



## Factors Affecting the Sustainability Performance of Financial Institutions in Afghanistan: The Role of Green Finance

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### ABSTRACT

*The concept of sustainable development has gained priority in the financial systems of the global world, especially among the weak economies that are faced by environmental degradation, social vulnerability and economic instability as significant challenges. Green finance practices are expected to encourage sustainable development by financial institutions through environmental, social, and economic goals, which are integrated in green finance. This paper discusses the impacts of economic and environmental aspect of green finance on the sustainability performance of financial institutions in Afghanistan with the social aspect as a mediating factor. Data was collected using quantitative research design where 200 employees in the Afghan banking industry were been used by having a structured questionnaire based on validated measures used in previous studies. Data analysis was done in SPSS whereby reliability analysis, correlation analysis, regression analysis and mediation analysis were carried out. The findings show that the economic dimension and the environmental dimension of green finance have a positive and significant impact on the sustainability performance. Besides, these relationships are mediated by the social dimension to some extent. The results also add to the literature on green finance because it offers empirical evidence of a weak economy and has practical implications to policymakers and banking managers interested in enhancing sustainable finance practices in Afghanistan.*



## Introduction

The concept of sustainable development has been forced into the international agenda as the economies are faced with the two-fold problems of environmental degradation and social inequality in addition to economic growth. Financial institutions are the key players in this transition as they move resources towards more environmentally-friendly and socially-inclusive investments (UNEP, 2016; OECD, 2017). Green finance has become a tactical approach whereby

the financial systems can facilitate the process of environmental sustainability and at the same time create economic and social value (Wang and Zhi, 2016; D'Orazio and Popoyan, 2019).

Green finance is a term used to describe financial services and financial products that consider the environmental, social, and governance aspects of investment and lending choices (UNEP, 2016). These are green lending, financing renewable energy, sustainable infrastructure investment and environmental risk management (OECD, 2017; Weber, 2012). The growing popularity of green finance is consistent with the United Nations Sustainable Development Goals (SDGs), specifically the ones on climate action, clean energy, and inclusive growth (United Nations, 2015). This means that financial institutions will not only aim at realizing profitability, but also improving the performance in terms of sustainability, including economic resilience, environmental stewardship, and social responsibility (Eccles et al., 2014).

Sustainability performance is the capacity of an organization to create long-term values without interfering with economic feasibility, environmental conservation, and social justice (Montiel, 2008; Eccles et al., 2014). Sustainability performance in the financial sector is expressed by responsible lending, environmental risk management practices, social inclusion policies and stakeholder engagement (Weber, 2012). It has been empirically indicated that banks implementing sustainability-based strategies enjoy a greater level of financial stability, greater reputation, and increased trust of stakeholders (Friede et al., 2015).

Green finance is one of the drivers of sustainability performance, which gains more and more scholarly interest. Green finance has an economic aspect that focuses on financial effectiveness, risk management, competitiveness, and profitability in the long-term regarding sustainable investment activities (Weber, 2012; Scholtens, 2017). The environmental aspect aims at achieving a decrease in ecological damage, the development of low-carbon projects, and the climate-resilient ones (UNEP, 2016; OECD, 2017). A combination of these dimensions allows financial institutions to coordinate financial performance and environmental goals (D'Orazio and Popoyan, 2019).

Nevertheless, green finance does not act based on only financial and environmental processes. The social aspect is very critical in that it determines the relationship with employees, customers, communities, and regulators. SRB practices improve the legitimacy of organizations, trust in them by stakeholders, and commitment by employees, which reinforces the sustainability performance (Eccles et al., 2014; Porter and Kramer, 2011). According to empirical studies, it is presumed that social performance tends to mediate the correlation between sustainability initiatives and organizational performance (Malik, 2015).

In spite of the existing studies on the relationship between green finance and sustainability performance in emerging economies (China, Bangladesh, and Vietnam) (Wang and Zhi, 2016; Zheng et al., 2021; Bui et al., 2020), very little empirical data is available in fragile and conflict-ridden economies. The financial sector of Afghanistan is also a difficult sphere to work in due to its political instability, weak institutional capacity, low financial inclusion, and exposure to climate-related risks, like droughts and floods (World Bank, 2020; UNDP, 2021). These circumstances increase the significance of sustainable finance systems which favor resilience, inclusive growth and environmental conservation.

Climate-sensitive sectors constitute a major part of the economy of Afghanistan, and the direct impact of environmental degradation is considered to be the risk to livelihoods, food security, and macroeconomic stability (World Bank, 2020). At the same time, the lack of long-term development perspectives is destabilized by continued poverty, unemployment, and social exclusion (UNDP, 2021). In that regard, the financial institutions are in a strategic position to

direct funds in renewable energy, sustainable infrastructure, and inclusive development projects (UNEP, 2016; OECD, 2017). Although this is a possibility, there is virtually no empirical research on the practices of green finance and sustainability performance in Afghanistan.

Moreover, even though the idea of green finance is framed as a multidimensional concept that involves economic, environmental, and social aspects (Scholtens, 2017; Zheng et al., 2021), little focus has been given to the mediating role of the social dimension in weak institutional settings. Knowledge of such a mediating mechanism is important since stakeholder trust, employee engagement, and organizational reputation can enhance the efficacy of environmental and economic sustainability initiatives (Eccles et al., 2014; Malik, 2015).

This paper fills such gaps by considering the variables that influence the sustainability performance of the financial institutions in Afghanistan with particular reference to green finance. Particularly, the paper examines the impact of the economic and environmental aspects of green finance on the sustainability performance and the presence of the social aspect in mediating these effects. This study provides a methodological rigor because validated measurement scales in previous studies of green finance, especially Zheng et al. (2021), are adjusted to the banking sector of Afghanistan and presents new empirical data in a not well-studied context.

The contribution of the study to the theory is that it advances the research on sustainability finance to the context of weak economies and empirically supports the mediating impact of social sustainability. In practice, it gives policymakers, regulators and banking managers practical advice on how to improve the structures of green finance and improve sustainability performance in the Afghan financial sector.

## **Literature Review and Hypotheses Development**

### **Green Finance**

Green finance is a set of financial operations that contribute to the environmentally sound development and at the same time create economic and social value (UNEP, 2016; OECD, 2017). It includes green lending, financing renewable energy, sustainable infrastructure investment, and environmental risk management (Wang and Zhi, 2016; Scholtens, 2017). The increasing use of green finance is caused by the issue of global climate change, regulatory requirements, stakeholder demands, and the need to achieve long-term financial stability (D'Orazio and Popoyan, 2019).

There is empirical evidence that green finance enhances the environmental performance, risk management, and sustainable economic growth (Wang and Zhi, 2016; Zhang et al., 2021). Banks and other financial institutions that incorporate the notion of sustainability into lending and investment choices are likely to have a better image, client retention, and financial results (Weber, 2012; Friede et al., 2015). In recent research, green finance is a construct that is multidimensional and based on economic, environmental, and social aspects (Scholtens, 2017; Zheng et al., 2021).

### **Green Finance and Sustainability Performance Economic Dimension.**

Green finance is considered to focus on the economic aspect, which prioritizes financial effectiveness, profitability, cost-saving, reduced risks, and long-term value generation through sustainable investment and lending practices (Weber, 2012; Scholtens, 2017). Renewable energy initiatives and business ventures that are environmentally conscious are better financed in green to enhance diversification of portfolios and mitigate environmental and regulatory risks (Wang and Zhi, 2016; D'Orazio and Popoyan, 2019).

Empirical research has shown that financial sustainability practices have a positive impact on financial performance and organizational resiliency. Friede et al. (2015) established a positive correlation between sustainability practices and financial performance which was high. Likewise, Weber (2012) also found out that environmental and social risk management improves long-term profitability and financial stability. According to Zheng et al. (2021), the economic aspect of green finance is a positive predictor of sustainability in the financial institutions.

On the basis of this evidence, the following hypothesis is the following:

H1: This is because the economic aspect of green finance positively influences the performance of sustainability.

### **Green Finance and Sustainability Performance in Environmental Dimension.**

Green finance has an environmental aspect, which aims at curbing environmental degradation, assisting in climate mitigation and adaptation, low-carbon development, and financing environmentally responsible projects (UNEP, 2016; OECD, 2017). Green financing projects enhance efficiency in the environment, carbon emission reductions, and sustainable industrial revolution (Wang and Zhi, 2016; Zhang et al., 2021).

Organizationally, environmental sustainability activities lead to lower regulatory risks, increased legitimacy, as well as competitiveness in the long term (Eccles et al., 2014; Scholtens, 2017). The positive correlation between the environmental sustainability practices and the organizational performance is supported by empirical studies (Weber, 2012; Friede et al., 2015; Zheng et al., 2021).

Thus, the hypothesis below is put forward:

H2: Green finance has a positive impact on sustainability performance in terms of environmental dimension.

### **Green Finance Social Dimension.**

The social aspect of green finance is the financial activity that fosters social inclusion and employee welfare, stakeholder confidence, community building, client contentment, and the ethical accountability (Scholtens, 2017; Zheng et al., 2021). The practices of socially responsible banking increase the organizational legitimacy, commitment of its employees, and its relations with the stakeholders (Eccles et al., 2014; Porter and Kramer, 2011).

The existing empirical data suggest that social sustainability practices enhance positive organizational performance and mediate the connection between environmental initiatives and organizational performance (Malik, 2015; Friede et al., 2015). The socially inclusive financial practices in developing economies also lead to poverty reduction and social cohesion (UNEP, 2016; World Bank, 2020).

### **Intermediate Position of the Social Dimension.**

According to mediation theory, independent variables have impacts on dependent variables via intervening processes (Hayes, 2018). Related to green finance, economic and environmental sustainability projects can contribute to sustainability performance indirectly through the reinforcement of social performance (e.g. stakeholder trust, employee engagement, organizational reputation, etc.) (Eccles et al., 2014; Malik, 2015).

This is a mediating mechanism which is supported by empirical studies. Malik (2015) discovered that corporate social responsibility acts as an intermediary between environmental management practices and the performance of firms. Zheng et al. (2021) also proved that the social aspect mediates the connection between the green finance dimensions and sustainability performance of financial institutions.

Thus the hypotheses are the following:

H3: There is a mediating social aspect in the relationship between the economic aspect of green finance and sustainability performance.

H4: The social dimension interposes the association between the environmental aspect of green finance and sustainability performance.

## **Methodology**

### **Research Design**

To explore the relationships between the dimensions of green finance and sustainability performance in the banking sector in Afghanistan, this paper will use a quantitative and cross-sectional research design. The survey methodology was a structured questionnaire survey, which aligns with the previous studies in the field of sustainability finance (Weber, 2012; Zheng et al., 2021).

### **Population and Sample**

The target population will be employees of commercial banks that are based in Afghanistan, including branch managers, credit officers, relationship managers, and operations staff. The sample size of 200 respondents was chosen based on convenience sampling, which is suitable in weak settings where there are limitations to access (Hair et al., 2019).

### **Instrument Development and Measurement.**

A structured questionnaire based on validated scales that have been previously deployed in earlier research was utilized to collect data, especially Zheng et al. (2021), Weber (2012), and Eccles et al. (2014). Everything was measured with a five-point Likert scale that included 1 = Strongly Disagree to 5 = Strongly Agree.

The questionnaire was split into four parts:

Economic Dimension of Green Finance (ECO) - Independent Variable.

Environmental Dimension of Green Finance (ENV) -IV.

Green Finance (SOC) Social Dimension - Mediating Variable.

Sustainability Performance (SP) - Dependent Variable

### **Data Collection Procedure**

The questionnaire was distributed to banking professionals online and paper-based. The academic purpose of the study was explained to the respondents and confidentiality and anonymity were guaranteed to them. The involvement was voluntary.

**Data Analysis Techniques**

The SPSS Version 26 was used to analyze the data. The reliability analysis (Cronbach alpha), correlation, multiple regression, and mediation analysis with the use of PROCESS Macro Model 4 (Hayes, 2018) and 5,000 bootstrap samples were carried out. The methods have been popular in sustainability and green finance studies (Hair et al., 2019; Zheng et al., 2021).

**Reliability Analysis**

**Table 1: Reliability Statistics**

Variable	Items	Cronbach's Alpha
Economic Dimension (ECO)	7	.87
Environmental Dimension (ENV)	6	.85
Social Dimension (SOC)	6	.89
Sustainability Performance (SP)	7	.91

The findings on reliability indicate high internal consistency among all constructs. The scale of sustainability performance showed the best reliability coefficient ( =.91) and this means that it has good measurement stability. Likewise, the social dimension ( scale =.89), economic dimension ( scale =.87) and environmental dimension ( scale =.85) scales were also highly reliable. These results prove that the modified measurement tools are suitable to examine the relationships between the dimensions of green finance, social sustainability, and sustainability performance.

**4.2 Correlation Analysis**

**Table 2: Pearson Correlation Matrix (N = 200)**

Variable	ECO	ENV	SOC	SP
ECO	1			
ENV	.61**	1		
SOC	.58**	.63**	1	
SP	.65**	.67**	.72**	1

**Note: p < .01**

The correlation findings show that all significant study variables have a positive and significant correlation with each other. In particular, the economic aspect of green finance demonstrates the high positive relationship with sustainability performance (r =.65, p <.01) which implies that the greater the economically sustainable practices of financing the more favorable sustainability performance of financial institutions. On the same note, the environmental aspect is also directly related to sustainability performance (r =.67, p <.01) in that, the more the banks have environmentally responsible financing practices the more they are likely to have strong sustainability performance.

The social aspect shows the highest relationship with the sustainability performance (r =.72, p <.01), which underscores the importance of social sustainability practices, including stakeholder engagement, financial inclusion, and ethical governance, towards increased organizational sustainability results. In addition, the independent variables have significant relationships with the mediating variable, with economic dimension having a relationship with social dimension (r =.58, p <.01) and the environmental dimension having a relationship with social dimension (r =.63, p

<.01). The results are a tentative evidence of the relationships hypothesized and the reason to continue with regression and mediation analyses.

**Regression Analysis**

The analysis was performed using multiple regression to investigate the direct impact of the economic and environmental aspects of the green finance on the sustainability performance. The outcomes are presented in terms of the Model Summary, ANOVA, and Coefficients tables.

**Direct Effects of ECO and ENV on Sustainability Performance**

**Table 3: Model Summary**

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Std. Error
1	.74	.55	.54	.43

The summary of the model shows that the joint explanatory power of the economic and environmental dimensions is significant. In particular, the model describes 55 percent of the sustainability performance variance (R<sup>2</sup> =.55), which indicates that green finance practices are a huge percentage of differences in sustainability results across financial institutions. The value of adjusted R<sup>2</sup> at .54 can also be used to confirm that the model is robust in the light of the number of predictors it adjusts. Such power of explanation is assumed to be strong in behavioral and organizational studies, which means that the economic and environmental sustainability practices are significant in determining sustainability performance in the Afghan banking sector.

**Table 4: ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	39.21	2	19.60	104.82	.000
Residual	32.49	197	.165		
Total	71.70	199			

The findings of the ANOVA show that the general regression model is statistically significant (F = 104.82, p <.001) and the group of predictors collectively accounts for a notable proportion of sustainability performance variance. This observation supports the fact that the economic and environmental aspects of green finance are collectively effective in forecasting sustainability performance in the financial institutions and that the regression model is an appropriate fit to the observed data.

**Table 5: Regression Coefficients**

Predictor	B	Std. Error	β	t	Sig.
(Constant)	0.81	0.22	—	3.68	.000
ECO	0.39	0.06	.42	6.41	.000
ENV	0.43	0.07	.45	6.87	.000

The regression coefficients show that the two independent variables have significantly positive effects that are statistically significant on sustainability performance. The economic aspect of green finance has a standardized coefficient of 42 = -1(p =.001) indicating that a one standard deviation rise in practices of economically sustainable financing is related to a 42 standard

deviation rise in sustainability performance, other things remaining unchanged. This observation supports the notion that finance institutions which focus on economically viable green investments are more likely to achieve better results with regard to long-term sustainability such as an increase in financial stability, less risk exposure, and competitive positioning.

In the same way, the environmental aspect of green finance shows a strong positive impact on sustainability performance (45 = +, p = .001). This finding suggests that the more actively banks are involved in the lending and investment activities that are environmentally responsible, the better the sustainability performance of banks. The fact that the beta coefficient of the environmental dimension is slightly higher than the economic dimension is indicative of the fact that the environment sustainability practices have a slightly stronger impact on the overall sustainability outcomes. Combined, these results confirm Hypotheses H1 and H2 and the significance of including both economic and environmental concerns in green finance plans.

**Table 6: Merged Mediation Analysis Table**

**Mediation Analysis Results Using PROCESS Model 4 (N = 200, Bootstrap = 5,000)**

Path	Predictor → Outcome	B	SE	β	t	p	BootLLCI	BootULCI
a <sub>1</sub>	ECO → SOC	0.52	0.05	—	10.40	.000	—	—
a <sub>2</sub>	ENV → SOC	0.57	0.05	—	11.40	.000	—	—
b <sub>1</sub>	SOC → SP (controlling ECO)	0.49	0.06	.50	8.17	.000	—	—
b <sub>2</sub>	SOC → SP (controlling ENV)	0.51	0.06	.52	8.62	.000	—	—
c <sub>1</sub>	ECO → SP (Total Effect)	0.47	0.05	—	—	—	—	—
c <sub>1</sub> '	ECO → SP (Direct Effect)	0.21	0.05	.23	4.20	.000	—	—
Ind <sub>1</sub>	ECO → SOC → SP (Indirect)	0.26	0.04	—	—	—	0.18	0.35
c <sub>2</sub>	ENV → SP (Total Effect)	0.51	0.05	—	—	—	—	—
c <sub>2</sub> '	ENV → SP (Direct Effect)	0.24	0.06	.25	4.33	.000	—	—
Ind <sub>2</sub>	ENV → SOC → SP (Indirect)	0.27	0.05	—	—	—	0.18	0.38

**Note.** ECO = Economic dimension; ENV = Environmental dimension; SOC = Social dimension; SP = Sustainability performance. Bootstrap confidence intervals are based on 5,000 resamples.

**Path a (IV → Mediator Effects)**

In the former set of paths (a 1 and a 2 ) the authors investigate how the economic and environmental aspects of green finance affect the social one. The findings show that the economic aspect has a positive but statistically significant impact on the social aspect (B = 0.52, SE = 0.05, t = 10.40, p = .001). This implies that the financial institutions that focus on economic sustainability practices, including long-term profitability, sustainable lending, and risk management, have high chances of enhancing socially responsible practices such as stakeholder engagement, ethical governance, and community development. On the same note, the environmental dimension also has a strong positive relationship with the social dimension (B = 0.57, SE = 0.05, t = 11.40, p < .001), which means that environmental oriented green finance projects increase the social performance of banks. These results reinforce the fact that economic and environmental sustainability practices are essentially drivers of social sustainability in financial institutions, and thus, meet the mediation condition of the first hypothesis of both pathways.

### **Path b (Mediator -Dependent Variable Effects)**

The second group of paths (b 1 and b 2 ) assesses the impact of the social aspect on the sustainability performance and adjusts the corresponding independent variables. The findings reveal that the social aspect is a strong and positive predictor of the sustainability performance with the economic aspect held constant (  $\beta = .50$ ,  $p < .001$ ) and with the environmental aspect held constant (  $\beta = .52$ ,  $p < .001$ ). These standardized coefficients imply that the effect sizes are large, and as such, the improvement in the stakeholder relations, employee welfare, ethical practices, and community engagement have a considerable impact on the overall sustainability performance of financial institutions. This solidifies the core importance of social sustainability as one of the transmission mechanisms in which green finance practices are converted into concrete long-term organizational results. The second mediation condition, which is that the mediator is an important predictor of the dependent variable, is therefore met completely.

### **Total Effects (Path c)**

Paths c 1 and c 2 are the overall impact of the economic and environmental aspects on sustainability performance prior to the introduction of the mediator. The economic aspect shows strong positive overall impact on the sustainability performance (  $B = 0.47$ ) and the environmental aspect shows even greater overall impact (  $B = 0.51$ ). These findings show that economic and environmental green finance practices have positive effects on the sustainability performance of financial institutions, which are independent of each other. This supports the fact that sustainability-based financial strategies have a direct positive impact on organizational resilience, legitimacy, and value creation in the long term, which preliminarily proves Hypotheses H1 and H2.

### **Direct Effects (Path c')**

Once the social aspect is brought on to the regression model, the direct effects of the two independent variables on the sustainability performance are no longer as large but are statistically significant. In particular, the direct impact of the economic aspect on sustainability performance is lowered to  $B = 0.21$  (the  $\beta = 0.23$ ,  $p < 0.001$ ), the direct impact of the environmental aspect is lowered to  $B = 0.24$  ( the  $\beta = 0.25$ ,  $p < 0.001$ ). It is a drop that suggests that some of the effect of the economic and environmental green finance efforts are passed on via social sustainability practices. Nonetheless, due to the fact that the direct effects have not faded, the mediation is not perfect and this implies that economic and environmental initiatives have independent impacts on sustainability performance other than the social sustainability impacts.

### **Type of Mediation and Indirect Effects.**

The most statistically significant mediation is the indirect effects (Ind<sup>1</sup> and Ind<sup>2</sup> ). The economic dimension indirectly impacts the sustainability performance via the social dimension with the  $B = 0.26$ , bootstrapped confidence interval of between 0.18 and 0.35, excluding the value of zero. On the same note, the indirect impact of the environmental dimension on the sustainability performance via the social dimension is  $B = 0.27$  with another bootstrapped confidence interval of 0.18 to 0.38 that also excludes a zero. The outcome of these results supports the existence of statistically significant mediation effects in both models. Since the indirect effects are also substantial, as well as the respective direct effects, the mediation is considered to be partial mediation in both instances. This means that even though social sustainability is a major mechanism that connects the green finance practices to sustainability performance, the economic and environmental initiatives also affect performance in other ways.

In summary of the Mediation analysis, it is important to note that there are four distinct categories of relationships.

In general, the combined outcomes of mediation give solid empirical data that the social aspect mediates the relationships between the economic and the environmental aspect of green finance and sustainability performance to some extent. These results indicate that green finance projects can positively impact organizational performance by improving performance on both economic and environmental levels but also, by deepening the social interactions, organizational legitimacy, and trust in stakeholders. Therefore, Hypotheses H3 and H4 are completely justified, which supports the theoretical hypothesis that the mechanisms of social sustainability are key in the process of transforming the green finance practices into the best sustainability performance results in financial institutions.

**Table 7: Summary of Hypothesis Testing**

<b>Hypothesis</b>	<b>Statement</b>	<b>Result</b>
H1	ECO → SP	Supported
H2	ENV → SP	Supported
H3	ECO → SOC → SP	Supported (Partial Mediation)
H4	ENV → SOC → SP	Supported (Partial Mediation)

## **Discussion**

In this research, the authors have explored how green finance impacts sustainability performance of the banking industry in Afghanistan based on the economic and environmental aspects of green finance, where the social aspect is used as a mediating variable. The results show that the two aspects of green finance have a significant and positive effect on sustainability performance, and that social sustainability mediate the relationships to some extent.

The beneficial impact of the economic dimension on the sustainability performance corresponds to the previous studies that identified sustainable financial practices to enhance financial sustainability, risk management, and long-term profitability (Weber, 2012; Friede et al., 2015; Zheng et al., 2021). Banks can improve the quality of portfolios by investing in environmentally responsible projects and sustainable businesses and minimizing the environmental and regulatory risk (Wang and Zhi, 2016; D’Orazio and Popoyan, 2019). Such results are especially relevant to the unstable economic environment of Afghanistan, where financial or financial stability and institutional stability are the key to sustainable development.

In the same fashion, green finance environmental aspect has been discovered to positively affect the sustainability performance, which aligns with the research indicating that the ecological performance, organizational legitimacy, and stakeholder trust are positively affected by environmentally responsible financing (UNEP, 2016; Zhang et al., 2021; Zheng et al., 2021). Environmental sustainability practices help banks to match the global climate targets and enhance regulatory compliance and reputational capital (OECD, 2017; Weber, 2012).

The main contribution of this study is that it investigates the mediating effect of the social dimension. The results show that social sustainability moderates the correlations between economic and environmental green finance practices and sustainability performance. This implies that green finance projects benefit the organizational performance not only by financial and environmental processes but also by boosting trust in the stakeholders, involvement of the

employees, reputation of the companies, and community ties. These findings align with the stakeholder theory (Freeman, 1984) and the existing empirical data that proves that the practices of social responsibility increase the advantages of sustainability initiatives in terms of performance (Eccles et al., 2014; Malik, 2015; Friede et al., 2015).

In the Afghan case, where social cohesion, institutional trust and community involvement are paramount to the rebound and stability of the economy, the mediating presence of the social aspect is especially acute (UNDP, 2021; World Bank, 2020). Financial institutions, which incorporate social responsibility in green finance practices, are in a better place to improve legitimacy, customer attraction, employee retention as well as long-term stakeholder support, which improves sustainability performance and supports the development goals of the country.

All in all, the results are an addition to the green finance literature as they provide empirical data of a weak and underresearched economy and clarify how green finance changes organizational performance.

## **Conclusion**

This paper examined the influences in the sustainability performance of financial institutions in Afghanistan, including the contribution of the green finance concept and the mediating role of the social aspect. Several statistical tests that were conducted with the help of SPSS and the use of data by 200 banking professionals prove that green finance has a great impact on the sustainability performance, both in economic and environmental dimensions. Moreover, these relationships are partly mediated by the social dimension, which means that stakeholder trust, employee welfare, organizational reputation, and community engagement increase the influence of green finance on the outcomes of organizations.

These results highlight the need to have a holistic approach to green finance which involves economic viability, environmental stewardship as well as social responsibility. In weak economies with a high level of conflict, as in the case of Afghanistan, where financial institutions are exposed to increased risks and developmental difficulties, green finance is a viable solution to improve the level of resilience, legitimacy, and long-term sustainability.

The research helps to enhance the sustainability finance literature by extending the empirical evidence to an under-researched setting and clarifying the mediating effects of the green finance on organizational performance. In practice, the results can be used as actionable information to policymakers, regulators and banking managers in order to enhance sustainable finance frameworks and to harmonize the practices of the financial sector with the national development priorities and other sustainability agendas worldwide.

## **Implications**

### **Theoretical Implications**

The research also advances the sustainability finance theory by empirically proving the multidimensionality of green finance and shows the intermediating role of the social dimension in the correlation between green finance practices and sustainability performance. It applies the stakeholder theory and triple bottom line models to weak institutional settings, and thus, increases their predictive capacity in the developing and post-conflict economies.

### **Practical Implications**

To practitioners in the banking industry, the findings emphasize the need to incorporate green finance strategies of economic efficiency, environmental responsibility, and social inclusion. The bank managers are to invest in the financing of renewable energy, energy-efficient technologies, and environmentally responsible projects at the same time enhance the stakeholder engagement, employee development, and community outreach efforts.

### **Policy Implications**

To encourage the adoption of green finance in the banking sector of Afghanistan, regulators and policymakers need to come up with favourable regulatory frameworks, incentives and reporting standards. Sustainable finance initiatives can also be augmented by capacity-building initiatives, risk-sharing mechanisms and partnering with international development institutions.

### **Future Research and Limitations**

This paper has a number of limitations. To start with, cross-sectional data makes causal inference difficult. Future research can take the form of longitudinal research to determine how green finance practices and sustainability performance varies with time. Second, convenience sampling can reduce the generalizability, but such a method is reasonable in weak contexts where access issues dominate. Third, the author is restricted by the fact that only commercial banks are analyzed in the study; in the future research, it is possible to include microfinance institutions, insurance firms, and Islamic financial institutions into the model.

Further research can also investigate other mediators or moderators, including regulatory support, organizational culture, green innovation or institutional trust. Cross-country studies between weak and robust economies would also contribute to the knowledge of the contextual factors in the sustainable finance performance.

### **Appendix A: Questionnaire Items**

Scale: 1 = Strongly Disagree | 2 = Disagree | 3 = Neutral | 4 = Agree | 5 = Strongly Agree

#### **Economic Dimension of Green Finance (ECO)**

ECO1. Green financing practices improve the competitive advantage of our bank.

ECO2. Green financing contributes to increased revenues and long-term profitability.

ECO3. Green financing enhances our bank's contribution to sustainable economic development.

ECO4. Green financing creates additional economic value for our institution.

ECO5. Green financing improves the quality and sustainability of our asset portfolio.

ECO6. Green financing reduces financial and environmental risks faced by our bank.

ECO7. Green financing helps reduce operational and investment-related costs in the long run.

#### **Environmental Dimension of Green Finance (ENV)**

ENV1. Our bank finances projects that reduce energy consumption and improve resource efficiency.

ENV2. Our bank supports renewable energy and environmentally friendly technologies through financing.

ENV3. Green financing in our bank contributes to reducing environmental pollution.

ENV4. Our bank considers environmental risks when making lending and investment decisions.

ENV5. Green financing practices reduce carbon emissions associated with banking activities.

ENV6. Our bank actively promotes environmentally sustainable business practices among its clients.

### **Social Dimension of Green Finance (SOC)**

SOC1. Green financing improves the public image and reputation of our bank.

SOC2. Green financing enhances trust between our bank and its stakeholders.

SOC3. Our bank engages more effectively with communities through green finance initiatives.

SOC4. Green financing increases customer satisfaction and loyalty.

SOC5. Green financing improves employee motivation, well-being, and engagement.

SOC6. Our bank demonstrates strong social responsibility through its green financing activities.

### **Sustainability Performance (SP)**

SP1. Green financing improves the overall sustainability performance of our bank.

SP2. Green financing enhances the long-term financial stability of our bank.

SP3. Green financing reduces the environmental footprint of our banking operations.

SP4. Green financing improves our compliance with environmental and social regulations.

SP5. Green financing strengthens our bank's reputation among stakeholders.

SP6. Green financing enhances our bank's contribution to sustainable development goals.

SP7. Green financing improves relationships between our bank and the community.

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