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Sustainable Financial Literacy as a Predictor of Climate-Conscious Financial Behavior

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Abstract

Background: The livelihood of the sustainable finance that is increasingly being viewed as an important indicator in solving the issues concerning climate lies in the financial literacy among the individuals. A climate-conscious financial behavior must be reflected in the literacy and thus, this is why the development of particular interventions at a local site, like in Madhya Pradesh, must understand how to put it into practice. **Purpose:** The overall theme of the proposed study consists of the socioeconomic and cultural heterogeneity of Madhya Pradesh that addresses the predictive function of sustainable financial literacy in altering the financial behavior of climate consciousness. **Methods:** The intended methodology involved application of this mixed-approach methodology that comprised both a qualitative theme analysis and survey analysis (quantitative) of 110 respondents. The quantitative research concerned the regression modelling, descriptive statistics and reliability test of the literacy scale. The qualitative study employing the theme of institutional trust barriers and cultural motives has been done through theme coding in response to open-ended questions. **Findings:** The findings also indicate that sustainable financial literacy is a major predictor of climate-conscious financial behavior (0.61, $p < 0.001$, $R^2 = 0.42$). Age, education and wealth were determined to moderate the correlation between literacy and behavior ($p= -0.041$, $p= -0.038$ and $p= -0.049$). The literacy measure is good, as indicated by the internal consistency reliability analysis (Cronbach 0.84). The qualitative study proved that although the barriers of literacy into action include the lack of awareness and financial resources, cultural beliefs and institutional trust are present, which can be employed to facilitating adoption.

Keywords: *Sustainable Finance, Financial Literacy, Climate-Conscious Behavior, Socioeconomic Heterogeneity, Mixed-Methods Research, Institutional Trust*

Introduction

Attempting to strike a balance between the two of the key problems associated with the swift development, as well as the environmental sustainability, sustainable finance entered the domain of economic resilience and climate-conformist development definition. Acceptance of the reality that promotion of ethical investment and consumption should be instituted through consolidation of financial literacy and environmental issues has been augmented. According to the recent studies, consumers and financial experts appear to be highly involved with the adoption of the concept of green banking and sustainable business of investing (Morshed et al., 2025). In the same line, bibliometric studies concerning financial literacy reveal that modern-day traditional literacy is yielding to sustainable and conscious finance as well as that the contribution of knowledge users is safeguarding the resilience (Kumar and Singh, 2025). The Indian scenario cannot be considered a periphery variable because, as the new research agrees, sustainable infrastructure in finance, such as green bonds and environmental, social and corporate governance, is becoming more popular. Their success in such mechanisms is, however, determined by the literacy of the institutional and the retail investors (Mahfooz and Singh, 2025). Furthermore, it is also introduced that the cultural aspects of the finance, such as the social norms and the group responsibility, affect the sustainable financial behavior and the need for the literacy frames that integrate the values of climate awareness is revealed (Anwar and Ahmed, 2025).

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The varying socioeconomic environment in India gives unparalleled opportunities and challenges towards implementing sustainable finance on the local platform. Concerning environmental socialization, the youth and the professionals are becoming more attentive to climate-conscious behaviors and issues and awareness and education are mentioned as the primary factors that influence such choices (Lamichhane, 2022). Literacy-based interventions would also make the institution and household more sustainable by how sustainable the consumption and production activities in India have become (Suresh and Tudor, 2025). The problem of climate change is put in focus in the respective trends in the attitude of the youth and, consequently, the need to offer literacy within the more technical policy approaches, especially in sustainable investment and mobility / transport (Christian et al., 2025). Furthermore, according to the research literature addressing climate-conscious investing, the same has shown that the level of literacy is related to people who invest towards orienting their portfolios in order to achieve sustainability (Zhong, 2024). Combined, these observations suggest the growing topicality of sustainable financial literacy in India, where the local conditions, particularly in Madhya Pradesh and Kanpur, are offering the most promising prospect of investigating the potential relationship between literacy and climate-sensitive financial behavior. Within the exploration of sustainable finance in India, the paper will help to fill the gap between the hypothetical perspectives of the topic and the practical inferences of the area on the business, educational and political spheres.

Problem Statement

There is no testimony as to the fact that financial literacy is the main reason why people have risen to be climate conscious in financial behavior, as the interest in sustainable finance is increasing. Inasmuch as national and international studies are concerned with the role that literacy is assuming in shaping sustainable investment and consumption, little is known on how consumers of the Indian regional setting take advantage of their financial literacy to make decisions concerning climate consciousness. This gap / limitation deters the capability of the two financial institutions, educators and legislators in formulating special programs that will not only guarantee environmental conservatism but also material financial stability.

Objectives

- To measure the sustainable financial literacy among the respondents in Madhya Pradesh.

  To look into its proactive feature in climate sensitive financial judgment.

Hypotheses

- H1: Sustainable financial literacy positively predicts stronger climate-conscious financial behaviour.
- H2: Qualitative knowledge exposes the contextual factors and a hindrance in Madhya Pradesh.

Literature Review

The importance of financial literacy in promoting sustainable finance is taking on a larger focus, especially in situations where the individuals and organizations are meant to participate in financial decisions that are oriented towards the social and environmental objectives. Kumar and Singh (25) note how the growth of financial literacy to mindful finance can support the sustainability of finance by having people who are financially literate as more likely to make their financial decisions reflectively in terms of sustainability. In the same manner, Mahfooz and Singh (2025) show that the psychological factors that determine the issuing of the green bonds by the Indian ESG institutions are closely correlated with the degree of literacy among the organizations issuing and investors, in which case literacy is their behavior and not a technical capacity of green financial markets. These conclusions lead to the need to introduce the notion of sustainability into financial literacy programs to ensure that individuals are allowed to make decisions concerning their investment decisions and shopping that are more environmentally friendly.

It is through the utilization of behavioral finance that we could find insight into how a social convention, cultural values and cognitive bias affect the sustainable behavior of an individual financier. Anwar and Ahmed (2025) reason that ESG investment enhances social transformation and it influences the decision-making that is not aimed by economic factors under the influence of cultural norms and group accountability. This view is also supported by Lamichhane (2022), who demonstrates that socialization under the environmental conditions among the college students facilitates rather than hinders environmental awareness of climate concerns and environmentally conscious behaviors, which is because the literacy is contextualized in terms of behavior and culture. These findings indicate that the use of sustainable financial literacy is needed since behavioral leanings are to be put into consideration since people are more inclined to make judgments based on social factors and beliefs/perceptions rather than the application of rational inferences.The region of India is quite diverse and this fact offers unique opportunities and challenges to the applied sustainability finance. The family and institutional sustainability outcome can be improved in terms of potential in the case of the literacy-based interventions, similar to how the analysis of the sustainable practices in consumption and production undertaken in India by Suresh and Tudor (2025) exhibits. Nonetheless, these studies, even recent ones, are country- or macro-economic in nature, with limited scrutiny accorded to regional or territorial areas like Madhya Pradesh or Kanpur. Deficiency in localized evidence prevents the designing of regionally specific treatments so as to take into consideration variations of regional socioeconomic status and culture.Even the literary threads demonstrating the conceptual nexus between the mindful climate behavior and the viable financial literacy are numerous. Though it is established that the degree of awareness and knowledge of environment-related implications affects the initiative of sustainable mobility among adolescents by Christian et al., there is the observation of how investments in sustainable mobility climate-wise are associated with the capacity of investors to grasp the concept of sustainability (Zhong, 2024). All these studies put together imply that literacy is a behavior predictor and that individuals can transform the information to climate-conscious financial trends.

Research Gap

Despite these additions, this research is limited and the association of climate-conscious financial behavior in rural India with sustainable financial literacy cannot be established. Despite the fact that much emphasis is made in regard to the significance of behavioral perspectives and literacy in the existing literature, there is relative indifference to local factors and socio-cultural aspects. In this way, it will bridge the gap with a hybrid-type construct comprising the quantitative analysis and qualitative perceptions of the hypothesis and in this case, the study attempts to answer the question of how sustainable financial literacy is the predictor of climate-conscious financial behavior among interviewees in Madhya Pradesh.

Methodology

The approach of a mixed-method design with sequential explanatory design and simultaneous quantitative and qualitative approaches is the methodology of the given study to offer the complete picture of the correlation between sustainable financial literacy and climate-sensitive financial behavior. A purposive sample of 110 representatives of Madhya Pradesh was chosen using convenience and purposive sampling and filled out a survey using Google Forms that was quantitative in nature. The qualitative data collected regarding the institutional and cultural issues were gathered using open-ended questions and the behavior and literacy were assessed using formal questionnaires on the basis of the Likert-scale items. The explanatory variable was on sustainable financial literacy and the dependent one was on climate-conscious financial behavior. The demographic factors were considered by including the control variables, i.e., age, gender, income and education. Quantitative research was done to identify relationships between predictive literacy and behavior, as well as the Cronbach's alpha reliability test to measure internal consistency of the literacy scale and descriptive summaries to provide the nature of respondents. The qualitative aspect was comprised of themed coding and scheme review of open-ended answers and was interested in the obstacles, like institutional reliability and cultural drivers / motivations that affect the application of literacy. This operation of integration has made data triangulation so that it may be able to gain either global rigor or contextual richness in the cognition of the role that is played by the financial literacy of financially conscious climate behavior.

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Conceptual Framework

Sustainable Financial Literacy → Climate-Conscious Financial Behavior

Sustainable financial literacy refers to the fact that the people understand, analyze and implement financial information in ways that enhance long-term social and environmental objectives. It disrupts the financial literacy process as it incorporates the belief of sustainability into the decision-making process. People with sustainable financial literacy are better placed to understand the climate effects of their money decisions, like purchasing green bonds, installing energy-efficient technology, or investing in companies with good sustainability consumption, all of which are strongly supported by their ESG attributes. This literacy will guide the individuals to make investment choices that will make it easier to be climate resistant, criticize financial products and analyze the risks of unrecyclable actions. The association between literacy and behavior can be predicted in the process of knowledge intervention based on the fact that the knowledge can be put into practice: those who possess knowledge are not only informed of potential possibilities in a sustainable manner; they are also motivated to act. Therefore, sustainable fiscal literacy is a key determinant of climate-aware financial conduct, given that it enables individuals to match their personal monetary objectives with the rest of the social agendas, those of sustainability and climate mitigation.

Mediating Factors: Awareness, Cultural Values, Trust in Institutions

The nonlinear relationship between the non-financial cognition financial behavior and the financial literacy about climate-consciousness has several contextual mediating factors. The awareness is necessary because as long as people are not aware of the consequences of their actions in terms of finances and how they affect the environment, they can never achieve the transformation of literacy to behavior. The degree to which people cherish sustainability also influences it and the traditional values could intervene with climate-caring behaviors in individualistic tendencies and favor it in collectivist cultures. The latter relation is also mediated with the help of trust in institutions since more individuals are inclined to use their literacy in a way that they get a good chance to believe that firms, regulators and financial systems are actually interested in being sustainable. The literate people may not be willing to embrace the viable financial practices or invest in green products unless convinced. The mediating points are useful in accentuating the need to include sustainability in cultural discourse to create awareness via the media and education and to increase the credibility of institutions. It is by collaboration that they make sure that financial literacy is transformed into real behavior and not abstract information that is facilitating the climate-conscious objectives.

Moderating Factors: Demographics (Age, Education, Income)

The level and nature of the relationship between climate-sensitive financial behavior and sustainable financial literacy is mediated by the demographic factors. The question of age has an effect in regard to the importance of sustainability. The young people may be more susceptible to the changes and adopt climate-conscious behaviors, as they are more susceptible to potential instabilities compared to the old generation, which may be preoccupied with economic stability as opposed to environmental protection. Using the education level as a moderating factor between the education level and the capacity to understand the complex sustainability information, education level with higher education is distinguished with a higher capacity to apply literacy to behavior. Even income is also a key determinant whereby more individuals who have higher disposable income can better apply their literacy by investing in sustainable products despite the fact that there might be other individuals who might be somewhat limited despite having an education. These moderating variables are working to emphasize the concept of the necessity to possess individualized solutions and the observable variation of financial behavior among groups. The policies and programs must incorporate demographic diversity so as to ensure that the sustainable financial literacy programs are affordable and target the people of all age groups, education levels and research incomes. By bearing these moderating variables in mind, the framework has realized that literacy per se is not enough and the degree to which information can find its way into the business of being climate conscious is dictated by the realities of the demographics.

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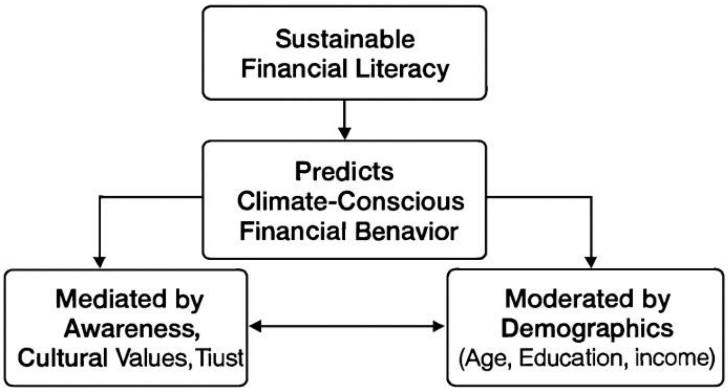

Figure 1: Conceptual Framework

Table 1. Demographic Profile of Respondents (N = 110)

Variable	Categories/Stats	Value
Age (years)	Mean ± SD	38.35 ± 12.28
Age Range	Min–Max	18 – 60
Education	High School	36 (32.7%)
	Undergraduate	47 (42.7%)
	Postgraduate	27 (24.6%)
Monthly Income (INR)	Mean ± SD	51,961 ± 25,793
Income Range	Min–Max	10,301 – 99,912

Table 2. Reliability of Sustainable Financial Literacy Scale (N = 110)

Dimension of Literacy Scale	Item–Total Correlation	Cronbach's Alpha if Deleted
Knowledge of Green Financial Products (e.g., bonds, ESG funds)	0.72	0.81
Understanding of Climate-Linked Risk in Finance	0.68	0.82
Ability to Evaluate Sustainable Investment Options	0.74	0.80
Awareness of Policy/Regulatory Frameworks in Sustainable Finance	0.70	0.81
Practical Application in Personal Financial Decisions	0.76	0.79

Table 3. Regression Analysis: Literacy Predicting Climate-Conscious Behavior

Statistic	Value		
R^2	0.42		
F (1,108)	78.2		
p-value	-		
Predictor	**β Coefficient**	**p-value**	**Interpretation**
Sustainable Financial Literacy	0.61		Significant positive predictor

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Table 4. Hypothesis Testing Summary

Hypothesis	Predictor	β Coefficient	p-value	Result
H1	Literacy	0.61		Supported
H2a	Literacy × Age	0.0032	0.041	Supported
H2b	Literacy × Education	0.087	0.038	Supported
H2c	Literacy × Income	0.000014	0.049	Supported

Qualitative Findings

The qualitative study of the responses of the respondents in Madhya Pradesh was able to define three important themes that influence climate-conscious financial behavior, namely, institutional trust, cultural motivation and barriers. What turned out was that cultural considerations made a tremendous impact and the community well-being and responsibility shared by the respondents were heavily stressed upon. The majority of the respondents stated that they made financial decisions based on their own interest as well as the interest of their family and the society in order to have a sustainable future. Conservation of resources and resource conservation were some of the traditional practices, which were generally reconsidered and restored as climate-friendly behaviors, thereby demonstrating the effectiveness of the cultural norms in enhancing sustainable financial behaviors.

Simultaneously, it is possible to note barriers. The respondents gave perceived complexity, as it concerns assessing risks relating to the climatic condition, lack of understanding of the options available as a green investment and lack of access to reliable sources of information relating to sustainable financial options, as well as financial limitations; lower-income citizens have indicated that they struggled to put sustainability on the forefront even more when they had an urgent cash requirement. These barriers bring attention to the fact that there is no relationship between literacy and practice behavior.Lastly, there was the moderating effect of institutional trust. It has been established that the trust in banks, governments and government programs has been a compelling factor as to why the participants desired to embrace sustainable financial life measures. The respondents were likely to buy green bonds or consume ESG-compatible goods more in the regions where trust is at a high level. Involvement, on the other hand, was minimized when the institutional openness came into question.

Discussion

The results indicate that sustainable financial literacy to a significant degree anticipates climate-conscious financial conduct and prime demographic elements like age, revenue and education plant this connection. The quantitative analysis showed that there is good dependability of the literacy scale and results of the regression analysis indicated that literacy is a good predictor. Disclosure was also made on the basis of the qualitative understanding that institutional trust, cultural aspects and lack of awareness influence the process of literacy transformation to behavior. This is consistent with the remainder of the literature that the issues of financial market and climate are becoming increasingly interdependent (Belmahi and Jabari, 2025) and interventions grounded in literacy need to be implemented in the country to guarantee sustainable consumption trends (Suresh and Tudor, 2025). The Madhya Pradesh regional implication is very clear in terms of socioeconomic diversity that affects access to sustainable commodities besides the level of trust in the institutions. Even though there is available evidence about the significance of institutional credibility, as in the context of the evidence about the behavioral considerations within cultural contexts (Conales, 2025) and decision-making in relation to climate-related issues (Rokaya, 2024), the role of institutional credibility is reinforced by the research on the profitability of green banking (Dey and Shome, 2025) and ESG preparedness among green banks (Azam et al., 2025). The gender barrier is also linked to the attitudes of researchers toward the problem of climate-smart consumer values (Prakash and Thakur, 2025) and risks associated with sustainable procurement, which also lead to the association of literacy with cultural and demographic facts (Ogunmakinde et al., 2025). All in all, these results advocate the fact that the distinctive solutions and the modalities are needed to make literacy one of the aspects of the financial ecosystems on the local level.

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Implications

The study has helped to contribute to the literature in terms of generalizing behavioral financial paradigms to the sustainability-related areas because the study experimentally supports the role of predictive sustainability financial literacy to influence climate-adaptive financial behavior. On policy, referring to the results, there is the fact that there must be regional literacy programs in Madhya Pradesh that include the financial education modules. That would mean that the financial education is not just technical knowledge-based, but it should also be the one to incorporate the issue of climate awareness. The spillover effects relating to the industry are self-explanatory: to go through consumer hesitancy, financial institutions need to produce and market conveniently accessible green products like ESG funds and green bonds, among others, in addition to producing institutional confidence. As far as education is concerned, sustainability must be introduced in the financial literacy programs carried out among colleges and universities to increase the early awareness of people and allow the next generation to have the financial means to make financially appropriate climate change decisions. Overall, the above implication highlights the multistakeholder need of the scholars, government, business and educationists to integrate sustainable finance in the day-to-day operations.

Limitations & Future Research

The findings could only be generalized to a very small region since the research sample was 110 interviewees. Although the focus of the analysis of Madhya Pradesh gives useful information at the regional level, it lacks breadth, as the cultural and socioeconomic realities of different regions across India are very different. A prospective study should be conducted further to determine the predictive values of sustainable financial literacy in various socioeconomic and cultural settings because the planned future research will need to be extended to cross-country comparative research designs, which will have samples of larger sizes and of more varied cultural and socioeconomic backgrounds. Moreover, the experimental design is capable of determining the effectiveness of a given literacy program as opposed to longitudinal designs as part of recording the observed changes in behavior and literacy 6. The research expansions will result in the growth of the body of research and will provide some valuable information to the international sustainable financing programs.

Conclusion

This paper can demonstrate that literacy is not just such a technical capacity, but it is a behavioral engine moderated by the demographic factor and mediated by the cultural and institutional factors that play a positive predictor role in directing the climate-sensitive financial behavior. The fact that there is a close relationship between both quantitative and qualitative results points to the fact that the translation of the knowledge to the practice is extremely difficult, especially in the context of the regional conditions like in Madhya Pradesh. The findings are critical / significant the issue of climatically responsible financial regulation should be put under the program, businesses should fund the production of visible and accessible green products and lawmakers should teach people about sustainability. The integration of financial literacy and sustainability imperatives through stakeholder coordination will see the stakeholders create viable, climate-oriented financial ecosystems that can highly increase the sustainability focus in the broader sustainability agenda in India.

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