© INTERNATIONAL JOURNAL FOR RESEARCH PUBLICATION & SEMINAR
ISSN: 2278-6848 | Volume: 14 Issue: 05 | October - December 2023
Refereed & Peer Reviewed

Investigating the Impact of Financial Literacy on Sustainable Investment in India

Nitish Singhal,
Research Scholar, NICE School of Business Studies,
Shobhit Institute of Engineering & Technology, Deemed to-be-University, Meerut
Dr. Anuj Goel, Professor,
NICE School of Business Studies,
Shobhit Institute of Engineering & Technology, Deemed to-be-University, Meerut

Abstract
In this study, we investigate the impact of financial literacy on sustainable investment practices in India, a burgeoning area of interest in a rapidly evolving economic landscape. Employing a mixed-method research approach, including surveys and data analysis, we aim to uncover the extent to which financial literacy influences individual and institutional investment decisions towards sustainable ventures. Preliminary findings suggest a significant correlation between financial literacy levels and the propensity to engage in sustainable investments. This study not only sheds light on the critical role of financial education in shaping sustainable investment behaviors but also underscores the potential of informed investing in driving India's sustainable development goals. The implications of this research are far-reaching, offering valuable insights for investors, policymakers, and educators, as they collaboratively seek to enhance financial literacy and promote environmentally and socially responsible investment practices in India.

Keywords: Financial Literacy, Sustainable Investment, India, Investor Behavior, Economic Development, Environmental Responsibility, Socially Responsible Investing

Introduction

With regard to the realm of emerging markets, India offers a one-of-a-kind case study for the purpose of investigating the intersection of financial literacy and sustainable investment. This intersection is becoming an increasingly important nexus in the global shift toward responsible economic techniques. The purpose of this paper is to investigate the ways in which the level of financial literacy among Indian investors, which includes their comprehension of financial products, markets, and risks, influences their proclivity towards sustainable investments, which take into account environmental, social, and governance (ESG) criteria. In spite of the fact that the Indian economy is expanding at a fast rate, the road that it takes towards sustainable growth is determined by the financial choices that its population makes, and financial literacy is an essential factor in this process. Given India's growing emphasis on green finance and corporate social responsibility, this study aims to bridge the research gap by investigating the correlation between an investor's knowledge and their sustainable investment choices. This is a topic that is of significant relevance given India's growing recognition of the importance of those two concepts. It is anticipated that the findings will provide insightful implications for policymakers, educators, and investors, thereby contributing to a more comprehensive understanding of how improved financial literacy can not only lead to more informed investment decisions but also to a more sustainable economic future for India. In light of the fact that the nation is now at a crossroads between economic growth and sustainable development, this investigation is especially pertinent since it has the potential to establish a precedent in the international financial architecture.

Contextualizing Sustainable Investment

A paradigm change in the global financial landscape, sustainable investing is gaining pace as it intertwines economic development with environmental stewardship, social responsibility, and corporate governance. This is a paradigm shift that allows for a more sustainable financial landscape. The goal of this notion, which goes beyond the conventional criterion for investing, is to provide long-term financial returns while simultaneously creating beneficial society effect. Sustainable investment is not just a trend in India, which is a rapidly developing economy with a growing middle class. Given the country's unique challenges, such as environmental degradation, resource scarcity, and social inequality, sustainable investment is not just a trend but a necessity in India. The Indian market, which has historically been defined by a concentration on short-term returns, is now undergoing a dramatic movement towards practises that are focused on sustainability. This transition is being pushed by a rising awareness among investors as well as governmental demands. This shift is further accelerated by the assistance provided by the government in the form of programmes such as the National Action Plan on Climate Change and the focus placed on Sustainable Development Goals (SDGs). Furthermore, the incorporation of Environmental, Social, and Governance (ESG) factors into investment decisions reflects an evolving understanding among Indian investors that sustainable practises can lead to improved risk management and potentially higher returns in the long run. This understanding is reflected in the fact that ESG factors are being incorporated into investment decisions. This paradigm change, which is representative of a larger global trend, places India at the vanguard of a revolution in sustainable investing. As a result, it presents a strong argument for investigating the role that financial literacy plays in this transformation.

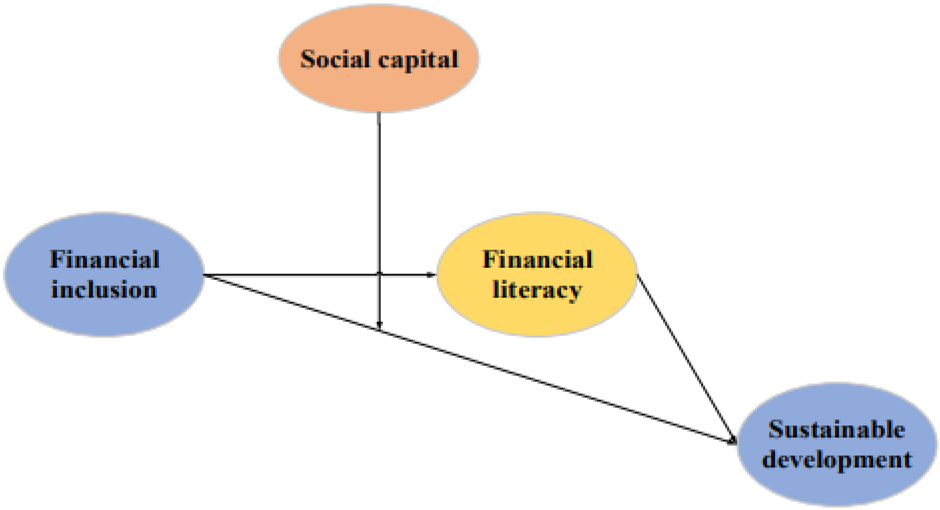
Financial Literacy: A Cornerstone for Investment Decisions

Having a solid understanding of finances, which is essential for making intelligent choices about investments, is becoming more acknowledged as an essential ability in the contemporary economic environment, particularly in the context of developing countries such as India. A complete grasp of financial concepts and products, as well as the capacity to handle the intricacies of investment possibilities, risks, and returns, are all included in this. Enhancing financial literacy is not just about increasing individual financial well-being in India, where a considerable section of the population continues to be unbanked or underbanked, but it is also about supporting wider economic development and stability within the country. Individuals who have a better level of financial literacy are greater in their ability to make educated decisions on retirement planning, investments, and savings, which in turn contributes to the development of financial markets that are more robust and diverse. Furthermore, in this day and age, when sustainable investing is becoming increasingly important, the significance of financial literacy extends to understanding the influence that investments have on the results of other areas, such as the environment and society. Investors who have received enough education are more likely to participate in sustainable practises because they are aware of the long-term rewards and dangers connected with environmental, social, and governance (ESG) aspects. Therefore, financial literacy in India has a dual purpose: it promotes personal financial health and it aligns investment choices with sustainable development objectives, which eventually contributes to an economic system that is more robust and responsible.

Source: Financial Literacy

Linking Financial Literacy and Sustainable Investment

The nexus between financial literacy and sustainable investment represents a crucial juncture in contemporary finance, particularly in rapidly developing economies like India. “Financial literacy, defined as the ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing, plays a pivotal role in shaping an individual's investment choices. In the context of sustainable investment, which involves making investment decisions based on not only financial returns but also environmental, social, and governance (ESG) criteria, financial literacy becomes even more critical. A well-informed investor, equipped with a comprehensive understanding of financial products and markets” is more likely to appreciate the long-term value and impact of sustainable investments. Such investors are not only guided by traditional financial indicators but also consider the broader impact of their investments on societal and environmental well-being. In India, where the concept of sustainable investment is still evolving, heightened financial literacy can bridge the gap between conventional investing and socially responsible investment choices. This awareness can lead to a more thoughtful allocation of resources, aligning personal financial goals with the collective goal of sustainable development. Therefore, enhancing financial literacy is key to fostering a culture of sustainable investment, crucial for India's trajectory towards a balanced and resilient economic future.



Source: A proposed conceptual model.

Technological Advancements and Digital Literacy

The availability of financial information, its processing, and its use have all been revolutionised as a result of technical breakthroughs and digital literacy, which have become an intrinsic part of the financial landscape in this age of digitalization. These technological breakthroughs are having a huge influence on the financial literacy and investing habits of people in India, a nation that is undergoing a fast digital revolution. The democratisation of access to financial services has been brought about by the general availability of smartphones, the extensive accessibility of the internet, and the introduction of advances in the field of fintech. This has made these services more accessible to a larger public. Digital platforms are making complicated financial concepts easier to understand, delivering data in real time, and providing individualised investment advice, all of which contribute to an overall improvement in the level of financial literacy among consumers. This digital empowerment creates the opportunity for investors, particularly the younger generation that is proficient in technology, to make financial choices that are more informed and autonomous. Investors are able to easily research and evaluate the environmental and social impacts of their investment choices thanks to the availability of digital tools and resources, which not only facilitate a deeper understanding of sustainable investment options but also make it easier for investors to do so. Increasing levels of digital literacy are conducive to the development of a more proactive and responsible attitude to investing, which helps to connect financial objectives with sustainable results. This change is especially noteworthy in India, where digital literacy is not only influencing more intelligent investment decisions but also driving the momentum towards a financial ecosystem that is more inclusive and sustainable.

Literature Review

(Sharma & Johri, 2014) studied “Learning and empowerment: Designing a financial literacy tool to teach long-term investing to illiterate women in rural India” and said that This research aims to address the educational needs of the world's nearly one billion illiterate individuals, particularly women. It is an example of a financial education resource that teaches pupils the value of saving and investing for the future. The study highlights the need of developing instructional tools based on real-world problems and local situations, which enhances our understanding of how people learn. Learning is best defined as the development and implementation of contextual practises, and education has a major influence on society's advancement.

(Ye & Kulathunga, 2019) studied "How Does Financial Literacy Promote Sustainability in SMEs? A Developing Country Perspective" and said thatSmall and medium-sized enterprises (SMEs) in Sri Lanka are the focus of this study, which investigates their financial well-being, loan accessibility, and risk tolerance. The study's 291 CFOs found that financial literacy had a favourable effect on sustainability. There was a correlation between financial literacy and both a willingness to take financial risks and access to capital. It was shown that financial risk attitude and availability to capital moderated the relationship between financial literacy and the sustainability of SMEs, but only to a lower degree. Researchers have both theoretical and practical implications for policymakers, academics, and business professionals interested in assisting SMEs in becoming more sustainable.

(D.A.T. et al., 2020) studied "The Impact of Financial Literacy on Women's Economic Empowerment in Developing Countries: A Study Among the Rural Poor Women in Sri Lanka" and said that The World Bank states that attaining sustainable development and the Millennium Development Goals (MDGs) depends on empowering women. Economic empowerment impacts women's decision-making capacity and their financial stability. Financial literacy—the ability to manage one's own money well—is a key component in women's economic empowerment. Among the rural poor in Sri Lanka, this study looks at nine different regions to see how financial literacy has affected low-income families. The study checked the validity of its 25 items for important factors and 24 questions for women's economic empowerment using Cronbach's Alpha coefficients.

(Lotto, 2020) studied "Towards Improving Households' Investment Choices in Tanzania: Does Financial Literacy Really Matter" and said that This study examines the relationship between family investment choices and financial literacy using secondary data derived from the FinScope survey (2017). With high levels of financial awareness, families are shifting their investment focus from informal groupings to more official platforms, according to the report. According to the poll, which also highlights the socio-demographic features of families, there is a large discrepancy in financial literacy among adults. Findings suggest that if Tanzania aspires to join the ranks of the middle-income nations, it must overhaul its agricultural sectors. Additionally, it proposes programmes to assist students in developing a financial literacy beginning in their early adolescent years of high school.

(Haleem, 2022) studied "exploring the critical effect of financial literacy on sustainable business performance in the context of firm performance of smes in sri lanka" and said that This study aims to examine the relationship between the Financial Literacy (FL) of small and medium-sized enterprises (SMEs) and their capacity to succeed in the long run (SMEs). Using the Resource-Based View paradigm, a survey was administered to around 260 SMEs in Sri Lanka. When financial literacy traits (KNOW, SKIL, and ATTI) were included, small and medium-sized businesses (SMEs) performed better in the marketplace. However, the use of money did not alter the course of events. By demonstrating how FL may assist restore long-term company success via improved performance, the study provides useful data for owner managers.

(Pandey et al., 2022) studied "Investigating the Impact of Financial Inclusion Drivers, Financial Literacy and Financial Initiatives in Fostering Sustainable Growth in North India" and said that This study "investigates the relationship between long-term economic growth and financial literacy, FI, and financial activity. It states that digitalization, technology, and consumerism are the drivers of the Internet of Things (FI). In this study, we use PLS-SEM modelling to assess the direct and indirect effects of the FI variables on CSD. Consumption, digitalization, and FinTech were identified as significant drivers of

FI. Furthermore, the study's findings highlight the need of financial literacy in maximising the impact of FI” drivers on sustainable development.

(Thakur, 2022) studied “an evaluation of the impact of financial literacy programmes on financial decision-making and investment decision-making among participants” and said that Researchers wanted to know how financial literacy programmes (FLPs) in Punjab, Himachal Pradesh, and Chandigarh affected participants' investment decisions and other financial behaviours. The results showed that after attending FLPs, individuals made better decisions about their money and investments. This demonstrates that stakeholders, regulators, and governments have the potential to convene workshops to improve future investment and financial planning decisions. The study highlights the need for more research, its limitations, and policy consequences.

(Ahamed & Ahammed, 2023) studied “Revolutionizing investment: Exploring investor perceptions and attitudes towards impact investing in Hyderabad, India” and said that As many as 70% of “Hyderabad, India, investors are aware of impact investing, and an additional 69.80% believe it has the potential to provide financial and social returns. Age, wealth, and values are some of the characteristics that significantly affect their viewpoints. For its adoption rate to increase”, investors must be educated about its potential and encouraged to consider ESG (environmental, social, and governance) concerns.

(Cucinelli & Soana, 2023) studied “Investor preferences, financial literacy and intermediary choice towards sustainability” and said that The research delves into the preferences of Italian people as retail investors regarding socially responsible financial intermediaries. This study shows that those who are financially literate and who indicate a strong preference for SR investments are the ones most likely to use these middlemen. This choice is, however, adversely affected by an individual's financial attitude toward saving and spending.

(Rana et al., 2023) studied “Will Prosocial Behavior influence Intentions of Indian Investors to join Socially Responsible Investment” and said that This study examines the impact of investors' prosocial activity on their intentions to participate in socially responsible investing across all of India's states. Information was retrieved from 216 participants by use of PLS SEM software. Perceived consumer efficacy, behavioural control, and financial success are investors' motivations to engage in socially responsible investment, according to the data. The main objective of the study is to establish a connection between prosocial activities and the Theory of Planned Behavior.

(Raza et al., 2023) studied “Sustaining Performance of Wheat–Rice Farms in Pakistan: The Effects of Financial Literacy and Financial Inclusion” and said that Global food insecurity is a direct outcome of the devastating impact that increasing emissions of greenhouse gases have had on the agricultural sector. Emerging economies struggle to achieve sustainable development due to inefficient practises and limited access to financial services. A study found that small-scale farmers in Pakistan were able to keep up their performance by improving financial inclusion and literacy. Building confidence in agricultural extension services is crucial for sustainable farm performance. It helps to reduce the impact of factors including knowledge, attitude, behaviour, access, usage, quantity, and welfare. More public confidence in financial institutions is necessary for sustainable agriculture.

(Yucel et al., 2023) studied “Sustainable Investment Attitudes Based on Sustainable Finance Literacy and Perceived Environmental Impact” and said that This study examines the relationship between sustainable financial literacy, perceived environmental impact, and sustainable investment attitudes in Ankara, Turkey. Researchers found that those who put their money into environmentally friendly financial products are more likely to be knowledgeable and satisfied with their decision. Based on the findings, financial institutions and regulatory bodies should enhance promotional programmes and seminars to increase understanding of sustainable finance literacy and its impact on the environment.

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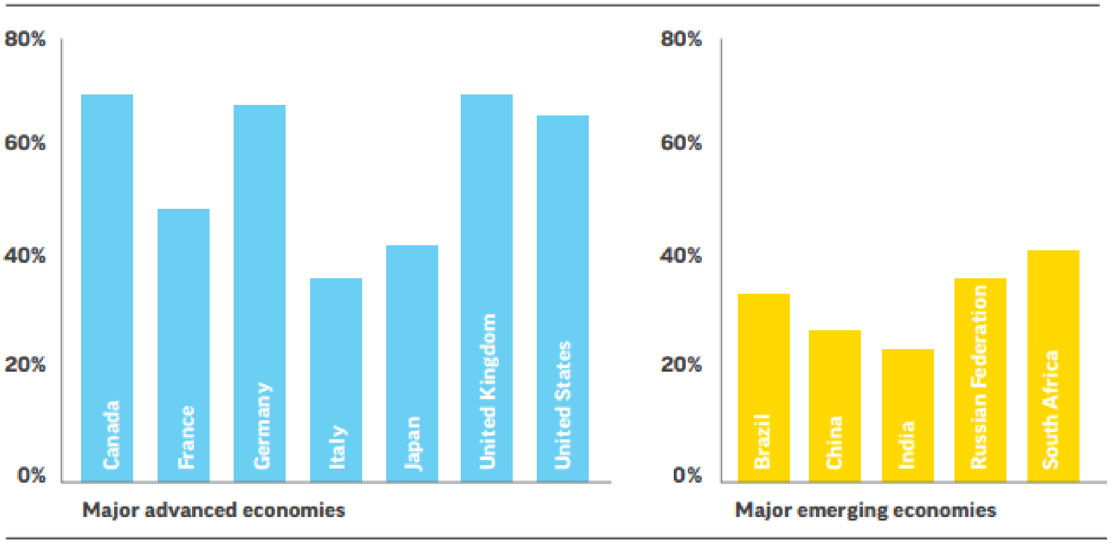
The Importance of Financial Literacy in India

India is one of the most crucial marketplaces for firms to operate in, and it is also one of the most important international markets. Within the context of their business operations, international corporations see the country's enormous population as an asset that they may use to their advantage. It is a commonly held belief that India has emerged as a leading location in the area of information and communication technology. Bangalore, in particular, has been referred to as the Silicon Valley of India. The amount of foreign investments has been continuously growing, and a considerable number of Indian businesses have extended their operations to include activities in other countries. This trend is expected to continue. It is anticipated that this pattern will continue. India's economy is rapidly becoming one of the most rapidly increasing economies in the world, and it is one of the economies that is growing at the quickest rate in the globe. On the other side, a sizeable majority of Indian firms, small manufacturers, and entrepreneurial endeavours are unable to achieve the level of success that they had envisioned for themselves. Although we have made significant advancements in terms of both production capacity and technological advancement, the bulk of Indian firms fail due to poor financial management. This is the case despite the fact that we have made significant progress. Despite the fact that we have achieved great progress, this is the situation that we find ourselves in. As shown by the census that was completed in 2011, only a very small percentage of people are aware of the significance of financial literacy. This is despite the fact that seventy-four point four percent of the whole population is literate.

High Rates of Financial Illiteracy in India

REPRESENTATION 1: “Percentage of Financial Literacy in Developed and Emerging Economies”.



Source: S&P Global Fin Lit Survey by GFLEC

Table 1: State-wise level of Financial Literacy in India (2015)

Name of the State	General Literacy (in Percentage)	Financial Literacy (in Percentage)
Andhra Pradesh	60	23
Arunachal Pradesh	55	10
Assam	61	20
Bihar	50	8
Chhattisgarh	60	4
Goa	80	50
Gujarat	68	83
Harayana	65	21
Himachal Pradesh	73	16
Jharkhand	56	15
Karnataka	67	25
Kerala	84	36
Madhya Pradesh	59	23
Maharashtra	73	17
Manipur	69	36
Meghalaya	60	24
Mizoram	77	6
Nagaland	68	8
Odisha	64	9
Punjab	67	13
Rajasthan	56	20
Sikkim	73	8
Tamil Nadu	72	22
Tripura	67	21
Uttar Pradesh	57	10
Uttarakhand	68	23
West Bengal	67	21

Table 2: Union -Territories wise level of Financial Literacy in 2015

Name of the Union Territory	General Literacy (in Percentage)	Level of Financial Literacy (in Percentage)
Andaman and Nicobar Island	82.43	14
Chandigarh	81.19	38
Daman And Dui	79.55	29
Dadra And Nagar Haveli	64.32	31
Delhi	80.76	32
Puducherry	80.67	21
Lakshwadeep	87.95	22

According to the findings of the research that was prepared by the Global Financial Literacy Excellence Center, just twenty-four percent of the adult population in India has a basic understanding of financial matters. When compared to other important emerging economies, India has the lowest rate of financial literacy among the majority of the nations that are considered to be developing. Those responsible for this situation are the disparities that exist across states, in addition to a deficiency in formal education and information. In spite of the fact that individuals in other emerging countries have better levels of financial literacy, there is still opportunity for additional improvement in this particular sector.

Table 1 and Table 2 provide the levels of financial literacy in India, with each table displaying the breakdown of the levels according to the state and union territory correspondingly. “In urban areas like as Maharashtra, Delhi, and West Bengal, the proportion of individuals who are financially literate is 17 percent, 32 percent, and 21 percent, respectively. These figures are found in the relevant percentages. States like Bihar, Rajasthan, Jharkhand, and Uttar Pradesh, which are marked by widespread poverty, have low literacy rates. These states also have a number of other characteristics”

Different patterns may be seen across the states, as shown by the numbers. Going from having the lowest literacy rate of 4 percent to having the highest literacy rate of 50 percent, Chhattisgarh has the lowest literacy rate of 4 percent and the highest literacy rate of 50 percent. The state of Chhattisgarh likewise has a low level of financial education.

Conclusion

The study emphasizes the importance of financial literacy in guiding investors towards sustainable investment choices in India. It highlights the need for policymakers, educators, and financial institutions to enhance financial education, particularly in digital literacy and understanding of sustainable investment principles. The synergy between financial literacy and sustainable investment will shape India's financial landscape as the country evolves economically and technologically. The study calls for action from various stakeholders to prioritize financial education and sustainable investment practices, contributing to the broader goal of sustainable development and economic resilience in India.

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