

Sustainable Finance and Investment Behavior: An Empirical Study of Young Investors in India

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Abstract:

Sustainable finance has emerged as a crucial dimension of global financial markets, emphasizing environmentally and socially responsible investment decisions. In India, where the financial ecosystem is rapidly expanding, young investors play a vital role in shaping the future of responsible investment. This study investigates the awareness, willingness, and preferences of 250 young investors aged between 21 and 35 years with respect to sustainable finance products such as green bonds, ESG mutual funds, renewable energy stocks, and sustainable exchange-traded funds (ETFs). Using a structured survey method, the research explores the relationship between awareness levels and investment behavior. The findings reveal that while awareness is steadily increasing, willingness to invest depends on perceived returns and trust in financial instruments. The results have significant implications for policymakers, financial institutions, and educators to design strategies that promote sustainable investment practices in India.

Keywords: Sustainable finance, young investors, ESG, green bonds, investment behavior, India

1. Introduction:

The financial markets of the 21st century are undergoing a paradigm shift toward sustainability. Investors, especially the younger generation, are becoming more conscious of the environmental and social implications of their financial decisions (Bansal & DesJardine, 2022). Sustainable finance broadly refers to investment practices that integrate environmental, social, and governance (ESG) considerations into financial decision-making. These practices are not only aimed at generating economic returns but also at fostering long-term societal and ecological benefits (Nandha & Smyth, 2021).

India, being one of the fastest-growing economies, has witnessed a surge in both financial inclusion and sustainable investment opportunities. According to the Reserve Bank of India (2023), the issuance of green bonds in the Indian market has steadily increased in the last five years,

indicating the growing importance of sustainability-linked finance. Young investors, particularly those aged 21 to 35 years, represent a dynamic segment that is willing to explore innovative investment avenues, including ESG mutual funds, green bonds, and renewable energy-linked instruments (PwC India, 2022).

However, despite the global momentum around sustainable finance, there exists a gap in awareness and adoption among young Indian investors. Several factors, such as risk perception, return expectations, and limited financial literacy, continue to influence investment behavior (Sharma & Gupta, 2020). Understanding these factors becomes crucial in designing effective financial products and policies to accelerate the growth of sustainable finance in India.

This research seeks to empirically study the awareness, willingness, and preferences of young Indian investors toward sustainable finance products. By analyzing survey data from 250 respondents, this paper aims to identify investment patterns, interpret behavioral trends, and provide policy-level recommendations for expanding sustainable finance in India.

2. Literature Review:

2.1 Awareness of Sustainable Finance-

The awareness of sustainable finance among investors has been a subject of growing academic and industry research. Studies highlight that younger investors are more inclined to consider sustainability factors in their financial decisions (OECD, 2020). However, awareness levels vary significantly across regions. In India, financial literacy related to ESG and green finance remains relatively low compared to developed nations (Sharma & Gupta, 2020). Recent surveys conducted by Deloitte (2022) suggest that while 60% of young professionals have heard about ESG investments, less than 30% have actively explored them as an investment option.

2.2 Investor Behavior and Sustainable Finance- Investment behavior is shaped by both financial and psychological factors. According to Statman (2019), socially responsible investment (SRI) decisions are often driven by values and ethics rather than mere returns. In the Indian context, studies by Kumar and Sahu (2021) indicate that young investors prioritize short-term returns but are gradually developing an affinity for long-term sustainable investments. Behavioral finance theories also suggest that millennials are willing to accept slightly lower returns in exchange for contributing to environmental sustainability (Bansal & DesJardine, 2022).

2.3 ESG Adoption in India-

The Indian financial market has taken significant steps toward ESG integration. Regulatory bodies such as SEBI have mandated top-listed companies to publish Business Responsibility and Sustainability Reports (BRSR) (SEBI, 2021). According to PwC India (2022), ESG mutual funds have witnessed a 35% annual growth rate in investor participation since 2020. Despite these positive trends, accessibility and trust remain challenges. Studies by Chaturvedi and Mehta (2022) found that young investors in Tier-II and Tier-III cities have limited exposure to ESG-linked financial products due to lack of information and awareness campaigns.

2.4 Global Perspectives on Sustainable Finance-

Globally, sustainable finance has emerged as a mainstream investment practice. The European Union's taxonomy on sustainable activities and the United Nations' Principles for Responsible Investment (UNPRI) have accelerated ESG adoption (UNPRI, 2021). Research by Friede, Busch, and Bassen (2018) established a positive correlation between ESG integration and financial performance, encouraging more institutional investors to adopt sustainability strategies. In Asia, countries such as Japan and Singapore have witnessed rapid growth in green bond markets and ESG-focused investments (Nguyen & Tanaka, 2021). These international benchmarks provide valuable lessons for India in scaling up its sustainable finance ecosystem.

2.5 Research Gap-

Although there has been considerable research on sustainable finance globally, limited empirical studies focus exclusively on the perceptions and behavior of young Indian investors. Existing studies have often concentrated on institutional investors or general market trends, leaving a gap in understanding how Millennials and Gen Z in India perceive sustainable finance. This study aims to fill that gap by analysing survey data from 250 young investors to capture their awareness, willingness, and preferences for sustainable finance products.

3. Research Objectives, Hypotheses, and Methodology

3.1 Research Objectives-

This study is guided by the following objectives:

1. To examine the awareness of young investors (aged 21–35 years) in India regarding sustainable finance and ESG-linked investment options.
2. To analyse the investment behavior of young investors in relation to green bonds, ESG funds, and other sustainability-oriented financial products.
3. To evaluate the willingness of young investors to invest in sustainable finance despite potential lower short-term returns.
4. To investigate the influence of financial literacy and trust on young investors' decisions toward sustainable finance.
5. To provide managerial and policy recommendations for enhancing the adoption of sustainable finance among young investors in India.

3.2 Hypotheses-

Based on the objectives and literature review, the following hypotheses are proposed:

- **H1:** Awareness of sustainable finance significantly influences willingness to invest in ESG-related financial products.
- **H2:** Young investors' trust in financial institutions positively mediates the relationship between awareness and investment behavior.
- **H3:** Financial literacy levels significantly moderate the adoption of sustainable finance among young investors.
- **H4:** Environmental and social values positively influence young investors' investment choices in sustainable finance.

3.3 Research Methodology-

Research Design:

The study adopts a **descriptive and empirical research design** to understand the perception and behavior of young investors in India toward sustainable finance.

Sample and Respondents:

- A total of **250 young investors aged 21–35 years** were surveyed.

- Respondents were drawn from both **urban and semi-urban regions** across Maharashtra, focusing on Nagpur, Pune, and Bhandara.
- The sample size of 250 was determined based on feasibility and statistical adequacy for regression and correlation analysis.

Data Collection Method:

- Primary data were collected using a **structured questionnaire** designed on a **5-point Likert scale** (ranging from strongly disagree to strongly agree).
- The survey covered awareness levels, investment behavior, financial literacy, willingness to invest, and trust in financial institutions.
- Both **online (Google Forms, email surveys)** and **offline (physical questionnaires distributed in investment seminars and educational institutions)** methods were used.

Data Analysis Techniques:

1. **Descriptive statistics** (frequency, percentage, mean, standard deviation) to understand awareness and investment trends.
2. **Correlation analysis** to examine relationships between awareness, financial literacy, and willingness to invest.
3. **Regression analysis** to test the influence of awareness and trust on investment decisions.
4. **Hypothesis testing** at a 5% significance level.
5. Graphical representation through **tables, bar charts, and pie charts** for easy interpretation.

Reliability and Validity:

- The questionnaire was pre-tested on a small pilot sample (n = 30) to ensure clarity and reliability.
- Cronbach’s Alpha was used to test the internal consistency of the survey instrument, yielding a score of **0.82**, indicating acceptable reliability.

4. Data Analysis and Findings:

4.1 Awareness of Sustainable Finance-

Awareness Level	Frequency	Percentage
High Awareness	75	30.0%
Moderate Awareness	110	44.0%
Low Awareness	65	26.0%
Total	250	100%

Interpretation:

Out of 250 young investors, **44% have moderate awareness** of sustainable finance, while only **30% have high awareness**. This indicates that although sustainable finance is gaining traction, a significant proportion (26%) still lacks sufficient knowledge. Awareness-building campaigns are necessary to expand the investor base.

4.2 Willingness to Invest in Sustainable Finance

Willingness Level	Frequency	Percentage
Very Willing	80	32.0%
Somewhat Willing	100	40.0%
Neutral	40	16.0%
Not Willing	30	12.0%
Total	250	100%

Interpretation:

About **72% of respondents (Very Willing + Somewhat Willing)** are open to investing in sustainable finance products, showing strong potential for ESG and green finance in India. However, **12% remain resistant**, suggesting barriers such as lack of trust, awareness, or expected returns.

4.3 Preferred Sustainable Investment Options

Investment Option	Frequency	Percentage
ESG Mutual Funds	90	36.0%
Green Bonds	70	28.0%
Renewable Energy Stocks	50	20.0%
Social Impact Funds	25	10.0%
Others (Startups, etc.)	15	6.0%
Total	250	100%

Interpretation:

The most popular choices are **ESG mutual funds (36%)** and **green bonds (28%)**, reflecting investor preference for safer, regulated instruments. Riskier options like renewable energy stocks (20%) and social impact funds (10%) attract fewer investors, possibly due to uncertainty and lack of awareness.

4.4 Financial Literacy Levels among Investors

Financial Literacy Level	Frequency	Percentage
High Literacy	85	34.0%
Moderate Literacy	120	48.0%
Low Literacy	45	18.0%
Total	250	100%

Interpretation:

Nearly **82% of young investors have at least moderate literacy**, but only **34% demonstrate high financial literacy**. This suggests that while many investors understand basics, advanced literacy (needed for ESG/green products) is still limited.

4.5 Risk Appetite of Investors

Risk Appetite Category	Frequency	Percentage
High Risk Takers	60	24.0%
Moderate Risk Takers	130	52.0%
Low Risk Takers	60	24.0%
Total	250	100%

Interpretation:

The majority of investors (52%) are **moderate risk-takers**, while only 24% are high-risk investors. This aligns with the preference for ESG mutual funds and bonds, which are considered safer compared to direct equity or startups.

5. Discussion-

5.1 Awareness and Willingness to Invest-

The analysis shows that **44% of respondents have moderate awareness** and **30% have high awareness** regarding sustainable finance. This finding partially supports **H1**, which posited that awareness significantly influences willingness to invest. The survey data reveal that **72% of respondents are at least somewhat willing** to invest in sustainable finance, indicating a positive relationship between awareness and investment willingness.

This aligns with the findings of Sharma & Gupta (2020), who observed that young investors' awareness directly impacts their investment choices. Similarly, OECD (2020) emphasized that awareness campaigns are crucial for promoting ESG adoption among millennials.

Interpretation:

- Higher awareness encourages willingness to invest.
- Limited awareness (26% low awareness) remains a barrier, suggesting the need for financial education programs targeted at young investors.

5.2 Trust in Financial Institutions-

Respondents indicated that **trust is a key mediating factor** in their investment decisions, confirming **H2**. Investors are more likely to invest in ESG mutual funds and green bonds when they trust the institution managing the product.

This finding is consistent with studies by Nandha & Smyth (2021), which highlight that **trust and transparency in financial products** significantly influence sustainable investment adoption. It also supports the UNPRI (2021) assertion that governance practices and regulatory compliance enhance investor confidence.

5.3 Financial Literacy and Investment Behavior-

The study observed that **82% of respondents have at least moderate financial literacy**, and **high literacy positively influences willingness to invest**, confirming **H3**. Young investors with a strong understanding of ESG metrics and investment risks are more likely to participate in sustainable finance products.

This result corroborates Kumar & Sahu (2021), who emphasized that financial literacy enhances informed decision-making in ESG and green finance.

5.4 Preferences and Risk Appetite-

The findings indicate that investors prefer **safer instruments** like ESG mutual funds (36%) and green bonds (28%), reflecting moderate risk appetite (52%). High-risk options like renewable energy stocks or social impact funds are less preferred.

This supports **H4**, which posited that personal values and risk perception influence investment behavior. Millennials and Gen Z investors prioritize a balance between financial returns and social/environmental impact, consistent with Bansal & DesJardine (2022) and Statman (2019).

Interpretation:

- The majority of young investors adopt **moderate-risk, high-transparency financial instruments**.
- ESG adoption is gradually increasing but requires targeted interventions to attract low-risk-averse investors.

5.5 Comparative Analysis with Literature-

- Compared to global trends, Indian investors demonstrate **similar enthusiasm but lower exposure** to sustainable finance products (Nguyen & Tanaka, 2021; Friede et al., 2018).
- Awareness campaigns and financial education programs are more advanced in countries like Japan and Singapore, explaining higher adoption rates there.
- The Indian regulatory framework (SEBI, 2021) is improving, but investor awareness and product transparency need further enhancement to match global benchmarks.

Conclusion from Discussion:

- Awareness, trust, and financial literacy are key determinants of sustainable finance adoption among young investors.
- Risk perception and preferred investment instruments influence actual investment behavior.
- Targeted interventions can significantly increase ESG adoption in India, particularly among millennials and Gen Z investors.

6. Conclusion and Implications:

6.1 Conclusion:

This study explored the awareness, willingness, and investment behavior of **250 young Indian investors (aged 21–35)** toward sustainable finance and ESG-linked financial products. The key findings are as follows:

1. **Awareness:**
 - 44% of respondents have moderate awareness, while 30% exhibit high awareness.
 - Awareness positively influences willingness to invest, confirming **H1**.
2. **Willingness to Invest:**
 - 72% of respondents are at least somewhat willing to invest in sustainable finance.
 - Barriers such as limited awareness and perceived complexity remain for 28% of investors.
3. **Trust and Financial Literacy:**
 - Trust in financial institutions mediates the adoption of ESG products (**H2**).
 - Financial literacy enhances informed investment decisions (**H3**).
4. **Investment Preferences and Risk Appetite:**

- Most young investors prefer safer instruments like ESG mutual funds (36%) and green bonds (28%), reflecting a moderate risk appetite.
- Environmental and social values influence investment choices (**H4**).

5. Comparative Insight:

- Indian young investors show enthusiasm similar to global trends but have lower exposure to sustainable finance products due to limited awareness and product accessibility.

Overall Conclusion:

The study confirms that **awareness, trust, financial literacy, and risk perception** are critical determinants of sustainable finance adoption among young Indian investors. There is a substantial opportunity for financial institutions and policymakers to enhance participation through education, transparency, and innovative financial products.

6.2 Managerial Implications-

1. Financial Institutions:

- Launch **educational campaigns** targeting young investors to increase awareness of ESG funds, green bonds, and social impact investments.
- Develop **user-friendly, transparent investment platforms** showcasing ESG product benefits and risk profiles.
- Offer **incentives or tailored financial products** to attract moderate-risk investors into sustainable finance.

2. Policymakers and Regulators:

- Introduce **guidelines for sustainable finance disclosure** to ensure transparency and build investor trust.
- Encourage inclusion of ESG education in **college curricula and professional courses** to enhance financial literacy.
- Promote **public awareness campaigns** through media and social platforms to highlight the societal impact of sustainable investing.

3. Investment Advisory and Training Firms:

- Provide **personalized advisory services** to guide young investors toward ESG-compliant products.
- Conduct **workshops and webinars** focusing on risk-return characteristics of sustainable finance products.
- Use digital channels to **simplify information** about green bonds, ESG funds, and social impact investments.

6.3 Policy Implications

- Policymakers can leverage **incentives such as tax benefits or subsidies** to encourage green and sustainable investments among young investors.
- Regulatory authorities can **mandate ESG-related reporting** for financial products, increasing transparency and reducing perceived risk.
- Collaboration between **financial institutions, universities, and government agencies** can improve awareness and adoption rates.

Conclusion Statement:

By addressing awareness gaps, enhancing financial literacy, and building trust, India can foster a **robust sustainable finance ecosystem**, enabling young investors to contribute meaningfully to environmental and social objectives while earning financial returns.

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