itself, whereas it is only the first step in a sustainability strategy.

The point I want to make is that companies are increasingly realizing the value in doing things that are an integral part of a sustainability agenda. This is happening regardless of whether they have formally signed on to any commitments. This is a welcome trend and, as it spreads, will begin to have macro impacts. But, there is no reason why it cannot be reinforced by a few factors.

One, even as sustainability practices are adopted by companies in the interests of their business, the articulation and championing of a corporate sustainability agenda is very much the responsibility of the leadership. It is only when all the little things that are being done are given legitimacy by such an agenda that they become institutionalized and also expanded to other applications. Without this, they risk being victims of personnel changes or financial pressures. The leadership needs to elevate such practices to a status of permanence.

Two, while we have referred to some general evidence that sustainability practices and financial performance are positively correlated, each business has to be conscious of the fact that this may not hold in its case. It is necessary for the leadership to emphasize to the organization that financial performance remains as important as ever, even as a sustainability agenda is being put into place. Cost consciousness must not be sacrificed as an excuse for the transition. In this context, practices that achieve both objectives, such as conserving on paper or electricity, reinforce the message that financial performance and sustainability are entirely compatible with each other.

Three, a sustainability agenda could potentially be a source of competitive advantage. There may, therefore, be an incentive to keep it hidden for fear that competitors could replicate it to their advantage. However, from a macro perspective, the more that is known about what individual companies are doing successfully, the more likely it is that the adoption of such practices will spread, to good effect. This demonstration effect is an important objective of the architecture through the GRI. Disseminating lessons from successful and unsuccessful experiences in implementing a sustainability agenda is also part of the sustainability agenda.

Four, from a financial perspective, the adoption of such practices may or may not make a company more attractive or a project more viable over relatively short time horizons. However, over longer periods of time, given the nature of the risks involved, there is likely to be a convergence between finance and sustainability. To the extent that long-term considerations are built into financial allocations, resources should flow into companies and projects which have better sustainability attributes.

5. Concluding Thoughts

Let me now conclude with four key messages.

First, sustainable development as a macro strategy requires the adoption of sustainability agendas at the micro level. The first is not going to be achieved unless the people who actually produce, and consume, goods and services do so in a sustainable way.

Second, there is a pragmatic framework in place, based on some unexceptionable principles, comprising both principles and agreements that provide guidelines to companies and financial entities. This framework creates the capacity for financial resources to be deployed in a manner which balances sustainability and financial returns.

Third, both the government and corporate leaderships have important roles to play in furthering the agenda. From the government perspective, thought needs to be given to how to reduce the costs of compliance with laws and regulations promoting sustainability, incentivizing SMEs to adopt the agenda and, in the immediate context, effectively leveraging the CSR mandate to obtain the maximum benefit. Corporate leadership needs to articulate and champion sustainability agendas and emphasize areas in which sustainability and financial performance are most compatible. This, in turn, brings about an alignment between the interests of companies and their investors and lenders.

Finally, sustainability is best seen as a process rather than an outcome; one which brings more and more into alignment the interests of multiple stakeholders. The process needs to be continuously monitored, compliance rewarded and non-compliance reversed. The financial system is an integral part of the monitoring, reward and correction mechanism.

Let me end by thanking the Indian Institute of Banking and Finance for inviting me to deliver this lecture, Mr. Kamath, Chairman and Managing Director of Punjab National Bank and the current Chairman of IIBF for chairing the session and, of course, to all of you for being here and participating. Thank you.