

# Socially Responsible Investing – Recent Developments in India

The ancient Indian literature and Hindu scriptures such as the Arthashastra, Brahmanas, Upanishad, Vedas, Ramayana, Mahabharata etc., are replete with verses that talk of human co-existence with the ecology and rendering of social good and sustainability of economic activities. However, Responsible Investing is still at a nascent stage in Modern India despite the concepts of Social Responsibility and Sustainable Financing being integral parts of the Indian Knowledge System. This paper outlines the evolution of factors that played important roles in setting the stage for the development of SRI, while analyzing the Current Trends in SRI In India. Documenting the recent trends we observe that SRI is supported by the adoption of Sustainable Development Goals, introduction of ESG Indexes, rolling out of comprehensive Business Responsibility & Sustainability Reporting formats etc. in the Modern India. Further the paper evaluates the performance of SRI vis-a-vis conventional and market counterparts using traditional and risk-adjusted performance measures during the market fall of COVID -19 and revealing that the SRI investor getting rewarded in market distress times. The analysis and discussions of this study are expected to help enterprises in emerging economies to orient the Indian market players a better understanding of SRI phenomenon, enabling them to coordinate and formulate policy conducive to SRI penetration.



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## INTRODUCTION

**D**uring the last three decades, the global investing and financing landscape has transformed exponentially due to prevalence of global challenges such as climate change, inequality, terrorism, labor issues etc. The global confrontation with these problems iterates the role of global

powerhouses (the governments and the corporations) as well as the fuel to these powerhouses (investors) in coping with these human-triggered challenges. In this direction, global nations have resorted to the pursuit of Sustainable Development Goals (SDGs) and enterprises support by integrating Environmental, Social and Governance (ESG) concerns into their business models. This resulted in the stakeholders rewarding these socially conscious entities by incorporating ESG factors in financial decision-making which is known as Socially Responsible Investing (SRI).

Globally, SRI has grown manifold in last couple of decades, with more than \$35.3 trillion engaged in assets (GSIA, 2020); more than half of the global ESG assets invested in Europe, \$12.0 trillion in US, and a sizable share in countries of Australia, Canada and Japan too. Most recently, COVID-19 fostered a rising ESG concern among mainstream investors. SRI saw a surge in fund flows amounting to \$500 million from January to March 2020.

However, Responsible Investing is still at a nascent stage in the emerging nation of India, despite having deep roots in the Indian Knowledge System. The ancient Indian literature and Hindu scriptures such as the Arthashastra, Brahmanas, Upanishad, Vedas, Ramayana, Mahabharata etc., are replete with verses that talk of co-existence with the ecology and rendering of social good and sustainability of economic activities. In Modern India, SRI is supported by the adoption of global SDGs, introduction ESG Indexes, rolling out of comprehensive Business Responsibility & Sustainability Reporting (BRSR) formats etc. Further, the government's proactivity in direction of SDGs provides an impetus to the penetration of sustainability, with introduction of various policies such as National Action Plan on Climate Change (NAPCC), National Clean Air Programme, Swachh Bharat Mission, Atal Mission, Smart Cities Mission and Metro Rail Projects etc. Amid this backdrop, SRI in India picked up pace<sup>1</sup>.

<sup>1</sup>. <https://www.deccanherald.com/business/business-news/covid-19-effect-esg-investing-gaining-traction-in-india-1062173.html>

Thus this paper aims at exploring and documenting the evolution of factors that played important roles in setting the stage for the SRI trend during the period of 2000-2020. Further, it seeks to analyze the current trends in SRI in India an objective to unearth the level of penetration of SRI in this emerging economy. At the same point, the paper evaluates the performance of SRI vis-a-vis conventional and market counterparts during the market fall of COVID -19. The analysis and discussions of this study are expected to help enterprises in the emerging economies to orient the Indian market players towards a better understanding of SRI phenomenon, enabling them to coordinate and formulate a policy conducive to SRI penetration.

### THEORETICAL CONSTRUCT

India stands sixth among the world’s largest economies, witnessing consistent and stable fast pace growth rates. As the countries across the globe integrate their efforts to become more ESG-compliant, India is leading the emerging countries bandwagon. Social responsibility holds relevance in an emerging economy like India. Issues such as pollution, high economic inequality, corporate frauds and discrepancies, deteriorating levels of employment, and mediocre urban-rural development plaguethis emerging nation. (Climate Transparency, 2019). Due to these ESG risks, India has witnessed financial losses incrementing to double the number in the last 30 years. In the last decade only, India suffered losses amounting to USD 50 billion. As per ‘Brown to Green Report 2019’ released by the Climate Transparency Organization, India has lost the maximum number of lives and is amongst the top 5 countries in terms of economic losses due to extreme weather events within G20 nations (between 1998 and 2017).

Meanwhile, sustainable wave is finding its pace with rising consciousness among urban Indians. In a study, Indian millennial have been found more aware of the environmental impact of their consumption behavior (Francis and Sarangi, 2022) and women, especially

mothers-to-be, are more conscious of sustainable impact of their consumption (Jain and Kaur 2008). Results of another survey by YouGov found that 81% of urban Indians find it important that brands and businesses take steps to minimize their impact on the environment; 50% said they respond to advertisements that speak to global issues such as the environment, and sustainability.

In an affirmative action towards tackling the various global environmental crisis, labour and workforce welfare and holistic society development, India adopted 17 Sustainable Development Goals (SDG) under the United Nations 2030 Agenda. In that direction, Policymakers are initiating frameworks and mechanisms to foster penetration of sustainability in the economy.

The Government is implementing National Action Plan on Climate Change (NAPCC) having 33 States and Union Territories aligning with the climate change objectives. NITI Aayog introduced initiatives such as Shoonya (India’s zero pollution e-mobility campaign), the Methanol economy (programme aimed at converting coal reserves and municipal solid waste into methanol) and Women Entrepreneurship Platform facilitates the orientation of the ESG issues in the economy. The Ministry of Environment, Forest and Climate Change (MoEFCC) has played a pivotal role in promoting a circular economy across all key sectors by actively formulating policies towards reuse, as opposed to waste at the end of a product’s lifecycle. Meanwhile, India’s Plastics Pact flagshipged by the government in partnership with WRAP and WWF India aims to bring together businesses, governments and NGOs to reduce, reuse, and recycle plastics in their value chain. Further, some of the other flagship schemes/missions or programmes to implement SDG 11 include Swachh Bharat Mission – Urban (SBM-U), Atal Mission for rejuvenation and Urban Transformation (AMRUT), Smart Cities Mission (SCM), Pradhan Mantri Awas Yojana – Urban (PMAY-U) and Metro Rail Projects. National Clean Air Programme (NCAP) is another national-level initiative in line with SDGs to reduce air pollution levels across the country.

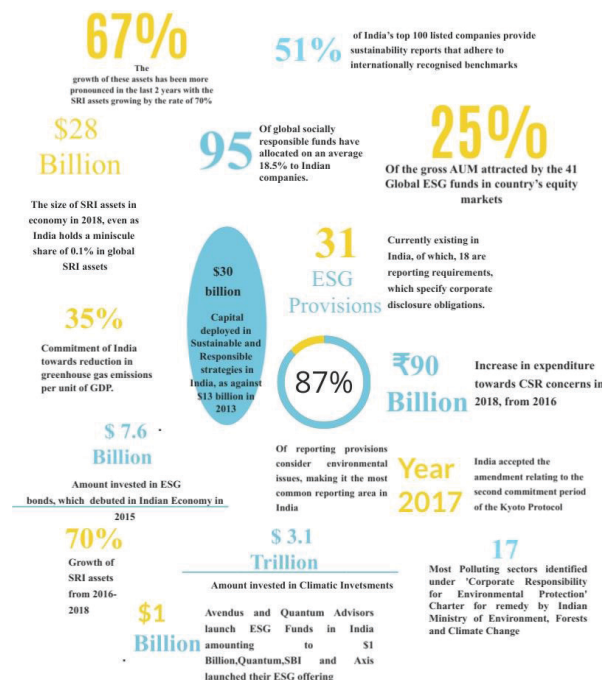
**Table 1: Major Turn points in Evolution of SRI in India**

Year	Regulatory Frameworks conducting Sustainability in India
2007	<ul style="list-style-type: none"> <li>Reserve Bank of India (RBI) issued CSR and sustainable reporting guidelines to all scheduled commercial banks</li> <li>S&amp;P’s, CRISIL and KLD launched ESG India Index</li> </ul>
2008	<ul style="list-style-type: none"> <li>National Action Plan on Climate Change; 33 States and UTs joining hands</li> </ul>
2009	<ul style="list-style-type: none"> <li>Ministry of Corporate Affairs drafts guidelines encouraging all businesses to formulate a CSR policy and integrating stakeholder interest</li> </ul>
2011	<ul style="list-style-type: none"> <li>MCA launches ESG disclosure codes – National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs)</li> </ul>
2013	<ul style="list-style-type: none"> <li>Companies Act, 2013 helped outline major governance concerns , legislation for boardroom transparency, Independence and Gender Representation, mandating expenditure of 2% average profits for preceding three years towards CSR.</li> </ul>
2015	<ul style="list-style-type: none"> <li>SEBI mandates disclosures and reporting of responsibility for the largest 100 listed companies. The requirement was expanded to the 500 largest companies in SEBI’s Listing Obligations and Disclosure Requirements Regulations 2015.</li> <li>NITI Aayog – Shoonya, The Methanol economy, National Clean Air Programme, Women Entrepreneurship</li> </ul>
2016	<ul style="list-style-type: none"> <li>SEBI came up with guidelines for green bonds</li> <li>Indian Banks’ Association came out with the National Voluntary Guidelines for Responsible Financing.</li> </ul>

2017	<ul style="list-style-type: none"> <li>NSE launched ESG index</li> <li>BSE drafted Guidance on ESG Disclosures by providing 33 specific issues on which companies should focus to be able to provide disclosures to investors</li> </ul>
2018	<ul style="list-style-type: none"> <li>NITI Aayog adopted the 17 SDGs as well as a Sustainable Development Framework (SDF) for 2018–22 with the UNO</li> <li>169 related targets covering 17 goals and a commitment of 110 trillion towards ESG issues over the 15-year period</li> </ul>
2019	<ul style="list-style-type: none"> <li>Funds like Magnum Equity ESG Fund Avendus India ESG Fund, Quantum ESG fund</li> <li>BNP Paribas Asset Management India, Kotak Mahindra Asset Management Company raised capital for ESG instruments.</li> <li>National Clean Air Programme</li> </ul>
2020	<ul style="list-style-type: none"> <li>MCA developed India’s National Action Plan on Business &amp; Human Rights.</li> <li>Kotak Mahindra Asset Management SBI Funds Management Private Ltd. and Equicap Asia Management Private Ltd. became signatories to the UNPRI</li> <li>Tata Consultancy Services revealed plans to reduce its absolute GHG emissions to achieve net zero emissions by 2030.</li> </ul>
2021	<ul style="list-style-type: none"> <li>SEBI mandated on Business Responsibility and Sustainability Reporting (BRSR) for the top 1000 listed companies listed companies from FY2022-23.</li> <li>Ghaziabad Municipal Corporation became the <b>first ever civic body in India</b> to issue green bonds listed on the BSE</li> <li>India’s Plastics in partnership with WRAP and WWF</li> </ul>
2022	<ul style="list-style-type: none"> <li>National Green Tribunal imposed ₹52 Crore penalty on the Udupi Power Corporation Ltd., for violating environmental laws and polluting its surroundings.</li> </ul>

Source: Authors’ Compilation

Figure 1: The Current Trends in SRI In India

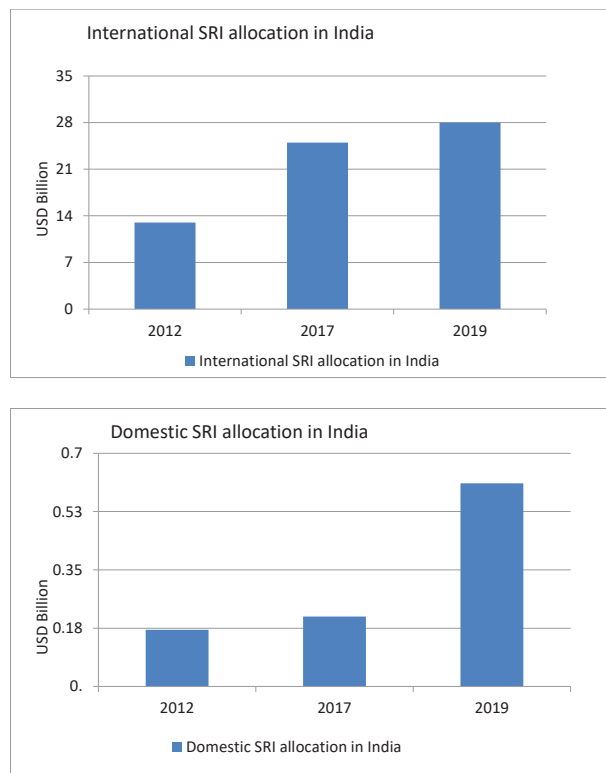


Source: cKinetics (2019), cKinetics (2017)

Most recently, COVID-19 fostered a rising ESG concern among mainstream investors. SRI saw a surge in fund flows amounting to \$500 million from January to March 2020. These funds are observed to be resilient to market volatility, as per Morningstar Report, due to their 'sticky'

nature, derived from ESG values. Other trends in SRI have been discussed in Fig. 1 and Fig. 2.

Figure 2: Trends in SRI Asset Allocation in India During Past Decade



Source: Catalyzing Private Capital for Green Investments in India Report, 2021

**METHODOLOGY**

We have adopted an empirical methodology in order to evaluate the performance of SRI vis-a-vis conventional and market counterparts during the market fall of COVID-19 and used the traditional and risk-adjusted measures of financial performance measure on daily index values data extracted from www.msci.com. MSCI ESG Leaders Index series has been used as a proxy for SRI, **MSCI Country** index represents conventional investing style with constituent representation of about 85% of the free float-adjusted market capitalization in respective countries. The broad market-specific **MSCI Investable Market** Indices proxies the benchmark index in our study, representing the investable universe. For the study, the performance evaluation has been carried out through time frame from 15<sup>th</sup> February, 2020 to 1<sup>st</sup> June, 2020 using traditional (Table 2) and risk adjusted performance measures (Table 3), identified as the recessionary break from the St. Louis Federal Reserve Bank database.

**Table 2: Traditional measures of performance evaluation:**

Performance Measure	Description	Formula
<b>Log Return</b>	Index values are used to find the log return of various indices	Log Return= $\ln(P_t/P_{t-1})$
<b>Beta</b>	While the above measures exhibit risk, Beta calculates the sensitivity of portfolio return with respect to the market return.	$R_p - R_f = \alpha + \beta(R_m - R_f)$
<b>Systematic Risk</b>	This risk occurs due to the prevalence of broad macro factors affecting all securities	Systematic Risk = $\sqrt{\beta^2 \times \sigma_m^2}$ $\sigma_m$ = SD of the Market
<b>Unsystematic Risk</b>	Risk unique to security or company can be reduced	Unsystematic Risk = $\sqrt{(\sigma_p^2) - (\beta^2 \times \sigma_m^2)}$ Where, $\sigma_p$ = SD of the portfolio

**Table 3: Risk-adjusted measures of performance evaluation**

<b>Sharpe ratio</b>	In order to examine performance, we measure the risk-adjusted returns of the indexes by using the Sharpe ratio, which allows a direct two-dimensional performance comparison as it measures the return above the risk-free interest rate (excess return) divided by the total risk of the investment.	Sharpe Ratio = $(AR_p - R_f) / \sigma_p$
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<b>Treynor's Ratio</b>	While Sharpe assumes non-diversification, managers prefer treynor's ratio when the portfolios are well diversified.	Treynor Ratio = $(AR_p - R_f) / \beta_p$
<b>Jensen's Alpha:</b>	CAPM stands on the assumption of correct pricing of securities, contradicting the popular notion of riskier assets having higher expected return than less risky assets. Thus, we use Jensen's alpha to determine abnormal return of security or portfolio over the expected return.	Jensen's $\alpha = R_m - [R_f + (R_m - R_f)\beta_p]$
<b>Information Ratio:</b>	This helps measure the manager's level of information by finding abnormal return due to active management divided by unsystematic risk.	Information Ratio = $\alpha_p / \sigma_{ep}$ Where, $\alpha_p$ = Jensen's alpha $\sigma_{ep}$ = Unsystematic risk of portfolio

**ANALYSIS AND FINDINGS**

**Table 4: Performance Evaluation of Select Indices During COVID-19 Period**

Performance Measure	India ESG Index	India Country Index	India IMI Index
<i>Excess Return</i>	0.001995	0.001425	0.001217
<i>Standard Deviation</i>	0.031043	0.032125	0.031192
<i>Beta</i>	1.011913	1.010298	1
<i>Systematic Risk</i>	0.031563	0.031513	0.031504
<i>Unsystematic Risk</i>	0.005523	0.00624	-
<i>Sharpe's Ratio</i>	0.06225	0.04437	0.039004
<i>Treynors' Ratio</i>	0.001971	0.001411	0.001217
<i>Information Ratio</i>	0.138261	0.03145	-
<i>Jensens' alpha</i>	0.000764	0.000196	-

Studying the performance of select indices over the recessionary period of COVID-19, it is revealed that the average returns earned by the SRI in India, outperforms the country or benchmark returns, as observed in Table 4. Remarkably, high average returns of the SRI are not eroded by high volatility of returns, such that a lower Standard Deviation as well as unsystematic risk measure was recorded for the SRI index. Beta sensitivity as well as systematic risk remained highest for SRI. A glance at risk-adjusted evaluation measures highlights the outperformance of the conventional counterparts by the SRI index in the study period. Sharpe ratio value of SRI index stands at almost 1.5 times that of general and benchmark indices. Treynor's ratio signifies higher return

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earned for every additional unit of Beta undertaken for investing in a Responsible manner, implying reward for the SRI investor. Through the entire recessionary period of COVID-19, SRI index managed to earn abnormal Jensen's alpha, amounting to almost seven times the general index. Thus, SRI generously rewarded the sustainability conscious investor with positive abnormal returns over excess returns. The bearish condition of the market brought unexpected abnormal gains for the social investor as an increasing number of investors resorted to the socially responsible strategy. Further analyzing the information ratio it is found that the SRI asset manager can earn premium and significantly higher rewards for active management and stock picking of Responsible Stocks. The asset manager can derive positive returns for his stock picking efforts, even during bearish phase in the market. Hence, responsible investing emerges out to be the most rewarding strategy in market distress times, providing a safe haven to the responsible investor.

## CONCLUSION

Consistent disclosures as well as a robust ESG framework are a pre-requisite to percolate sustainability in an emerging economy like India. Aligning with global ESG concerns and national SDGs, Investors and regulators have also increased their scrutiny in evaluating businesses that employ sustainable business practices and the ESG framework as it provides an opportunity for all stakeholders to build an economy that is financially, socially and environmentally sustainable. In India's corporate ecosystem, there have been two major developments conducting SRI growth; the first being CSR reporting and spending being made mandatory under the Companies Act, 2013 and secondly the introduction of the recent Business Responsibility and Sustainability Reporting (BRSR), made mandatory for the top 1,000 listed companies by market capitalization. Further, the pandemic of COVID-19 acted as a wakeup call to investors around the globe to incorporate "sustainability" in their financial decisions. Amidst the turbulent times of this crisis, Investors sought refuge in the resilience rendered by the SRI Stocks. Impacts of the COVID-19 crisis on the real economy and the financial system highlight the limits

of most forecasting models. Following the COVID-19 outbreak, orientation toward sustainability is a critical factor in ensuring firm survival and growth.

In the pandemic period, thus, SRI in India outperforms conventional counterparts by earning favorable premiums for social screening. The findings reveal no penalty to the responsible investor for investing in a socially responsible manner, an observation in contradiction to Modern Portfolio Theory. Also the compromise with respect to diversification made by investors was well rewarded when measured in terms of risk adjusted return measures. While no significant difference was observed in the study period, the responsible investing strategy emerged as a rewarding strategy for per unit risk undertaken.

Therefore it can be concluded, SRI is rewarding for ethical investors aligning their financial decision social concern. In accordance with Srinivasan (2014), Tripathi and Bhandari (2012), Tripathi and Kaur (2022), a significant alpha earned by the SRI during the market crisis implies refuge to the SRI.

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