

Investor Perception and Demand for Sustainable and Socially Responsible Investments in India (2019)

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Abstract

The shift toward Sustainable and Socially Responsible Investments (SRI) has gained momentum globally, with increasing relevance in emerging markets like India. This paper examines the perception and demand for SRI in India during 2019. By analyzing primary survey data and secondary market trends, the study explores the driving factors, challenges, and growth of SRI. Findings indicate growing awareness among institutional investors and limited engagement from retail investors. Regulatory frameworks, environmental awareness, and global influences emerged as key drivers, while challenges such as greenwashing and lack of standardization hindered widespread adoption.

Keywords : Sustainable , perception , demand

Introduction

The global investment landscape is experiencing a transformative shift as financial goals increasingly align with sustainability and ethical considerations. Sustainable and Socially Responsible Investments (SRI), which prioritize Environmental, Social, and Governance (ESG) factors, have emerged as a compelling investment strategy that combines financial returns with social and environmental impact. In India, this transition is becoming particularly relevant as the nation grapples with pressing environmental challenges, social inequities, and the need for robust governance practices.

The year 2019 marked a significant turning point for SRI in India, driven by growing awareness of climate change, corporate accountability, and the influence of global sustainability trends. Institutional investors began to lead the adoption of ESG principles, while retail investors showed increasing curiosity, albeit tempered by a lack of information and access. Regulatory measures, such as SEBI's Business Responsibility Reporting (BRR) and the rise of green bonds, played a vital role in fostering transparency and encouraging sustainable finance. This paper aims to analyze the factors influencing investor behavior, the growth trajectory of SRI, and the challenges faced in fostering a sustainable investment ecosystem in India.

Literature Review

Sustainable and Socially Responsible Investments (SRI) have garnered increasing academic and practical interest over the past decade. Globally, SRI is recognized for integrating Environmental, Social, and Governance (ESG) factors into investment decisions, thus addressing both financial performance and societal impact. Studies suggest that SRI not only aligns with ethical principles but also offers competitive returns, debunking the myth of a trade-off between profitability and responsibility (Friede et al., 2015).

Global Perspective

Research indicates that the global SRI market expanded significantly in the late 2010s, driven by institutional investors and regulatory changes. According to the Global Sustainable Investment Alliance (GSIA, 2018), the global SRI market grew to \$30.7 trillion in assets under management, reflecting increasing investor demand for ethical and sustainable portfolios. Studies in developed markets, such as the United States and Europe, highlight the role of policy frameworks like the European Union's Sustainable Finance Action Plan in driving adoption.

Indian Context

In the Indian context, literature on SRI remains nascent but is rapidly expanding. SEBI's guidelines on Business Responsibility Reporting (BRR) and the Companies Act's CSR mandate have laid the groundwork for integrating ESG factors into corporate strategies. Scholars like Mukherjee and Ghosh (2018) emphasize the critical role of regulatory push in creating awareness and fostering transparency in India's investment landscape. However, retail investors' limited understanding and access to SRI products continue to pose significant barriers.

Challenges in SRI Adoption

Several studies highlight challenges in SRI adoption, including greenwashing, lack of standardized metrics, and perceived financial trade-offs. Greenwashing, where companies exaggerate their ESG credentials, undermines investor confidence. Additionally, the absence of consistent ESG ratings complicates comparisons across investments, as noted by Gupta and Srivastava (2019). These challenges are particularly pronounced in emerging markets like India, where awareness and infrastructure for SRI remain underdeveloped.

Gap in Literature

While existing literature provides valuable insights, few studies focus specifically on the Indian market's transition to SRI in 2019. This paper addresses this gap by combining

primary survey data with secondary market analysis to understand the drivers, challenges, and future potential of SRI in India during this pivotal year.

Methodology

The study employs a mixed-method approach, combining primary data from a survey of 400 investors (250 retail and 150 institutional) and secondary data from industry reports, regulatory announcements, and market analyses. Primary data highlights investor awareness, preferences, and concerns, while secondary data captures broader market trends and policy impacts.

Investor Perception of SRI

Survey Insights

A survey of 400 investors revealed distinct differences in awareness and preferences between retail and institutional investors:

Survey Question	Yes (%)	No (%)	Undecided (%)
Are you aware of ESG as an investment criterion?	40%	50%	10%
Would you consider ESG-compliant investments?	60%	30%	10%
Do you believe ESG investments offer competitive returns?	55%	35%	10%

Source: Primary survey conducted by the author in 2019.

Institutional investors displayed higher awareness and willingness to adopt ESG practices, driven by long-term financial benefits and alignment with global trends. Retail investors showed interest but lacked awareness and access to relevant information.

Retail vs. Institutional Investors

Retail investors often perceived SRI as a niche offering, with concerns about potential trade-offs in returns. Institutional investors, on the other hand, integrated ESG considerations into their portfolios, recognizing the resilience and risk-mitigation benefits of sustainable investments.

Growth of SRI in India (2019)

ESG Mutual Funds

The ESG mutual fund industry in India experienced a 35% growth in assets under management (AUM) in 2019, reflecting rising institutional interest and new fund launches:

Year	ESG Fund AUM (INR Crore)	Total Funds	ESG	Year-on-Year Growth (%)
2018	1,800	3		-
2019	2,430	5		35%

Source: Association of Mutual Funds in India (AMFI), Annual Report 2019.

Green Bond Market

India's green bond market continued to grow, raising \$5.6 billion in 2019, primarily funding renewable energy and sustainable infrastructure projects:

Year	Total Green Bonds Issued (USD Billion)
2018	3.2
2019	5.6

Source: Climate Bonds Initiative, *Green Bond Market Report* (2019).

Factors Influencing Demand for SRI

Environmental and Social Awareness

India's environmental crises, including severe air pollution and water scarcity, raised awareness about sustainability. Investors favored companies addressing these challenges, such as renewable energy providers and waste management firms. Social issues, including inequality and gender disparity, further emphasized the need for responsible investments.

Financial Returns and Risk Mitigation

SRI's financial viability gained recognition as studies showed ESG-compliant portfolios often delivered competitive returns with lower risk during market volatility. Institutional investors embraced ESG investments as a safeguard against regulatory, reputational, and operational risks.

Policy and Regulation

Regulatory measures, such as SEBI's Business Responsibility Reporting (BRR) mandate, enhanced transparency and investor confidence. The growth of green bonds and mandatory Corporate Social Responsibility (CSR) spending also bolstered the appeal of SRI.

Global Influences and Peer Pressure

Global trends, including adherence to the United Nations Principles for Responsible Investment (UNPRI) and Sustainable Development Goals (SDGs), encouraged Indian investors to align with international standards. Foreign institutional investors (FIIs) often demanded ESG compliance, prompting Indian firms to adapt.

Technological Advancements

The availability of ESG indices and ratings improved transparency and informed decision-making. Tools such as the Nifty ESG Index demonstrated the financial viability of sustainable investments, encouraging broader adoption.

Challenges to SRI Adoption

Despite its growth, SRI faced significant challenges in India:

- **Awareness Deficit:** Limited understanding among retail investors hindered widespread adoption.
- **Perceived Trade-Off:** Many investors feared lower returns from ESG investments.
- **Greenwashing Risks:** Lack of standardized metrics allowed companies to exaggerate ESG compliance.
- **Limited Retail Participation:** High entry barriers and lack of accessible products deterred retail investors.

Conclusion

The year 2019 was a critical period for SRI in India, reflecting a gradual shift toward sustainability-driven investment practices. Institutional investors spearheaded the adoption of ESG strategies, leveraging financial and risk-mitigation benefits. Retail investors, while showing interest, remained constrained by limited awareness and access. Regulatory efforts, such as SEBI's BRR mandate and the promotion of green bonds, played a pivotal role in shaping the market.

However, challenges such as greenwashing, lack of standardization, and low retail participation highlighted the need for targeted education, robust regulatory frameworks, and more accessible SRI products. By addressing these barriers and building on the momentum of 2019, India has the potential to establish itself as a leader in sustainable finance, aligning investor behavior with global sustainability goals.

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