

Impact of Green Finance Awareness and Financial Literacy on Sustainable Investment Decisions among Retail Investors

Lavanya N¹, Supriya P²

¹MBA Student, Surana College (Autonomous), Department of MBA and Research Centre

²Assistant Professor, Surana College (Autonomous), Department of MBA and Research Centre

ABSTRACT

Another very important aspect of sustainable economic development strategy is green finance because it is associated with making certain investment decisions that would yield financial gains as well as environmental-friendly results. Having taken into consideration the importance of the issues like climate change and sustainability, various financial instruments have been developed within the scope of financial industry. These include green bonds, green mutual funds, and sustainable investments. What is important about green finance is the fact that in order to invest in green finance, one must know not only the basics of finance, but also green finance itself. Only a person who is financially literate can make the right decisions to gain profits and preserve the environment at the same time. It is important to know the factors that affect the decision-making process of retail investors making sustainable investments. This is especially important for India.

As opposed to what has been noted above, while there have been various studies undertaken in regard to the effect of awareness levels on green finance and financial literacy on sustainable investments among retail investors in India, there has never been any study done concerning the effect of collective awareness on green finance and financial literacy on sustainable investments among retail investors in India. This research, thus, is conducted in an attempt to try and bridge this research gap.

KEY WORDS: Awareness Level of Green Finance, Financial Literacy, Sustainable Investment Decisions, Retail Investors, Sustainable Finance, Green Investments.

Introduction

The notion of green finance is of vital importance with regard to the sustainability of the economic growth since green finance has a vital role in different forms of investments associated with the environment, utilization of resources, and economic growth in the carbon-free way. There are different forms of green financing which comprise green bonds, ESG funds, sustainable mutual funds, and climate finance when one makes money through investing in the environment.

Green investors are of vital importance for using green financial instruments since the decision-making of the green investors creates the sustainable financial market. The decisions made by the green investors to make use of green financial instruments are highly dependent on the knowledge of green finance and the financial literacy of the green investors. Green Finance Awareness allows understanding the benefits from the sustainable investments, whereas Financial Literacy allows evaluating the investment options. Even though there have been various studies carried out individually about the Green Finance Awareness and Financial Literacy, there has been little attention paid to the impact of these two factors on Sustainable Investment Decision Making. This study is aimed at filling the gap in the literature by analyzing the impact of Green Finance Awareness and Financial Literacy on investments.

Research Objectives

- To examine the impact of Green Finance Awareness on Sustainable Investment Decisions among Retail Investors.
- To analyse the influence of Financial Literacy on Sustainable Investment Decisions among Retail Investors.

Review of Literature

1. Azad, 1. Tulasi Devi & Mishra (2024): "Investing in Our Planet: Factors Affecting the Preference of Individual Retail Investors for Investing in Green Bond"

As per the above mentioned research work of the researchers, an attempt has been made to find out the factors which affect the preference of individual retail investors to invest in green bonds in India. The above mentioned research has been carried out through the theoretical framework of planned behavior and PLS-SEM approach. The factors found out through the above research are environment concern, awareness, trust and financial gains of individual retail investors to invest in green bonds.

DOI: <https://doi.org/10.1002/bse.3743>

2. Prajapati, Paul, Malik & Mishra (2021): "Factors Determining the Preference of Retail Investors for Green Bond in India: An Empirical Study"

This is the research which has been carried out by the researchers to find out the factors which affect the preference of individual retail investors to invest in green bonds in India. As per the above research, an empirical study has been carried out by the researchers to find out the factors which influence the decision making of individual retail investors. These factors include environment concern, awareness and financial gain. Financial education would create awareness among the investor.

DOI: [https://doi.org/10.21511/imfi.18\(1\).2021.15](https://doi.org/10.21511/imfi.18(1).2021.15)

3. Mishra, Bansal & Maurya (2023) – "Investing for a Better Tomorrow: Values-Driven Antecedents of Investment in Socially Responsible Equity Funds by Indian Retail Investors"

In this article, the authors have studied the role of values and environment in investment decision making. It was seen from the study that people having many environmental values choose SRI funds for investing.

DOI: <https://doi.org/10.1016/j.jclepro.2023.138441>

4. Mehta, Singh, Mittal & Singla (2022) – "Is Knowledge Alone Enough for Socially Responsible Investing?"

This paper has described the effect of financial knowledge on socially responsible investments. As per the findings of the research, financial knowledge positively affects the choice of sustainable financial products.

DOI: <https://doi.org/10.1108/QRFM-11-2020-0218>

5. Singh, Mittal, Mehta & Singla (2021) - "Personal Values as Drivers of Socially Responsible Investments"

The article mentioned above provides the reader with information about the role of personal values as the factor influencing socially responsible investments. Additionally, this study explores the impact of such factors as financial literacy and ethics on socially responsible investments.

DOI: <https://doi.org/10.1108/RBF-04-2020-0066>

6. Thanki, Shah, Rathod, Oza & Burduhos-Nergis (2022) – "Intention of Individual Investors towards Socially Responsible Investments"

The article provided above covers the issue of individual investor intentions concerning socially responsible investments. According to this study, the reason why the intention of individual investors to invest money in socially responsible investments arises is due to the fact that the financial outcomes of these investments are not compromised.

DOI: <https://doi.org/10.3390/su141811377>

7. Jonwall, Gupta & Pahuja (2022) – "Investment Behavior of Individual Investors in Socially Responsible Investments: Evidence from India"

This research paper analyzes the investment behavior of individual investors in socially responsible investments. From the above research paper, it has been seen that environmental awareness, investing knowledge, and attitude of individuals significantly affect the investment behavior of individuals.

DOI: <https://doi.org/10.1108/RBF-05-2021-0099>

8. Rasoolimanesh et al. (2023) – "Why Do Individual Investors Make Green Investments?"

In the above research paper, the motive for making the green investment of retail investors has been analyzed using behavioral analysis. The key factors found from the above research paper are environmental awareness, financial knowledge, and sustainability concerns.

DOI: <https://doi.org/10.1016/j.jebo.20>

Research Gap

As per the literature reviewed above, it is clear that the themes associated with Green Finance Awareness and Financial Literacy are of paramount importance when it comes to decision-making for sustainable investments. There have been many researches conducted by different researchers in connection with green finance awareness, environmental awareness, financial literacy, and green finance products preference. However, very few research papers are available with regard to both these themes.

Hypotheses

To examine the impact of Green Finance Awareness on Sustainable Investment Decisions among Retail Investors.

- Null Hypothesis (H_0): The effect of green finance awareness on the sustainable investment decisions of retail investors is not statistically significant.
- Alternative Hypothesis (H_1): The effect of green finance awareness on the sustainable investment decisions of retail investors is statistically significant.

To analyse the influence of Financial Literacy on Sustainable Investment Decisions among Retail Investors.

- Null Hypothesis (H_0): The effect of financial literacy on the sustainable investment decisions of retail investors is not statistically significant.
- Alternative Hypothesis (H_1): The effect of financial literacy on the sustainable investment decisions of retail investors is statistically significant.

Methodology of Research

Research Methodology: Descriptive Research Methodology (Quantitative Approach)

Type of Data: Primary Data

Data Collection Methodology: Structured Questionnaire (Five Point Likert Scale)

Sample Size: 199 Retail Investors

Respondent: Retail Investors

Analysis Tools: Simple Linear Regression Analysis (To examine the effect of Financial Literacy on Sustainable Investment Decision of Retail Investors) and One Way ANOVA (To Examine the effect of Green Finance Awareness on Sustainable Investment Decision of Retail Investors)

One Way ANOVA and Analysis

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
Awareness about the concept of Green Finance.	199	487	2.447236	0.80402
Have you invested in any Green Financial Product?	199	222	1.115578	0.102736

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
---------------------	----	----	----	---	---------	--------

Between Groups	176.4447	1	176.4447	389.178	0.00	3.865048
Within Groups	179.5377	396	0.453378			
Total	355.9824	397				

ANOVA Results Interpretation:

From the output of One-Way ANOVA, it is seen that the F value is 389.178 and the p-value is 0.000, which is lower than the significance level of 0.05. Additionally, the F value of 389.178 is higher than the critical F value of 3.865. Since the p-value is less than 0.05, the null hypothesis is rejected while the alternative hypothesis is accepted.

Data analysis and interpretation: Regression

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.298
R Square	0.089
Adjusted R Square	0.079
Standard Error	1.056
Observations	199

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	2	21.277	10.639	9.535	0.0001
Residual	196	218.68	1.1157		
Total	198	239.96			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	1.276	0.2246	5.6827	0.00	0.8334	1.71933	0.8334	1.7193
Willingness to support eco-friendly investment opportunities	0.224	0.0821	2.7236	0.01	0.0617	0.38547	0.0617	0.3855

Green

Financial

Products are

considered

trustworthy

investment

options.	0.203	0.082	2.4718	0.01	0.0409	0.36418	0.0409	0.3642
----------	-------	-------	--------	------	--------	---------	--------	--------

Interpretation:

According to the regression analysis conducted on 199 respondents, it can be interpreted that willingness to support eco-friendly investments and trust in green financial products have a great effect on sustainable investment decision making. The model is significant ($F = 9.535$, $p = 0.0001$) and 8.9% of variance in investment decision can be explained by the two factors. The impact of both is positive and significant; Willingness to support eco-friendly investments and Trust in Green Financial Products have beta values of 0.224 and 0.203, respectively.

Findings

- There is a positive association between Green Finance Awareness and Sustainable Investment Decisions.
- The financial literacy of an individual is one of the important variables that help determine the Sustainable Investment Decisions.
- If an individual has high levels of awareness and knowledge about all aspects of life, then he/she will make investment decisions associated with green finance.
- From the above findings, it can be observed that both Green Finance Awareness and Financial Literacy play a crucial role in making sustainable investments.
- The importance of making people aware and financially literate for making sustainable investments in green finance is well illustrated in this study.

Conclusion

And that is why nowadays there are many researches done in order to analyze the influence of Green Finance Awareness and Financial Literacy on Sustainable Investment Decisions made by retail investors. It is necessary to emphasize the fact that it is really important to highlight that Green Finance Awareness and Financial Literacy play a very important role in making sustainable investment decisions by retail investors. Retail investors with high levels of Green Finance Awareness and Financial Literacy tend to make decisions about green financial products and sustainable investments.

Thus, to sum up, it is necessary to say that the results of statistical analysis show that there is a positive correlation between Green Finance Awareness and Sustainable Investment Decisions and the impact of Financial Literacy on behavior of investors. That is why it is really important to raise the level of awareness and financial literacy of retail investors.

Limitations of the Study

- The research has been done only for the retail investors, and no other type of investors has been included in this study.
- The research has used primary data that could be influenced by the personal opinions of the respondents.
- The research has been conducted in certain regions, and hence, the outcomes of the research cannot be generalised to other regions.
- The total number of respondents involved in this research was 199.

Suggestions

- There is a need for financial institutions to create awareness regarding the green financial instruments among investors through education and marketing campaigns.
- The financial literacy program should be strengthened so that retail investors can make an informed choice while making investments.
- The government should encourage the use of green financial instruments through policies and incentives.
- The financial institutions should provide easily understandable information regarding green investment options.

References (APA 7th Edition)

1. Azad, S., Tulasi Devi, S. L., & Mishra, A. K. (2024). *Investing in our planet: Examining retail investors' preference for green bond investment*. **Business Strategy and the Environment**, 33(6), 5151–5173. <https://doi.org/10.1002/bse.3743>
2. Jonwall, R., Gupta, S., & Pahuja, S. (2022). *Socially responsible investment behavior: A study of individual investors from India*. **Review of Behavioral Finance**, 15, 865–888. <https://doi.org/10.1108/RBF-05-2021-0099>
3. Mishra, A. K., Bansal, R., & Maurya, P. K. (2023). *Investing for a better tomorrow: Values-driven antecedents of investment in socially responsible equity funds by Indian retail investors*. **Journal of Cleaner Production**, 420, 138441. <https://doi.org/10.1016/j.jclepro.2023.138441>
4. Piñeiro-Chousa, J., López-Cabarcos, M. Á., Caby, J., & Šević, A. (2021). *The influence of investor sentiment on the green bond market*. **Technological Forecasting and Social Change**, 162, 120351. <https://doi.org/10.1016/j.techfore.2020.120351>
5. Prajapati, D., Paul, D., Malik, S., & Mishra, D. K. (2021). *Understanding the preference of individual retail investors on green bond in India: An empirical study*. **Investment Management and Financial Innovations**, 18(1), 177–189. [https://doi.org/10.21511/imfi.18\(1\).2021.15](https://doi.org/10.21511/imfi.18(1).2021.15)
6. Rasoolimanesh, S. M., Ringle, C. M., Sarstedt, M., & Olya, H. G. T. (2023). *Why do retail investors pick green investments? A lab-in-the-field experiment with crowdfunders*. **Journal of Economic Behavior & Organization**, 209, 74–90. <https://doi.org/10.1016/j.jebo.2023.02.023>

-
7. Riedl, A., & Smeets, P. (2017). *Why do investors hold socially responsible mutual funds?* **The Journal of Finance**, 72(6), 2505–2550. <https://doi.org/10.1111/jofi.12547>
 8. Singh, M., Mittal, M., Mehta, P., & Singla, H. (2021). *Personal values as drivers of socially responsible investments: A moderation analysis.* **Review of Behavioral Finance**, 13(5), 543–565. <https://doi.org/10.1108/RBF-04-2020-0066>