ESG Funds Becoming Popular in India

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Why in News

The ESG funds are increasingly becoming popular in the **mutual fund industry** in India. Recently, **ICICI Prudential Mutual Fund** has come out with its ESG fund.

> The **first ESG mutual fund was launched by the State Bank of India -** SBI Magnum Equity ESG Fund.

Key Points

- **ESG Fund:**
  - ESG is a combination of three words i.e. **environment, social and governance.**
  - It is a **kind of mutual fund.** Its investing is used **synonymously with sustainable investing** or **socially responsible investing.**
  - Typically, a mutual fund looks for a good stock of a company that has **potential earnings, management quality, cash flows, the business it operates in, competition** etc.
  - However, while selecting a stock for investment, the ESG fund **shortlists companies that score high on environment, social responsibility and corporate governance,** and then looks into financial factors.
  - Therefore, the **key difference** between the ESG funds and other funds is **'conscience'** i.e the ESG fund focuses on companies with environment-friendly practices, ethical business practices and an employee-friendly record.
  - The fund is regulated by **Securities and Exchange Board of India (SEBI).**
- **Reason for Popularity:**
  - Modern investors are re-evaluating traditional approaches, and look at the impact their investment has on the planet. Thus, investors have started incorporating ESG factors into investment practices.
  - The **United Nations Principles for Responsible Investment (UN-PRI)** (an international organization) works to promote the incorporation of environmental, social, and corporate governance factors into investment decision-making.

- **Impact:**
  - As ESG funds gain momentum in India, **companies will be forced to follow better governance, ethical practices, environment-friendly measures** and **social responsibility.**
  - Companies that do not follow sustainable business models will find it **tough to raise both equity and debt.**
  - Globally, investors like pension funds, sovereign wealth funds etc. don't invest in companies that are seen as polluting, don't follow social responsibility or are tobacco companies.
    - The global tobacco industry profits per year come to USD 35 billion, however, it causes nearly 6 million annual deaths and investors are growing sensitive to such realities.

Way Forward

- A significant advantage of ESG compliant companies is that they will be on the safer side when the regulators come up with even more stringent rules.
- The scope for the ESG compliant companies to gain significant market share would be more compared to their non-compliant competitors.
- Being ESG compliant enhances the company's credibility and reputation several fold and is sure to attract investors due to their sustainability.

Source: IE