

# CHAPTER: 10

## SUSTAINABLE FINANCE AND ESG INVESTMENTS: OPPORTUNITIES AND CHALLENGES IN MODERN RESEARCH

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### ABSTRACT

*The escalating urgency of climate change, social inequality, and corporate governance changes has positioned sustainable finance and Environmental, Social, and Governance (ESG) initiatives at the pinnacle of global economic discussions. In the last ten years, sustainable finance has evolved from a specialized method to a predominant investment strategy, transforming the financial environment and impacting business conduct. ESG investments are essential for reconciling financial goals with enduring environmental and social effects, presenting novel potential for innovation, stakeholder involvement, and risk management. Nonetheless, despite their swift adoption, considerable obstacles remain, such as conflicting ESG measurements, concerns regarding greenwashing, legislative fragmentation, and insufficient understanding among investors in emerging nations. Contemporary studies underscore the necessity for comprehensive frameworks, uniformity in reporting, and the incorporation of sophisticated technology like artificial intelligence and big data analytics to assess ESG performance more efficiently. This study investigates the changing dynamics of sustainable finance, analyzing the opportunities it presents for promoting responsible growth and the significant problems that must be confronted to guarantee its legitimacy and efficacy. A balanced viewpoint emphasizes the capacity of sustainable finance to catalyze global change, while highlighting the necessity of ethical behaviors, transparency, and inclusive policies for its enduring effectiveness.*

**Keywords:** Sustainable finance, ESG investments, responsible growth, greenwashing, financial innovation, ethical governance.

## **INTRODUCTION**

In the last decade, finance has gone through some real changes. It isn't just about profit margins, growth numbers, or what the balance sheet shows anymore. More and more, people are also paying attention to how investments affect the environment and society. Investors have started to be a bit more cautious, asking whether their projects might harm nature in some way. And it's not only about the environment—they're also asking things like: Are workers actually being treated fairly? Is the company really transparent, or just making it look that way? Questions like these are what gave rise to the whole idea of sustainable finance and ESG (Environmental, Social, Governance) investing.

In fact, this shows that we are slowly beginning to understand the real meaning of finance. It is no longer only about quarterly results or short-term gains, but about using finance in a more complete way—balancing profit with responsibility. At its core, finance is really about how resources are raised and managed to create growth, but now the idea of growth is shifting. It has to be fair, sustainable, and in line with long-term well-being. This is why sustainable finance is tied so closely to the United Nations' Sustainable Development Goals (SDGs). They basically remind us that finance should work for people and nature, not the other way around.

The SDGs, with their 17 global goals, have given everyone a common direction. These goals cover a wide range, from fighting poverty and gender inequality to pushing for clean energy and climate action. Take solar and wind projects, for example—when investors fund those, they are clearly supporting SDG 7 (Affordable and Clean Energy) and SDG 13 (Climate Action). Similarly, when banks support microfinance for women in villages, it doesn't just cut down poverty (SDG 1) but also gives a push to gender equality (SDG 5). So, in many ways, the SDGs can be seen as a kind of map that connects financial flows with broader human development needs.

Still, it's not all that straightforward. Things like green bonds or ESG funds sound impressive in reports, but when you look closer, problems show up. Some companies present themselves as "sustainable" just to bring in investors, but later it comes out that they are still linked to industries that pollute or damage the environment. This practice—often called greenwashing—makes people doubt whether finance is actually helping the SDGs or simply borrowing the language for branding. For example, there have been cases where ESG funds were found to include fossil fuels or tobacco, which doesn't sit well with the whole idea of sustainability.

That being said, sustainable finance is not without its strengths. It is pushing investors to look at risks they once overlooked, such as the impact of climate disasters, stricter government regulations, or even the damage to reputation that comes when companies ignore sustainability issues. At the same time, it creates space for new areas such as electric vehicles, renewable energy, and circular economy models. These not only connect well with the SDGs but also build long-term value. The challenge,

however, is that there's no single definition of what is truly "sustainable." What one country accepts might not be valid in another. And the old problem still remains—balancing short-term profit with long-term responsibility, which not all investors are ready to do.

## **LITERATURE REVIEW**

Historically, the idea of finance has focused on market efficiency, risk management, and increasing shareholder wealth (Jensen & Meckling, 1976; Markowitz, 1952). But there has been a discernible change in the last 20 years toward taking into account more general issues like social justice, corporate governance, and environmental sustainability. Sustainable finance and the organized framework of Environmental, Social, and Governance (ESG) investing are products of this evolution.

A meta-analysis of over 2,000 studies by Friede, Busch, and Bassen (2015) revealed that most of them indicated a positive or at least neutral relationship between financial performance and ESG considerations. As evidence of the quick mainstreaming of these practices, the Global Sustainable Investment Alliance (2021) reported that sustainable investment assets had surpassed USD 35 trillion. However, there are some objections to the growth of sustainable finance. Researchers contend that it is challenging to evaluate the actual sustainability of businesses due to the lack of consistency and comparability in ESG ratings (Sullivan & Mackenzie, 2020). Investor trust is further damaged by greenwashing, which occurs when businesses overstate their sustainability credentials (Delmas & Burbano, 2011).

The Sustainable Development Goals (SDGs), introduced by the United Nations in 2015, have given the conversation a new angle. Scholars emphasize that in order to support inclusive and sustainable growth, financial systems must be in line with the SDGs (Schoenmaker & Schramade, 2019). Finance can help achieve goals like poverty reduction (SDG 1), gender equality (SDG 5), clean energy (SDG 7), and climate action (SDG 13) through practical means like investments in renewable energy, gender-inclusive microfinance, and social bonds (UNDP, 2020).

But problems still exist. According to some research, there are still no widely recognized standards for sustainable finance, even though it lowers exposure to risks like regulatory changes, climate disasters, and reputational damage (Kotsantonis & Pinney, 2020). According to others, investors frequently find it difficult to balance the trade-off between immediate profits and long-term viability (Dyck & Zingales, 2002).

The body of research indicates that ESG investments and sustainable finance are not fads but rather are becoming essential to contemporary financial theory and practice. However, both academics and practitioners continue to face difficulties in attaining consistency, accountability, and quantifiable results.

## **RESEARCH METHODOLOGY**

This study employs a qualitative case study approach to explore the role of sustainable finance in the Indian context, with a particular focus on the SBI ESG Exclusionary Strategy Fund. The case study method is suitable because it allows for in-depth investigation of a single financial product and helps to understand both the opportunities and the limitations of ESG integration in practice.

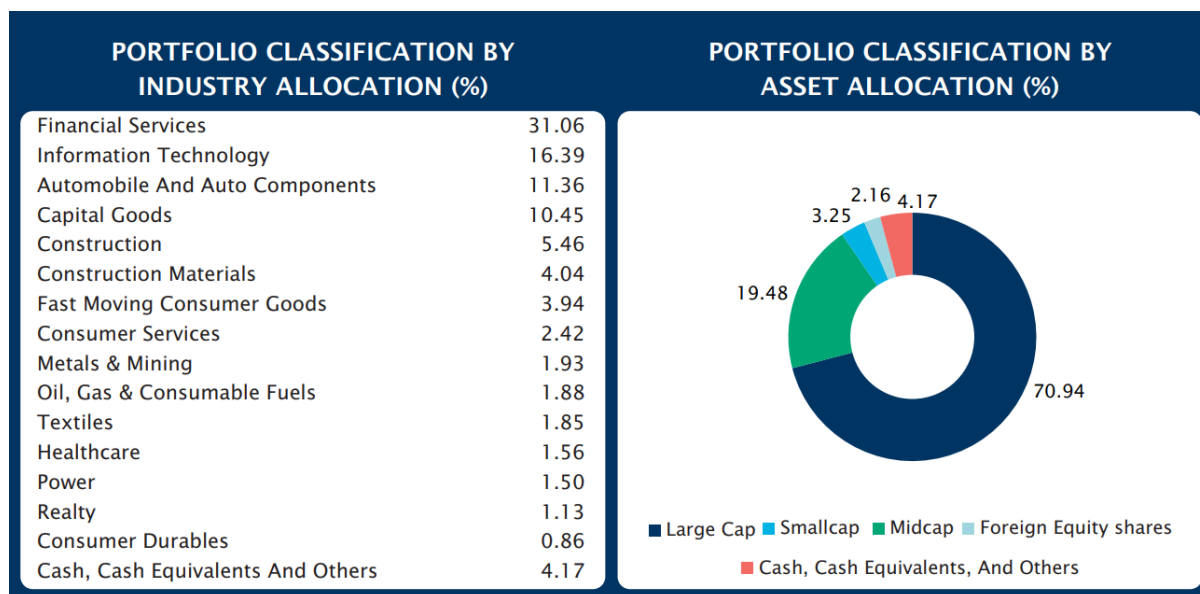
## **OBJECTIVES**

1. To analyse how sustainable finance has been applied in the SBI ESG Exclusionary Strategy Fund.
2. To examine the opportunities and challenges faced in implementing ESG principles.
3. To evaluate the alignment of SBI ESG Exclusionary Strategy Fund with relevant Sustainable Development Goals (SDGs).

### **Case Study: SBI ESG Exclusionary Strategy Fund (Direct Plan–Growth)**

SBI ESG Exclusionary strategy fund was initiated to build a foundation for sustainability in Indian mutual fund ecosystem. With its open-ended equity thematic scheme structure, the fund invests only in businesses that meet environmental, social, and governance (ESG) standards in an effort to provide long-term capital growth. This fund is unique because it has adopted an exclusionary strategy, which screens out companies that are thought to be detrimental to society, the environment, or ethical governance right away (SBI Mutual Fund, 2025). It keeps sustainability as the centre of its portfolio including the profits which comes with it.

In order to ensure that its performance is compared to a universe of companies that are already recognized for their ESG compliance, the scheme tracks the Nifty 100 ESG Total Return Index (Economic Times, 2025). With a total asset under management of roughly ₹5,666 crore as of August 2025, the direct plan–growth option reported a Net Asset Value (NAV) of ₹261.88 (Groww, 2025). This fund has a high expense ratio of around 1.34% which is considerably higher than its peers for investing in its active research (ET Money, 2025). Its risk rating of "Very High" on the SEBI risk meter highlights the volatility that comes with thematically oriented equity investments (IndMoney, 2025). If you are redeeming your units within one year Redeeming units within a year you get imposed an exit load of 1%, redemptions made after that time are free (Groww, 2025).



**Source: Factsheet - SBI ESG Exclusionary Fund**

The fund mainly invests in large companies with strong ESG practices. Key holdings include HDFC Bank, ICICI Bank, Infosys, Larsen & Toubro, Axis Bank, and UltraTech Cement. Most of the portfolio is in financial services, IT, and infrastructure. It also occasionally adds global firms such as Microsoft to capture ESG opportunities abroad.

The performance analysis shows kind of a mixed but overall positive track record. The fund has given annualised returns of around 18.6% in the last five years, which is almost in line with a lot of other thematic equity funds (BMSMoney, 2025). But the one-year return, which is actually less than 1%, shows how cyclical this type of investing can be. Still, the 3-year return looks good at about 13.6% (IndMoney, 2025). Risk adjusted numbers like beta and Sharpe ratio sometimes show underperformance, especially when those excluded sectors are doing well. On the other hand, they also show a bit lower volatility compared to the benchmark (BMSMoney, 2025). Overall, in long run the fund has managed to give competitive returns while also sticking to its sustainability idea.

The SBI ESG Exclusionary Strategy Fund is kind of an example of how ESG factors can be added into a normal investment product from the view of sustainable finance. The fund doesn't just stop at symbolic sustainability promises, but actually tries to apply ESG criteria in stock picking and also compares itself with an ESG-specific index (SBI Mutual Fund, 2025). The way investors are getting involved into companies that are a bit less exposed to environmental issues, reputation risks, or governance problems. It also nurtures and environment for responsible investing in India, where honestly disclosure rules and regulatory frameworks are still in the making (SEBI, 2025).



**Figure 1 Source: SBI Mutual Fund Website**

### **Growth of Net Asset Value**

Its contribution can be linked to several Sustainable Development Goals (SDGs). By investing in financial institutions and infra firms, it mainly aligns with SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation, and Infrastructure). Also, by excluding environmentally harmful companies, it kind of supports SDG 12 (Responsible Consumption and Production) and SDG 13 (Climate Action). The governance filters used in screening also add some strength to accountability, echoing SDG 16 (Peace, Justice, and Strong Institutions).

But still, challenges are there. ESG data quality and standardisation in India is still developing, so it creates inconsistencies in screening (IndMoney, 2025). The exclusionary approach also means the fund can underperform when sectors like energy or cyclical industries do well (BMSMoney, 2025). On top of that, its higher expense ratio makes it less cost effective compared to passive or more diversified funds (ET Money, 2025). These limits kind of highlight the trade-offs that always come with thematic ESG investing.

To wrap it up, the SBI ESG Exclusionary Strategy Fund sort of shows how sustainable finance can actually fit into a regulated investment product in India. It lets investors try for financial returns while also staying aligned with ESG goals. Yes, there are still issues like higher cost, data not always

reliable, and the cyclical ups and downs, but still the fund works as a practical model of ESG integration. In a way, it helps strengthen the connect between capital markets and sustainable development.

## **FINDINGS AND ANALYSIS**

### **1. Application of Sustainable Finance**

The SBI ESG Exclusionary Strategy Fund mainly uses a combination of exclusion and check based approach which helps in catalysing sustainable finance in the investing ecosystem. Basically, the fund exclude the companies which are harmful for the environment , weak governance and poor labour practices and put an ESG filter on the companies This way the portfolio kind of stays aligned with the broader rules of socially responsible investing.

The fund brings sustainability into the portfolio building process by applying ESG filters while picking stocks. So, companies are not just looked at for financial health but also for things like following labour laws, environmental rules, and fair governance practices. Doing this reduces the risk of investing in businesses that may end up with lawsuits, bad reputation, or even long-term failure because of ESG issues.

Though this strategy is definitely a step forward for sustainable finance, it feels more restrictive than really proactive. Rather than actively searching for chances in areas that can actually bring big change, like renewables, low-cost housing, or social-impact type businesses, it mostly just works by cutting out companies that don't fit ESG standards. So instead of pushing new sustainable industries, the fund's role stays more on risk avoidance and responsible screening. Still, it does show some level of integration of sustainable finance principles, even if the impact feels kind of limited.

### **2. Possibilities and Difficulties in Applying ESG Principles**

The SBI ESG Exclusionary Strategy Fund's helps in aligning the sustainability and financial goal together which is the need of the hour to maintain a health ecosystem .By adding environmental, social, and governance filters into investment choices, the fund directs money towards companies that have stronger environmental rules, socially responsible practices, and better governance systems. Companies with solid ESG profiles are usually more resistant to reputation damage, regulatory fines, and environmental problems, so this also opens the door for long-term value creation. Plus, with more and more interest from big institutions and even small retail investors in socially conscious investing, the fund gets a kind of competitive edge. It becomes a good option for people who want to grow their money but at the same time keep ethics in mind. Also, including benchmarks like the Nifty 100 ESG TRI makes it more transparent and gives investors some comfort that their capital is actually going into companies that follow proper sustainability standards.

Many companies still do not follow the compliance laws and do not do the proper disclosing properly, or their reporting of ESG is inconsistent and fragmented, which makes it difficult to accurately evaluate their ESG performance. This lack of standardisation opens the door for subjective screening, and at times even results in greenwashing – where a fund may appear sustainable on paper, but its actual impact on the ground remains questionable.

### **3. Conformity to the Sustainable Development Goals (SDGs)**

The UN's Sustainable Development Goals (SDGs) are only partly aligned with the SBI ESG Fund. By excluding harmful industries, the fund indirectly supports SDG 3 (Good Health and Well-Being) and also SDG 16 (Peace, Justice, and Strong Institutions). It also uses governance filter which also push for more accountability and transparency. But since the fund doesn't really go out of its way to invest in renewables or climate-focused sectors, its direct impact on SDG 7 (Affordable and Clean Energy) and SDG 13 (Climate Action) is quite limited. So overall, instead of being very proactive or transformative, the fund's SDG alignment feels more indirect and mainly exclusionary.

## **CONCLUSION**

The finance industry has witnessed a significant transformation in the recent years. The SBI Magnum Equity ESG Fund serves as an important illustration of this progress, but also shows its limitations. The fund improves awareness among investors, channel capital into businesses with stronger ethical standards, and also partly contribute to the United Nations Sustainable Development Goals (SDGs). However, several obstacles remain, such as inconsistency of performance, higher cost ratio, and limited allocation to transformative sectors. Issues like greenwashing and irregular ESG measurement further complicates the situation.

Nevertheless, the potential of ESG investments remains very considerable. Sectors like renewable energy, electric mobility, and circular economy models hold long-term value creation possibilities while also supporting social and environmental development. In a context like India, where economic growth objectives are highly interlinked with sustainability challenges, sustainable finance can become an effective instrument for promoting inclusive and resilient development.

In conclusion, even though ESG investing and sustainable finance have their shortcomings but they still mark an important part in modern finance by redefining its definition that money and market should be a good force for people and planet and not just for capital flows i.e. interconnecting capital flow goals with SDGs. But beyond just making big promises, the real challenge is to build practices that are actually impactful, measurable, and transparent. Only then sustainable finance can really bring meaningful change, and not just look good on paper.



## RECOMMENDATIONS

ESG investing and sustainable finance have come a long way from a very small but strong foundation to a very integral part of modern investing. After analysing the case study, it is found that even though they give real benefits like pushing renewable energy, reducing poverty, and aligning with the SDGs but they also have some shortcomings. Things like greenwashing, no proper standardized metrics, and also the constant tension between short term profits and long-term accountability. Going forward, stronger rules, better reporting, and more public awareness will be super important. Finance can actually push sustainable development and act as a driver for more fair and eco-friendly growth, but only if it's used not just for profit but also keeping in mind society and environment.

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