

## From Risk to Resilience: Integrating ESG into Investment Decisions

As global capital flows into emerging markets accelerate, investors are increasingly exposed to unique environmental, social, and governance (ESG) risks and opportunities to create real ESG impact. ESG integration is, therefore, a strategic imperative, as it offers both a risk-management framework and a value-creation tool—especially as these economies transition toward more inclusive and sustainable growth.

Too often, however, ESG is seen narrowly—as a screening tool to weed out “bad actors” or avoid reputational risk. In practice, ESG integration in investment decision-making exists along a spectrum. At one end are strategies that screen investments based on their ESG practices. At the other end are strategies, often called “impact investing”, which are intentional and outcome-driven: these strategies set out to achieve specific, measurable ESG outcomes. Along the spectrum are other general responsible or sustainable investing strategies that seek to mitigate these risks and avoid harms / create sustainable outcomes.



Depending on where an investor’s strategy lies on the spectrum and irrespective of sector, ESG provides a useful framework. Whether it is an agri value chain company working with farmers, a battery-as-a-service provider focused on gig economy participants, or a company providing returnable packing and logistics solutions, applying the ESG lens enables long-term value for stakeholders. It helps investors back companies and business models that reduce agricultural runoff (ie., avoid harm), improve working conditions and earning capacity for delivery personnel (ie., achieve sustainable outcomes), or cut down on single-use packaging waste and enable CO2 mitigation (ie., intentional and measurable positive impact). It thus ensures capital deployment in ways that protect ecosystems, enhance livelihoods, reduce emissions and create durable value.

As ESG becomes more central to capital allocation, stakeholders ranging from family offices to institutional investors, and impact funds are integrating it into their decision-making matrix.

### ***Why ESG Matters Across the Investment Ecosystem***

**Family offices**, especially locally based or regional ones from emerging markets, often manage wealth that is deeply tied to personal and regional legacies. For these investors, ESG is not merely a compliance checkbox but a way to align their investments to their reputation and values. A leading family office from Singapore – the Tsao Family Office – states that their *raison d'être* is *'Investing to Make Things Better'*. They believe that there is never a state of affairs that cannot be improved and, therefore, they strive to create a better social, environmental and financial outcome with their capital. In contexts like India, historically, leading business-owners have focused their **philanthropic initiatives** on improving the lives of the communities that serve, live around or are impacted by their businesses. However, this is gradually shifting towards a more **impact investing** approach. A 2025 [E&Y report](#) found Indian family offices are moving beyond conventional philanthropy and increasingly directing parts of their investable capital toward initiatives that deliver both financial returns and positive social impact. Businesses in industries such as carpets or textiles have made impact investments to support local artisans and women-led ventures. Going beyond their immediate ecosystem, Rainmatter, the family office of Zerodha's founders (a leading fin-tech platform), back companies in fintech, climate, health etc and clearly say that they are *"patient long-term investors and aren't in it for quick exits"*. The EY report also notes that there is a noticeable generational shift in philanthropic interests. Younger members of ultra-high-net-worth Indian families are broadening their focus to include pressing issues like climate change, gender equality, and social injustice, alongside traditional causes such as education and healthcare.

**Institutional investors**, including pension funds, sovereign wealth funds, and endowments, must balance growth opportunities with the regulatory and systemic risks unique to emerging markets — such as climate vulnerability, governance gaps, and regulatory uncertainty. ESG integration helps institutional investors not only mitigate these risks but also align with the rising global standards demanded by co-investors (especially the multilateral and bi-lateral development finance institutions (DFIs) and regulators.

Several leading institutional investors globally have made clear commitments to integrating ESG considerations into their investment strategies. **Norway's Government Pension Fund Global** is a widely recognized ESG leader, actively excluding companies that violate ethical or environmental standards. Pension funds like **Philips Pensioenfond**s have taken steps to align their emerging market investments with the UN Sustainable Development Goals (SDGs). Major insurance and pension providers such as **Aviva**, **Zurich**, **Swiss Re**, and **MAPFRE** have committed to aligning their investment and underwriting portfolios with net-zero targets, often exiting high-carbon sectors like coal. Sovereign wealth funds like **Singapore's Temasek** and **GIC** have established dedicated sustainability platforms and funds focused on climate and green infrastructure.

Among the Indian institutional investors as well, there is a growing trend towards adopting ESG principles in their investment strategies. **ICICI Prudential Life Insurance** was the first Indian insurer to sign the **UN Principles for Responsible Investment (UNPRI)** and has launched

a dedicated ESG-focused fund. Similarly, **Tata AIA** offers a Sustainable Equity Fund through its ULIP products, targeting environmentally and socially responsible businesses. The **Life Insurance Corporation of India (LIC)** has also embedded ESG goals into its operations, claiming contributions to 14 of the 17 UN Sustainable Development Goals (SDGs).

Spanning the ESG integration spectrum, these actions reflect a broader shift among institutional investors toward ESG integration as both a risk management tool and as a value creation tool, including in response to rising stakeholder and regulatory expectations.

For impact funds and investors, who seek intentional and measurable ESG outcomes, ESG integration is part of their very DNA. Applying ESG frameworks helps them track and measure intended outcomes; it also strengthens the impact thesis and facilitates access to blended finance by aligning with the standards of DFIs, philanthropic capital, and other sources of catalytic capital.

Several well-known global impact investment funds have emerged as leaders in combining financial returns with measurable social and environmental impact. **Acumen**, a pioneer in the space, invests in early-stage enterprises tackling poverty in sectors like healthcare, agriculture, and clean energy across South Asia and Africa. As per its 2025 annual report, under its newly scaled *Hardest-to-Reach* initiative, Acumen-backed energy companies reached 165,472 people in 2024, of whom 83% accessed electricity for the first time. **LeapFrog**, which focuses on financial inclusion and healthcare closed its \$1bn+ Fund IV in 2024 which aims to serve 100 million emerging consumers and producers to “build better lives” and has already reached 24 million through five initial companies. **Blue Orchard**, a major impact investor in microfinance and climate reported that the BlueOrchard Microfinance Fund (BOMF) in 2024 reached 52 countries and supported over 900,000 MSMEs in that year alone, with strong gender and rural inclusion: ~77% of end-borrowers were women, and 66% were from rural areas. **ResponsAbility**, channels capital into inclusive finance, renewable energy, and sustainable agriculture in developing countries. In 2024, they report having enabled access to financial services for **~50 million people** in emerging markets and achieved **>1 megatonne CO<sub>2</sub>** emissions saved in the preceding year. These funds not only deliver capital to sectors where it is most needed but also prioritize rigorous impact measurement, aligning with global ESG and SDG goals.

In India, the National Investment and Infrastructure Fund (NIIF) states clearly that it seeks to enable responsible growth through sustainable investments. It released its first consolidated ESG and Impact Report 2024, capturing the outcomes of direct investments and indirect investments through NIIF’s portfolio funds. Among other metrics, it reports that 25 M+ tCO<sub>2</sub>e GHG emissions were avoided, ~1.3 million+ tonnes of solid waste processed, ~340,000 individuals provided with affordable housing due to NIIF investments in FY2024.

### ***Costs of ESG Integration***

ESG integration does come with a range of **costs**, both **direct** and **indirect**. These costs depend on the **depth of integration**, **investment strategy**, **size of the firm**, and **data availability**. Summarised in the table below is a **summary of the various costs** involved in integrating **ESG** into investment decision-making:

Cost	Description
ESG Data Acquisition	Costs for ESG data subscriptions (e.g., MSCI, Sustainalytics, Bloomberg); often high due to multiple providers.
Internal Staffing	Hiring ESG analysts, training investment teams, and expanding compliance/risk staff.
Technology & Systems	Upgrades to portfolio management tools, ESG integration software, and analytics platforms.
Research & Engagement	Time and cost of ESG-focused due diligence, corporate engagement, and proxy voting.
Opportunity Costs	Potential foregone returns from excluding high-performing sectors or companies due to ESG restrictions.
Compliance & Reporting	Meeting regulatory requirements (e.g., SEBI, SFDR, SEC disclosures); producing ESG reports and audits.
Greenwashing Risk Mitigation	Costs of ensuring credibility, avoiding misleading ESG claims, and managing legal or reputational risks.

While there are costs, ESG integration helps mitigate long-term risks, improve resilience, deliver better risk-adjusted returns and in many cases, create measurable positive impact on people and the planet. As such, many asset managers view the upfront ESG cost as a **strategic investment** in long-term value creation. The distinctive advantages of incurring these costs include:

- (a) **Sustainable and Measurable Impact:** Invested capital is used to avoid harm/actively support sustainable outcomes, including the active monitoring of the positive outcomes generated by the solution.
- (b) **Financial Performance:** Many impact investments generate competitive financial returns, disproving the myth that there is always a trade-off between profit and purpose. Over 90% of impact investors report that financial performance has met or surpassed expectations, particularly in private equity and venture capital.
- (c) **Positive Feedback Loop:** When investments in such assets make a financial return, they demonstrate the success of such strategies focused on creating positive social and environmental outcomes, thereby attracting more investments into these

sectors, in turn, giving investors the opportunity to amplify positive impacts over time.

- (d) Market Access and Innovation: Fosters innovation in sectors such as clean energy, microfinance, healthcare, and sustainable agriculture, and creates growth opportunities in markets often overlooked by traditional financing.

### ***The ESG Lens as a Strategic Enabler for Emerging Markets***

Emerging markets are at the epicenter of global megatrends — climate vulnerability, youth population growth, digital inclusion, and urbanization. ESG is not just about reducing harm — it is about building systems that work for the long term in environments defined by volatility, informality, and opportunity.

ESG enables investors to:

- Pre-empt material risks (e.g., regulatory backlash, environmental disruption, community conflict)
- Build trust and legitimacy in markets where institutions may be weak
- Identify high-potential sectors aligned with SDGs and local priorities (e.g., water, waste, fintech, last-mile healthcare)
- Future-proof portfolios in a world of rising expectations around transparency, equity, and sustainability

In the world's fastest-growing economies, ESG is not just foundational, it is a **strategic enabler** of inclusive, sustainable growth in markets where institutions may be weak, infrastructure underdeveloped, and risks multidimensional.