



—Chapter—

Green Finance in The Context of Cultural and Behavioural Dynamics: A Multidisciplinary Perspective

Ratnadeep Palit¹

1.1 Introduction

Green finance refers to all those financing activities which are directed towards sustainable development projects, Environment protection, and Climate change mitigation. Green finance includes plethora of financial instruments such as green loans, green insurance, green bonds, climate funds etc. Another term which is related to green finance is sustainable finance which incorporates environmental, social and governance (ESG) criteria into investment choices for cultivating sustainable values with economic development, social-benefits, and environmental preservation. Both green finance and sustainable finance seeks to promote positive transformation by directing resources towards initiatives that promote sustainable development with minimum degrading effects on the environment.

The growing significance of climate financing in supporting the transition from a carbon intensive economy to a low carbon

¹ *Research Scholar, Department of Management Studies (Doms) National Institute of Technology, Silchar*

economy is increasingly acknowledged at the United Nations Climate change Conferences (UNCCC), where global heads assemble to establish policies and strategies for safeguarding the planet through the judicious use of scarce resources and restrict the global rising temperature to significantly below 2 degrees Celsius - ideally to 1.5 degrees- in relation to pre-industrial levels.

Keywords: Green Finance, Sustainable Development, ESG, Behavioural Finance, Cultural Finance, Investor Behaviour Climate Change.

1.2 Global challenges: climate change and sustainability goals

Climate change and sustainable development goals (SDGs) are the most pressing and interconnected global issues of this century. Climate change exerts environmental harm, disrupts economic stability and endangers human health, on the other side sustainable development provides ways to curb the negative impacts through justiciable and environmentally sustainable growth. Sustainable development efforts are vehemently impacted by climate change. The effects it has on environment is huge which influences ecosystem, biodiversity, and natural resources essential for achieving SDG 13 (Climate Action) and SDG 15 (Life on Land). Climate change poses major obstacles to economic development and economic stability, significantly impacting the emerging economies of Asia and Africa. The Consequences impede the fulfilment of SDG 1 (No Poverty) and SDG 8 (Decent Work and Economic Growth). Climate change has an impact on the social dimensions with utmost effects on the disempowered and excluded population impeding the SDG 3 (Good Health and Well-being), SDG 5 (Gender Equality) and SDG 10 (Reduced Inequalities). (Sarwar, 2025).

1.3 Need to integrate cultural and behavioural perspectives

The need to integrate cultural and behavioural perspectives into green finance arises due to the gap between financial theory and the real -world Scenarios. Traditional Green finance models are largely based on rational economic assumptions. However, in real life numerous factors affects investor behaviour such as short-term bias, undervaluation of the environmental benefits and the slower than expected adoption of green products. The difference arises due to humans being not purely rational.

Behaviour finance helps us understand why investors deviates from rational decision-making.

The key behavioural aspects are: -

- The fear of Potential losses that may arise due to investment in green products.
- Herding Behaviour; following the general notion rather than autonomously evaluating green alternatives.
- Lack of awareness and understanding of the green financial products.

Just like the behavioural perspective we also need to understand the cultural context such as values, beliefs and attitude of the society that plays a vital role towards the adoption of the sustainability finance model.

The key cultural factors that influence the investors decision making are: -

- Social Norms and Peer Pressure, for southeast Asian countries like India, Community Norms and Collective values plays a vital role in the adoption of the green finance behaviour.
- Environmental responsibility is also shaped by the Religious and ethical values.
- There is a high probability that collective cultures may support sustainability more strongly.

Green finance model becomes much more effective when we integrate not just economic models but also the behavioural and social perspectives into consideration.

1.4 Objectives of the chapter

- To Study the concept and emergence of green finance and its role in promoting sustainable economic development.
- Analysing the key products of the green finance market such as green bonds, green loans, ESG investments and other climate finance products.
- To understand the behavioural prospective of the investors towards the adoption of the green finance products and its alternatives.

- To understand the role of cultural finance by examining how peer values, social norms and culture help shape the financial decision making.
- To integrate behavioural and cultural perspectives with green finance, drawing a link between these two domains.
- To review existing empirical studies and real word cases that are related to green finance and investor behaviour.
- To identify the key challenges and barriers in the effective implementation of the green policies and its adoption by the investors.
- To suggest future policy actions and measures for effective adoption of the green financial instruments.

2. Conceptual Foundations of Green Finance

1.1 Meaning and Scope

“Green finance refers to financial investments, loans and banking products designed to support sustainable, environmentally friendly projects - such as renewable energy, pollution prevention, and green buildings - which create positive environmental outcomes. It aims to increase capital flow for climate change mitigation and sustainable development”.

- UNEP (UN Environment Programme)

Instruments of Green Finance Market: -

- **Green Bonds** - It is a debt instrument which is issued by the government or corporations to fund specific climate friendly projects like Solar energy or manufacturing of EV Vehicle.
- **Green loans** - These are the special category of loans issued by the financial institutions or corporations to businesses which meet certain pre-defined criteria regarding the utilization of funds into eco-friendly Endeavours/Projects.
- **Green Insurance** - Products that cover environment risks and encourage sustainable practices.
- **Green Equity/Investment** - Investing in those companies with strong environmental, social, and governance (ESG) performance.

2.2 Emergence of Green Finance

The emergence of the concept of Sustainable development and environmental protection has placed green finance as an important tool for striking a balance between economic growth and environment management. The growth of green finance can be attributed to the growing awareness and discussion about the environmental cost of the traditional economic models and how we need to transitioned into more sustainable economic system early.

The evolution of green finance can be studied through different stages:

- I. Early Stages:** - Prior to 2007, The only focus of the companies were on environment risk management and initial responsible investing concepts.
- II. The Emergence of Green bonds:** - The period from 2007-2015 can be said to be the period of emergence of the concept of Green Bonds. The European investment bank was first to issue green bonds in 2007, Signalling a change in the direction of funding, specifically for environmental initiatives.
- III. Global Policy and Regulatory focus:** - The period from 2016-2019 were the period when Global bodies such as G-20 and United Nations started focusing on structuring definitions and a rise in research on green finance was seen.
- IV. Systematic Integration:** - Green finance is now a strategic tool for net-zero emissions, involving AI, Fintech and a Comprehensive ESG strategies.

1.3 The Role of global frameworks in green finance adoption.

Due to the continuous efforts undertaken by the United Nations, initiatives such as Paris Agreement, 2015 and United Nation Environment Programme (UNEP) has come up with certain set of global frameworks which streamlined investments towards green projects, align capital with sustainable development goals (SDGs) and help eliminate climate related risks. These global frameworks act as a catalyst towards the transition from high-carbon economy towards a low-carbon emission economy.

Key Role of Global Frameworks include: -

- **Mobilization of the Capital:** - Global framework mobilizes the capital from public and private sector into the sustainable infrastructural projects and low-carbon technologies.
- **Management of the risk:** - Central banks and regulatory agencies helps in identifying and managing climate related financial risks.
- **Standardization and Transparency:** - Clearly establishing standardize definitions for green projects and ESG criteria helps reducing greenwashing and improve transparency. (Ahmed et al., 2025).
- **Policy Alignments:** - Aligning the national regulatory framework with international environment commitments such as Paris agreement, Net-Zero targets. (Ahmed et al., 2025).

2.4 Drivers of Green finance in Emerging Markets

The conflict between adapting to a carbon-neutral economy, while simultaneously containing the energy prices, maintaining economic growth and creating jobs constitutes today's principal challenge for countries around the world. In emerging markets, the issues are even more acute and immediate as developing countries generally lag on education levels, shallower capital markets, and less flexible workforce. A large share of emerging market activity still involves fossil fuel production or rest upon carbon and water intensive industries, such as mining, agriculture, and heavy industries.

Green finance in emerging markets is driven by a combination of structural needs, global sustainability goals, and evolving investor preferences. Rapid urbanization and rising population increases demand for sustainable infrastructure and long-term resilient growth. At the same time, a significant financing gap for achieving Sustainable Development Goals pushes governments and institutions to mobilize green capital. (Goel et al., 2022).

3. Behavioural Finance Perspective in Green Finance

3.1 Overview of Behavioural Finance

- **Bounded rationality:** - Bounded rationality is the concept that human decision-making is limited by finite cognitive resources, incomplete information, and restricted time.

Instead of maximizing utility (making the perfect choice), individuals “satisfice— seeking solutions that are merely “good enough”. It challenges traditional economic theories that assume perfectly rational actor.

- **Heuristics and biases:** - Heuristics are cognitive shortcuts or “rules of thumb” that make decision-making easier, enabling fast and effective judgments when faced with uncertainty, while biases are the consistent mistakes or deviations from rationality that arise from depending on these shortcuts. In essence, heuristics are the mental strategies used to save time, and biases are the incorrect results they frequently generate.

3.2 Key Behavioural Biases Affecting Green Investments

- **Perception of risk:** - Many investors view green finance as riskier because of uncertainties related to returns, possible regulatory changes and the evolving nature of green technologies. The perception of risk can restrict the flow of capital into sustainable investments, even though these investments can provide promising long-term growth and stability.
- **Short-Term vs Long-Term Gains:** - Investors often favour immediate returns over long-term benefits, which can impede green finance. Green investments generally necessitate patience to achieve significant returns, making them less attractive to those who prioritize short term profits over the long-term advantages of promoting environmental sustainability.
- **Cognitive Biases and Herd Behaviour:** - Cognitive biases, such as status quo bias (the inclination to remain with known investments) or availability bias (preferring readily available options), can hinder investors from contemplating green finance opportunities, even when they present significant potential returns. Moreover, herd behaviour can contribute to this issue, where investors mimic the behaviours of others rather than assessing green investments on their own, often adhering to conventional investment routes simply because that is the common choice.
- **Influence of Social Norms and Peer Pressure:** - Individuals’ investment decisions are frequently shaped by the actions of their peers. As more institutions and individuals engage

in green finance and sustainability efforts, others might feel motivated to follow suit to align with responsible practices and safeguard their reputation. (Chaudhary et al. ,2025).

3.3 The Green Governance initiatives and Environmental Policies designed to address the Behavioural Biases.

- **Green Bonds:** - Green bonds are a type of green financing instrument to finance climate friendly projects. It addresses the behavioural biases of loss aversion as green bonds offer a relatively low-risk investment with competitive returns, helping to alleviate concerns about the perceived risks associated with green investments.
- **Public-Private Partnerships (PPP):** - PPPs are the collaborative projects between government agencies and private sector companies to deliver public goods, particularly in green infrastructure projects. By sharing the risks and providing government backing, PPPs make it easier for investors to transition from traditional investments to greener options.
- **Faster Adoption and Manufacturing of Hybrid and Electric Vehicles:** - The FAME initiative provides financial incentives to promote the adoption and manufacturing of electric and hybrid vehicles in India. (Chaudhary et al. ,2025).

4. Cultural Finance and Its Role on Green finance adoption

4.1 Concept of Cultural Finance

- Cultural finance explores how cultural values, beliefs and social norms influence financial decisions and markets, particularly in relation to sustainable development. It examines how these cultural factors can either promote or hinder investments in environmentally and socially responsible projects, impacting the overall progress towards sustainability goals. This field also investigates how financial systems can be adapted to better align with diverse cultural perspectives and priorities, fostering a more inclusive and equitable approach to sustainable finance.

4.2 Cultural Dimensions Affecting Financial Decisions

- **Individualism vs collectivism:-** Individualism and collectivism are the two ways that people prioritize about themselves and their connections with others. In

individualistic societies like in numerous western countries, People concentrate more on themselves and their close family. They believe pretensions and achievements. On the other hand, collectivist societies, frequently set up in places like Asia and Africa, emphasize belonging to larger groups, like extended families or communities. In these societies, people prioritize group pretensions and cooperation over solicitations. Understanding these cultural differences are very important for understanding how culture has an effect on green finance adoption.

- **Long-term vs short-term orientation:-** People who think long-term when investing usually care more about sustainability and creating value down the road. They are more likely to put their money into things like ESG funds and green bonds, even if it means not making as much money right away, because they expect bigger environmental and financial wins later. On the other hand, investors focused on the short term are all about quick profits and having access to their cash. They often see green investments as a gamble because the rewards take time and there is some uncertainty. This difference in outlook really affects how much sustainable finance takes off in different places.
- **Environmental consciousness across cultures:** - How much people care about the environment differs a lot from culture to culture, and this really shapes how they approach green investments. In places where looking after the environment is a big deal, people are more likely to back sustainable efforts and put their money into green financial products like ESG funds and green bonds. Things like cultural traditions, how educated people are, and their sense of social duty all play a part in how they view environmental dangers and climate change. But in areas where making ends meet is the focus, environmental issues might not get as much attention, which puts a damper on green investment. So, understanding different cultures and what they value is super important for encouraging environmentally sound financial choices and growing green finance worldwide.

4.3 Cultural Influence on Green Investment Adoption

- **Developed vs developing countries:-** Cultural influences have a big impact on whether green investments catch on

in both richer and poorer countries. In developed nations, people are generally more aware of environmental issues, have more faith in their institutions, and have solid rules in place, which makes it easier for them to use green financial tools like ESG funds and green bonds. Investors there often match their financial choices with their personal sustainability values. On the flip side, developing countries usually put economic growth and needs immediate money first, which can make it harder for them to get involved in green investing. Things like less financial know-how, less robust rule systems and a lack of trust also get in the way.

- **Role of ethics, religion, and sustainability beliefs:-** What people believe about ethics, religion, and the environment really affects whether they get into green finance. When people care about ethics, they tend to want their money to do good for society and the planet, which is why they invest in things labelled ESG. Religious beliefs often talk about taking care of the earth, so followers might be drawn to finance that is good for the environment and people. For example, some religious investing rules say to stay away from bad industries and put money into better options. Plus, if people strongly believe in sustainability, they are more aware of climate dangers and how our actions affect the environment long-term, making them want to invest in green stuff. All these cultural viewpoints push finance towards being driven by values, which helps sustainable investing grow all over the world.

5. Integrating Green, Behavioural and Cultural Finance.

5.1 Interlinkages between the domains.

- **How culture shapes behaviour:** - Culture plays a foundational role in shaping investor behaviour, which in turn influences the adoption of green finance. Cultural values, norms, and belief systems act as a lens through which individuals perceive risk, return and responsibility. For instance, in collectivist cultures, individuals are more likely to prioritize societal welfare and environmental sustainability, leading to greater acceptance of green investments such as ESG funds and green bonds. In contrast, individualistic cultures may emphasize personal financial gains, potentially limiting immediate interest in

sustainability unless it aligns with profitability. Cultural dimensions such as trust, uncertainty avoidance and long-term orientation directly affect behavioural biases. In high-trust societies, investors are more willing to engage with green financial products, as they have confidence in institutions and regulatory frameworks. Similarly, cultures with a long-term orientation tend to support sustainable investments, as they value future benefits over short-term gains. Behavioural tendencies like herding, loss aversion, and risk perception are also influenced by cultural conditioning.

- **How behaviour influences green financial decisions:** - Behaviour significantly influences green financial decisions through cognitive biases and heuristics. Investors often exhibit loss aversion, preferring conventional assets over green investments due to perceived risks and uncertain returns. Herd behaviour can either accelerate or hinder green adoption depending on market trends. Additionally, framing effects and social norms shape attitudes toward sustainability. When green investments are presented as profitable and socially responsible, investors are more likely to participate, highlighting the importance of behavioural insights in promoting green finance.

6. Empirical Evidence and Case Studies on investor behaviour towards

ESG/Green instruments.

Empirical studies on investor attitudes towards ESG (Environmental, Social, and Governance) and green financial assets show a complicated interplay of ethical incentives, financial factors, and institutional environments in various countries.

An increasing amount of evidence indicates that investors do not solely seek profit maximization in relation to ESG assets. Global research on green bonds shows the presence of a 'Greenium', where investors are willing to accept lower yields for eco-friendly investments—estimated at approximately 18 basis points—signifying a readiness to compromise financial gains for sustainability objectives. Likewise, behavioural studies indicate that retail investors frequently depend on heuristics like "green labels" and are swayed by pro-environmental standards,

even if these choices are not the most financially beneficial. In mutual funds, strategies focused on ESG factors have been shown to correlate with better risk-adjusted returns, indicating that investing sustainably does not always entail a financial compromise. (Liang et al., 2025).

Comparative analysis across countries reveals notable differences in ESG investment practices. In developing markets like China, investors with an ESG focus significantly impact corporate sustainability outcomes, particularly in industries with high pollution levels and state-owned companies. Emerging markets often demonstrate a more pronounced 'Greenium' because of increased information asymmetry and heightened demand for trustworthy green initiatives. Conversely, developed markets demonstrate varied outcomes: although ESG assets can perform robustly during crises (e.g., COVID-19), regulatory measures like the EU's Sustainable Finance Disclosure Regulation have not consistently boosted capital into green funds, partly owing to complexity and insufficient investor awareness. (Lin et al., 2025).

Case Examination: Green Bond Markets

Since its launch in 2007, the global green bond market has expanded swiftly, evolving into a crucial tool for funding climate-related initiatives. Empirical research indicates that investor confidence in green bonds is significantly influenced by transparency, the credibility of issuers, and their environmental performance. Cross-border studies additionally show the interdependence of green bond markets in areas like Europe, North America, and Asia, where investor attitudes in one market may affect others. Nonetheless, worries about "greenwashing" and varying reporting standards continue to be significant obstacles hindering investor confidence. (Zhang et al., 2024).

Case Analysis: Eco-Friendly Mutual Funds

Sustainable mutual funds have experienced considerable expansion worldwide, with assets surpassing trillions of dollars. Empirical evidence indicates that funds incorporating ESG can surpass traditional funds, especially when ESG standards are thoroughly integrated into portfolio strategies. Nevertheless, investor behaviour differs: while institutional investors frequently embrace ESG for long-term risk management,

retail investors might be swayed more by ethical values or brand signals. In certain areas, like Europe, recent patterns show decreasing inflows and even outflows from ESG funds, mirroring shifting investor attitudes and regulatory ambiguity.

In summary, empirical data indicates that ESG investment behaviour is influenced by a combination of ethical reasons, anticipated financial performance, and local institutional elements. As global interest in green assets grows, variations between countries underscore the need for regulatory clarity, transparency, and investor awareness to support long-term growth. (Loiola et al., 2025).

7. Policy Implications and Recommendations

7.1 For Policymakers

- **Awareness Campaigns:** - Policymakers need to launch extensive awareness campaigns to boost comprehension of green finance and ESG investing. These initiatives should go beyond simply sharing information; they must integrate behavioural insights like social norms, framing effects, and nudges. For example, showing that most investors are moving towards sustainable assets can motivate others to do the same. Campaigns should also be culturally adapted, using local languages, values, and community leaders to build trust and relevance, especially in emerging markets.
- **Regulatory Frameworks:** - A strong, standardized regulatory system is crucial for credibility and minimizing greenwashing. Governments should require consistent ESG disclosure standards, a clear taxonomy for green investments, and independent verification. Harmonizing national regulations with international standards from bodies like the UN Environment Programme and the IFRS Foundation will improve comparability and investor confidence. Furthermore, behavioural principles, such as simplifying disclosures, should be incorporated to make policies more user-friendly and impactful.

7.2 For Financial Institutions

- **Transparent ESG Disclosures:** - Financial institutions are crucial for fostering investor confidence through clear, consistent, and transparent ESG reporting. Streamlined and

standardized disclosures reduce information gaps, enabling investors to make well-informed decisions. Furthermore, institutions should leverage digital tools and AI analytics to offer real-time ESG data, enhancing accountability and mitigating greenwashing risks. This transparency not only boosts credibility but also meets the increasing global demand for responsible investing.

- **Behaviourally Informed Financial Products:** - Institutions ought to develop financial products that consider behavioural biases like risk aversion, loss aversion, and short-term thinking. By incorporating behavioural nudges—such as opt-out enrolment or positive framing—institutions can promote greater engagement in green finance without limiting investor options.

7.3 For Investors

- **Financial literacy:** - Enhancing financial literacy is vital for enabling investor participation in green finance. Investors require a solid understanding of ESG principles, risk-return trade-offs, and the long-term advantages of sustainable investments. Educational initiatives, workshops, and digital learning platforms can effectively address knowledge deficiencies and lessen biases like over-reliance on traditional assets or herd mentality.
- **Sustainable mindset shift:** - To truly embrace green finance, investors need a fundamental shift in perspective, prioritizing long-term environmental and social impacts alongside financial gains. This means weaving cultural values, ethical considerations, and social responsibility into the very fabric of investment decisions. Driving this change requires more than just education; it also necessitates showcasing successful green investment examples and leveraging peer influence. Ultimately, fostering this behavioural transformation will cultivate a more resilient and sustainability-focused financial ecosystem.

8. Conclusion

In conclusion, green finance emerges as a critical instrument for achieving sustainable development and addressing climate change, but its effectiveness extends beyond purely economic and regulatory frameworks. This study highlights that investor

behaviour and cultural context play a decisive role in shaping the adoption and success of green financial instruments. Behavioural biases such as risk aversion, short-termism, and herd behaviour often hinder investment in sustainable assets, while cultural values, social norms, and ethical beliefs can either reinforce or impede environmentally responsible financial decisions. The integration of behavioural and cultural finance with green finance provides a more realistic and holistic understanding of market dynamics, especially in emerging economies. Empirical evidence further demonstrates that investor preferences are influenced by both ethical motivations and financial expectations, varying across regions. Therefore, fostering awareness, strengthening regulatory frameworks, and designing behaviourally informed financial products are essential. A combined approach that aligns economic incentives with cultural values and behavioural insights is key to accelerating the global transition towards a sustainable and low-carbon economy.

References

1. Ahmad, F., Boumaiza, A., Sanfilippo, A., & Al-Fagih, L. (2025). A comprehensive review on green finance and its impact on net zero energy transition: From the perspective of renewable energy development. *Energy Strategy Reviews*, 62, 101948. <https://doi.org/10.1016/j.esr.2025.101948>
2. Ahmad, F., Boumaiza, A., Yazici, M., Taşaltın, N., & Özmen, S. (n.d.). From Global Mapping to Local Action: Green Finance, Regulatory Frameworks, and Policy Transformation for Sustainable Energy Transition in Qatar and Türkiye. *Sustainable Development*, n/a(n/a). <https://doi.org/10.1002/sd.70373>
3. Goel, R., Gautam, D., Natalucci, F., & Natalucci, M. F. M. (2022). *Sustainable Finance in Emerging Markets: Evolution, Challenges, and Policy Priorities*. International Monetary Fund.
4. Liang, C., Ma, X., & Liao, X. (2025). Unveiling Investor Motivation and Trust in Impact Investing: Evidence from Global Green Bond Issuances. *Journal of Business Ethics*, 200(2), 445–468. <https://doi.org/10.1007/s10551-024-05891-w>
5. Lin, J., Pan, D., & Sha, Y. (2025). The impact of ESG investment on fund performance: Evidence from mutual fund style drift. *Pacific-Basin Finance Journal*, 91, 102707. <https://doi.org/10.1016/j.pacfin.2025.102707>

6. Loiola, R. R., Kimura, H., & Souza, L. de M. (2025). Sustainable Finance, Green Bonds and Financial Performance—A Literature Review. *International Journal of Financial Studies*, 13(4). <https://doi.org/10.3390/ijfs13040233>
7. Sarwar, M. S. (2025). Climate Change and Sustainable Development: A Pathway for Global Cooperation. *IQAN*, 7(2), 1–26. <https://doi.org/10.36755/iqan.v7i2.458>
8. Zhang, Y., Xiong, X., & Gao, Y. (2024). Green fund investors and ESG performance: Evidence from China. *Pacific-Basin Finance Journal*, 88, 102546. <https://doi.org/10.1016/j.pacfin.2024.102546>