



## ESG Funds

**For Prelims:** ESG Funds, Corporate Social Responsibility.

**For Mains:** Growth of ESG Funds in India, its significance and concerns associated with it.

### Why in News

The asset size of [ESG \(Environment, Social and Governance\) Funds](#) has grown nearly five times to Rs 12,300 crore over the last couple of years.

- The demand and growth for ESG funds in Asia, especially in India, has been overwhelming, it is 32%.

### Key Points

#### ▪ About:

- 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 \(SEBI\)](#).

#### ▪ Factors Behind ESG Growth:

- Greater policy focus on aspects such as cleanliness, skill development, expanded healthcare coverage, and education **indicates potential public investment in these social development and environmentally sensitive sectors** of the economy.
- There is increasing awareness and understanding among younger investors about the **impact of business on social development and environment**.
- 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.

#### ▪ Significance:

- As ESG funds gain momentum in India, **companies will be forced to improve**

**governance and ethical practices**, and act with greater social and environmental responsibility.

- As the policy framework changes, companies that do not alter business models or become more environmentally sustainable, **could have their revenue and profits impacted in the long term.**
  - Globally, many pension funds and sovereign wealth funds do not invest in companies that are seen as polluting or socially not responsible.

▪ **Concerns:**

- Alongside the greater attention on issues such as climate risk, emissions, supply chains, labour rights, anti-corruption, etc., certain concerns have been flagged as well.
- **Greenwashing is one of the top concerns** among global institutional investors.
  - Greenwashing is considered an unsubstantiated claim to deceive consumers into believing that a company's products are environmentally friendly.
- Investment experts have also pointed to **the tendency of fund managers to overweight certain stocks** and companies in a situation where most large investment-friendly companies have fallen short of the qualitative and quantitative parameters used for ESG investing.

**[Source: IE](#)**

PDF Reference URL: <https://www.drishtias.com/printpdf/esg-funds-1>