SOCIAL SCIENCE REVIEW ARCHIVES
ISSN Online: 3006-4708
ISSN Print: 3006-4694
https://policyjournalofms.com

Financing the Green Transition: Renewable Energy, Economic Development, and Sustainability

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DOI: https://doi.org/ 10.70670/sra.v3i4.1534

Abstract

This paper will analyze how renewable energy sources and green financing affect the economic growth and sustainability, paying attention to the environmental aspect. Based on the World Bank and the International Monetary Fund (IMF) data and the Pakistani country commercial guide, which is applicable since 2000 to 2022, the study is going to investigate the role of these independent variables in contributing to sustainable economic growth. This is a distinct study to explore the effect of renewable energy resources and green financing on economic development and sustainability with the inclusion of the environmental factors based on the data in 2000 and 2022. Data is refined followed by descriptive statistics, panel least square test, Hausman test and fixed effect model. It is the first domestic study in Pakistan to take a longitudinal data and comprehensive evaluation of financial and environmental effects, which will result in unprecedented information on how green initiatives and sustainable financial practices contribute to long-term economic development. The discussion illuminates the importance of renewable energy towards a decrease in environmental degradation and the power of green financing in financing green projects. The incorporation of environmental aspects in the analysis enables the study to give an overall picture of how renewable resources and green financing contribute to the sustainability of the economy. The results highlight the importance of enhancing the green agenda and financial sustainability so as to attain sustainable economic growth in the long run. Through analysis, it is seen that the issue of green financing or the financial systems as well as the financial investments in an environmentally sustainable project as well as initiative becomes a strong driver of sustainable economic growth. The positive coefficient that relates to green financing highlights its contribution in the economic activity and at the same time, enhancing the environmental goals. The fact that the coefficient on environmental factors is negative points to the fact that when the environmental quality and conservation initiatives are improved, the economic performance is directly associated. In general, the results emphasize the interdependence of environmental sustainability and economic growth, and it is crucial to emphasize the necessity of taking holistic measures that would balance both economic success and environmental management.

Keywords: Renewable Energy, Green Financing, Economic Development, Sustainability, Environmental Factors, Pakistan, Longitudinal Study, Sustainable Growth

Introduction and Background of the study

There is an increasingly high demand for services and facilities in developing countries. The demand is in the form of urban development, agricultural infrastructure, and energy. The demand is crucial for ensuring basic necessities of people living in a developing country (Falcone & Sica, 2019). Growing demand makes things urgent that there should be a win-win scenario for all participants aiming to grow sustainably. For this purpose, the role of global environmental obligations is crucial. There is the desire as well as responsibility for the economy to be green but there is also a challenge to make this happen (Raberto, Ozel, Ponta, Teglio, & Cincotti, 2019). In doing so, an individualistic approach is not wise but there should be a collective approach. All stakeholders should be on board to move and take steps towards sustainability. Research has indicated that different industries have different levels of role to environmental degradation. Construction is one of the industries that contributes its major part in making the environment degraded. It is responsible for resource depletion and environmental adverse impacts (Aizawa & Yang, 2010). Pakistan has been facing adverse effects of climate change, global warming, and resulting damage to weather and economy. The impact of lack of responsibility is in the form of extreme weather conditions, reduction in wealth, and poor health of the population. It also adversely affects productivity and damages infrastructure through adverse effects of weather (Mumtaz & Smith, 2019). Adverse and harmful effects of uncertain and extreme weather conditions are vital to the economy and its different forms and structures. For instance, it disrupts economic development and shape business activities adversely. Businesses also face challenges by facing disruptions and are exposed to human resource shortages. Damage to the agricultural sector is severe while there is room for the application of innovative solutions and technology to make effects less harmful. Countries like Pakistan must take steps to keep things in favor of the agricultural sector by removing negative effects on the sector from weather and climatic changes (Malik, Qasim, & Saeed, 2018). The main role should be to remove uncertainties so that a smooth and certain environment can guarantee economic prosperity and favorable environment for investment (Migliorelli & Dessertine, 2019).

Research Gap

Pakistan, as well as many other developing nations, has difficulties with the balancing of green energy and renewable resources with economic development. Although there is an increasing awareness of the need to use green energy and be sustainable, a number of reasons contribute to the gap that exists. The Imbalance in Energy Demand/Supply: There is a great imbalance between the energy demand and supply in Pakistan which has resulted in frequent power cuts and excessive dependence on fossil fuels. The development of infrastructure and significant investment to meet the increasing energy demand and switch to renewable sources is very demanding. Renewable energy infrastructure is expensive to invest in. Pakistan is a country with limited financial resources and rival development priorities hence struggling to raise funds towards sustainable energy projects. The key developments that will fill this gap are accessing international climate funds and attracting private investments. This is the gap that this research has identified and aims to pursue this gap so that research can be conducted in this direction. Renewable energy, green energy, renewable resources, and economic development in the context of green financing are important variables and this research has noticed their relevance in the modern era of environmental responsibility. For example, there is a well-researched area to focus on how renewable resources can affect financial performance. It can be organizational or any other micro level entity. Its study on economic development and sustainability for a country can be a valuable research topic. This is what has been explored and focused on in this research. The element of green financing makes the research process further valuable and important because it is essential to consider how departmental and government level regulations play their role.

Research Questions

1. What are the current trends and challenges in green financing in Pakistan, and how can they be addressed to promote sustainable development?

2. How green financing and renewable energy resources and be used in better way to enhance the production and to sustainability of the economy of the country?

This research question focuses on the examination of the existing state of green financing in Pakistan, including the trends and challenges associated with it. It also seeks to explore potential strategies to address these challenges and enhance the promotion of sustainable development in the country. Now, question is that how green financing or the use of renewable resources either will affect the environment or not.

Research Objectives

To design an integrated strategic framework for optimizing the use of green financing and renewable energy resources in Pakistan, by first diagnosing the current trends and challenges in its green finance sector, and then identifying synergistic pathways to enhance economic production and ensure long-term sustainability.

Scope of Study:

There are many companies in Pakistan which are doing business in different fields. There is record of public limited companies with the Securities and Exchange Commission of Pakistan. State Bank of Pakistan also has record of companies and overall economic indicators in the country. The need for green financing scheme was felt at the State Bank of Pakistan level. Green Banking Guidelines were issues in 2017 which established the role of green financing practices of banks. They can have better and certain path to become sustainable and environment friendly business. Such company is in a better position to contribute to the economic development of a country. There is also lack of awareness for global finance and financing therefore, this study has taken the case to cover some concerning issues and has noted if green finance contributes to economic development and prosperity of Pakistan. Another aspect is worth noting to define and explain is the scope of this research. It has collected secondary data based on renewable energy, green financing, and economic development of Pakistan. The focus has been on the agricultural sector but there has been considerable focus on how these resources and green financing affect economic development in general as well. For the purpose of making results objective and applicable for general situations, the research has employed statistical tests on the collected data. This is how it has been learned how the relationship between these variables shapes the context and the circumstances for the agricultural sector of the country. It is highly relevant for studying green aspects of financing and business perspectives. There are sustainable development goals from the UN and Pakistan is following them. At the national level, Pakistan has environmental targets and goals to serve the interests of green and sustainable future. There is the element of financing to ensure green and sustainable targets so that financing helps to achieve sustainable practices. In this respect, the impact on economic development should not be ignored. The impact on economic development must be positive and there should be a positive impact on sustainability as well. It is therefore essential to study these dependent variables in this relationship between variables. Renewable energy resources and green financing are vital in the scope of this research, and it is worth considering the impact so that environmental responsibility and its alignment with economic development should remain in scope.

Literature Review

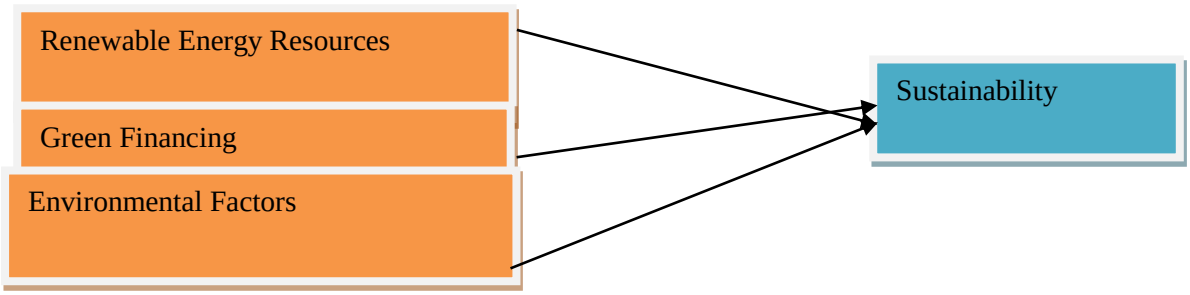
This chapter has taken a review of previous studies on the topic. The reason is to have a background of research studies in the area of research and interest. The focus is on renewable resources, green finance, economic development, sustainability, and related areas. These variables are valuable to further study because the conceptual model and the relationship between variables is based on previous research studies. Finance and policies on financial management are crucial for the human progress and economic development. The role of financial system is also there at the national and international levels. The purpose of global system is to provide smooth and certain environment

to businesses and corporations. Financial system basically works on the concept of savings as people ensure savings and put them in financial systems of their respective countries. Some of them are in need of financial help and it lets them to ask for financial support from financial banks and institutions. In this case, lack of guidance and less responsibility for the environment lead them to go for projects which are harmful to the environment. It is note that human economic and business activities cause damage to the environment badly (Sachs, 2014). Financial markets and their role in an economy is to mobilize and accelerate financial resources. The purpose is to spread the distribution of financial resources in the manner that everyone can benefit from financial resources. It is also the case at the global level when international financial institutions make policies and strategies for the world. The purpose should be to divert the direction of resources from wealthy countries to poor countries. There have been long standing concern about poor African countries those have been out of the financial system because of lack of opportunities. Global financial institutions have included them in the global system through the use of technology. Information and communication technologies have evolved to the level where African countries are also able to be part of the global financial system. Research has noted the role of banks in this financial system to mobilize and divert resources effectively. The purpose is to bring them at par and follow a unanimous economic policy. In this regard, global financial institutions also follow sustainable development goals through which environmental stewardship is the top priority (Taghizadeh-Hesary and Yoshino 2016).

Financial institutions and leaders have realized this at the global level that they should ensure sustainable development. It has also been noted that financial institutions should contribute actively to reforms and transformation of the economic structure nationally and globally. Focus of sustainable development goals is not merely on economic benefits but it also proves to benefit the environment as well. An aspect of these SDGs is to spread resources and make them equally available for all so that equality leads peace and prosperity in the country. Economic activities call for coal and other fossil fuel to run the industry. Several studies like Hamilton 1983; Barky and Killian 2004; Taghizadeh–Hesary, Yoshino, Abdoli, and Farzinvash 2013; Taghizadeh–Hesary et al. 2016 have focused on the role of economic governance and policy certainty for all industries. The purpose is to avoid over reliance on fossil fuels. The role of banks is there which emphasize businesses and other stakeholders to stick to environmental stewardship and responsibility. There is recent research by Taghizadeh–Hesary, Yoshino, and Rasoulinezhad (2017) has presented the case of Japan. It is a developed country and is known for innovation and creativity. It had to face the Fukushima nuclear disaster in March 2011. It sent alerts to the Japanese government and the financial system of Japan. The immediate response was to shut down nuclear power plants which reduced the electricity produced through these plants substantially. However, the need for energy remained there and Japanese government saw an increase in the use of fossil fuels and other non-renewable energy resources. Japan does not produce fossil fuels and the only option for self-sufficiency closed in the form of the closure of nuclear power plants. As a result, its energy self-sufficiency decreased and fell from 19.6% in the 2000 fiscal year to 8.6% in the 2013 fiscal year (Ministry of Internal Affairs and Communication 2015). If there had been proper banks' response for green finance and investment in renewable energy resources, things could have been better. It emphasizes the role of green finance and availability of funds for this purpose. Removing nuclear power sources from energy production in Japan affected the goal of self-sufficiency badly. When Japan was hit by the 2011 earthquake, it was producing 13 percent of its energy needs form nuclear energy sources. It was only behind the US and France in nuclear energy production. After the incident, it produces only one percent of its energy needs form nuclear energy resources (Taghizadeh–Hesary et al. 2016). It should have chosen renewable energy resources if it wanted to replace nuclear energy. Ahmad et al (2022) have described and investigated determinants of renewable energy sources in Pakistan through its review towards it. They emphasized that any country must focus on sustainable energy when it is growing. Energy demand rises with the growth

in an economy that enlarges the gap between demand and supply of energy. Looking for determinants of renewable energy sources in Pakistan, the study has recommended that sustainable energy supply is possible through renewable energy sources. For this purpose, renewable energy technologies with the least operational externality cost should be the priority. Technological innovation should also be the focus so that new ways of sustainable energy generation can be worked out. Kumar et al (2022) have fostered green finance to ensure sustainable development. They have applied their research on SMEs in the textile and leather sector of Pakistan. The problem on the way of green finance is the policy uncertainty and short-term financial policy of the banking sector. There should be a tailored business advisory for SMEs so that they can understand how to implement sustainable and green energy practices. Government should play the role to overcome these limitations and hindrances on the way of green finance in the country. Fu and Irfan (2022) have studied economic sustainability and the element of sustainable or green financing. Environmental sustainability is also affected as a result of variables and their relationship. The study conducted for ASEAN countries has found that green financing and carbon emissions have a negative relationship that higher green financing will reduce carbon emissions. Its findings reveal that green financing improves and promotes environmental sustainability but at the expense of economic growth. It implies that economic growth or economic sustainability in relation to green financing can be challenging to get. Achievement of environmental sustainability comes at the expense of various indicators which indicate pressure on economic sustainability. These indicators include financial development, research and development investment, green technology, and foreign direct investment. The overall theme of this research calls for more research into economic sustainability, renewable energy projects, and green finance (Fu and Irfan, 2022). Rana et al., (2022) have studied environmental factors related to green financing so that the private sector can invest in renewable projects. The research has used digital media for this purpose where energy efficiency and sustainable development in the post COVID scenario has been emphasized. According to this study, environmental concerns, investing behavior, and financial rewards have strong correlations with each other. Investors are willing to make these kinds of investments and risk aversion does not affect them in these decisions. However, environmental factors which are very important are regulatory related. The research has also indicated the pro-environmental intention or behavior to make these investments and decisions. Interestingly, the study has revealed that the role of people and their willingness for such projects also play a critical role in green or renewable energy projects and the role of green financing in these relationships (Rana et al., 2022).

Theoretical Framework



This study framework is reply on the research from Raberto et al., (2019) which describes banks' engagement in green financing projects mainly purpose; to explore new business opportunities; compliance risk; loan risk management; and building a positive corporate reputation. According to Koch et al. (2014), the degree of participation in green financing involves banks' perspectives such as liquidity & capital, securities and interest rate risks, and worldwide technology. This study investigates the decision maker's commitment to green finance to their expected results. To improve financial performance is to issue more loans, however, with no excessive leverage. Banks

have historically developed many products to get more profits such as; personal mortgage loans, loan cards, car financing, etc. Previous research indicates that green financing increases new opportunities for business (Arkhipova, 2017). However, it is difficult to suppose that an increase in green financing loans would have a large profitability impact as banks also generate and rely on other income sources (Rehman, Ullah, et al., 2021). Further, the low fraction of the total loans of a bank shows green loan only.

Hypotheses Development

As most previous number of studies suggest, environmental issues consideration is primarily because of the concern of risk management (Migliorelli & Dessertine, 2019). Further, some researchers also find a correlation between loan risk and borrowers' sustainable performance (Falcone & Sica, 2019)**.** Therefore, this study tests whether more green loans exist the more risk increase more default risk for the bank when considering more high emission, massive financing projects. To achieve study objectives, lead to the development of the following hypotheses:

H1: Green financing and use of Renewable energy sources helps economic sustainability.
H2: Use of renewable energy sources decrease the cost of production and have great impact on agriculture sector in Pakistan.
H3: Green financing overcome the environmental factor effecting the economic sustainability in Pakistan.

Research Methodology

The methodology follows the exploratory research design. It will do this by collecting and reviewing secondary data collected from stock exchange of Pakistan website. It will also consult data from other secondary sources by taking information of agricultural companies and their tendency of renewable energy sources and using them for their performance.
Themes will be drawn from the literature and comparison and contrast of themes will lead to come with findings for this research. This is how; this research will bring new findings with respect to renewable energy and green finance in the context of Pakistan specifically.

Measurement of variables

Variables used in this study are renewable energy resources, economic sustainability through environmental factors and green finance. For the measurement of variables, secondary data has been used through credible secondary sources like World Bank, World CIA Factbook, IMF, Asian Development Bank, Securities and Exchange Commission of Pakistan, and similar other credible energy resources.

The data collection process is followed by application of statistical tests including correlation and regression. These statistical tests have informed if they are in a relationship and the direction of the relationship between them.

Operationalization of Variables

Variable	Definition	Measurement/Indicators	Data Source
Sustainability	The ability to maintain economic development without depleting resources or harming the environment	➢ GDP growth rate ➢ Employment rate ➢ Carbon footprint	World Bank, IMF

		➢ Energy efficiency	
Green Financing	Financial investments in projects and activities that contribute to environmental sustainability.	➢ Amount of green bonds issued Number of green loans ➢ Investments in renewable energy projects	World Bank, IMF
Renewable Energy Resources	Energy derived from natural processes that are replenished constantly	➢ Percentage of total energy consumption from renewable sources ➢ Installed renewable energy capacity ➢ Investment in renewable energy projects	World Bank, IMF
Environmental Factors	External elements that impact the environment and sustainability	➢ Pollution levels (air, water, soil) Natural resource depletion rates ➢ Environmental regulation index	World Bank, IMF

Analysis

In this section, the in-depth analysis of the data gathered in the study is discussed. By using different statistical methods and analysis tools, we will solve the complexities of the dataset and reveal significant findings to the research questions asked. Using a careful analysis and interpretation of the data collected, this chapter aims to illuminate the relationship, pattern and trends of the same. Between descriptive statistics and inferential analyses, both approaches to methodology are carefully used to give a solid depiction of the research phenomenon. Through the deep analysis of the data, we aim at presenting meaningful addition to the body of knowledge already available in the subject and address the research questions stated in Chapter 1.

Descriptive statistics

The Descriptive statistics involves gathering, analysis, interpretation, presentation, and organization of data. It tries to briefly capture and explain the basic features of a dataset. This is a very important division of statistics that cannot be ignored in any quantitative and qualitative research because it provides the researcher and analyst with crucial information on the critical aspects of the data to be studied hence making understanding and clear communication easy. On the secondary data, Descriptive Statistics are applied. These are presented in the table No. 01 below.

Table 1: Descriptive Statistics

	RER	Sustainability	EFs	GRFIN
Mean	0.418834	0.132889	0.098296	0.106014
Median	0.575550	0.139574	0.097500	0.083700
Maximum	0.956081	0.794355	0.160000	0.657800
Minimum	0.362846	-0.832910	0.057500	0.001400
Std. Dev.	0.126548	0.224914	0.031553	0.096480
Skewness	0.584646	-2.265467	0.445140	2.970214
Kurtosis	3.034284	32.65657	2.176893	14.24417
Jarque-Bera	15.65342	14582.95	20.65476	3254.620
Probability	0.00000	0.000000	0.000010	0.000022
Sum	219.0755	39.98268	43.73473	31.87676
Sum Sq. Dev.	5.746782	4.737764	0.492899	3.236817

When discussing the summary statistics of Table No.1, in the framework of the Republic of Pakistan, it is possible to derive some insights into renewable energy (RER), environmental factors (EFs), green financing (GRFIN) and their effects on economics sustainable development (Sustainability). The average value of RER of 0.418834 shows that manufacturers in Pakistan have a moderate dependency on renewable energy sources. The value of skewness (0.584646) is close to 0: it indicates a slightly skewed distribution with more large values in the RER. On the same note, a moderately peaked distribution (Kurtosis: 3.034284) suggests that values of RER are concentrated around the mean but there are a few outliers. The non-normal distribution pattern that is usually found in economic data is further confirmed by the departure of normality (Jarque-Bra statistic: 15.65342; Probability: 0.00000). Curiously, there is a positive correlation between RER and Sustainability (mean: 0.132889) indicating that the increased reliance on renewable energy can have a positive effect on the economic sustainable development in Pakistan. To sum up, the learned messages underline the significance and value of renewable energy, environmental concerns, green financing to build a sustainable society economically in Pakistan. These factors might require further analysis and policy interventions to utilize them in order to ensure sustainable economic growth in the country.

Panel Unit Root Test:

A unit root test is a statistical test used in econometrics and time series analysis to identify the status of data in regard to its stationarity. The term stationarity refers to the situation where statistical properties of the series (mean and variance) remain the same with time. On the contrary, a non-stationary series has trends that make it challenging to produce reliable predictions or to make meaningful inferences.

Kao Residual Co-integration test:

Kao residual co-integration test is a statistical test used to determine the presence of co-integration in a system of non-stationary time series variables. Co-integration shows that two variables have a long-run relationship, although the variables may fail to be non-stationary when using the individual variable (Kao, 1999).

Table 2-A: Kao Residual Co-Integration Test

Null Hypothesis: No cointegration

Newey-West automatic bandwidth selection and Bartlett kernel

	t-Statistic	Prob.
ADF	-4.342456q	0.0000
Residual variance	0.004451	
HAC variance	0.003456	

Table 2-A shows the results of the Kao Residual Co-Integration Test employed on data collected for this research. The statistical analysis should examine a hypothesis of the possible co-integration of non-stationary time series variables in the data. The null hypothesis is that there is no co-integration. It is important to note that this analysis is done assuming no deterministic trend with a lag length specified by the user being 1. Looking at the results, the t-Statistic of the Augmented Dickey-Fuller (ADF) test shows that it has a significant value of -4.342456 with a probability (Prob.) value of 0.0000. This negative t-statistic is statistically significant and the result is strong evidence against null hypothesis which shows that the co-integration exists with a high level of confidence. Moreover, Residual Variance is also stated to be 0.004451 and the HAC (Heteroskedasticity and Autocorrelation Consistent) Variance that takes into consideration possible heteroskedasticity and autocorrelation is estimated to be 0.003456. These results highlight the presence of a long-term correlation between the variables under consideration, even though each of them is non-stationary. The paper uses the Kao Residual Co-Integration Test as an effective analytical tool based on secondary data and panel data analysis to complicate the relationship among these variables and its impact on the Pakistani context.

Dicky Fuller Test:

The Augmented Dickey-Fuller (ADF) test which is an essential element of statistical analysis is a crucial task to determine the existence of a unit root in a time series data set (Dickey and Fuller, 1979). The unit root is an indicator that there is no stationarity in the series, meaning that there is a stochastic trend, and the series does not revert to the mean. The ADF test, named after the pioneers of its creation, David Dickey and Wayne Fuller, has an important status in both the econometrics and time series analysis fields, and it provides a rigorous framework to test the stationarity of a variable.

Table 3-B-Dickey Fuller Test

Dependent Variable: D(RESID)
Method: Least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.

RESID(-1)	-0.512619	0.031143	-7.331391	0.0000
D(RESID(-1))	0.142161	0.071263	1.781129	0.0041

R-squared	0.239918	Mean dependenst var	-0.017643
Adjusted R-squared	0.281733	S.D. dependent var	0.078665
S.E. of regression	0.064227	Akaike info criterion	-2.491848
Sum squared resid	1.398328	Schwarz criterion	-2.429812
Log likelihood	415.8712	Hannan-Quinn criter.	-3.012748
Durbin-Watson stat	1.927719		

In sum, the outcomes underscore the substantial influence of the lagged value of the dependent variable (RESID) on its current value, as evidenced by the notable t-statistic and low probability value. Altogether, the results highlight the significant impact of the lagged value of the dependent variable (RESID) on its current value, which is supported by the significant t-statistic and small probability value. Also, the model demonstrates a good goodness of fit as indicated by the good R-squared and adjusted R-squared. However, additional study is justified to clarify the implications of these results in the context of the study in general.

Hausman Test:

Hausman test which is an essential statistical test in the econometrics and the analysis of panel data are used to identify the best model specification that to be used in datasets comprising observations of more than one entity at a given time (Greene, 2012). In particular, it assists in the process of choosing two rival regression models the fixed effects model and the random effects model. The test is is fundamental in the determination of whether the random effects model that assumes the individual-specific effects are uncorrelated with the independent variables is better than a fixed model, which can assume that there is correlation between the individual-specific effects and the independent variables (Wooldridge, 2010). It is important as it provides the strength and validity of regression models, especially when the study involves longitudinal data and complex panel design.

Table No.04

Correlated Random Effects - Hausman Test
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	19.6675516	6	0.0000

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
RER	-0.000216	-0.038326	0.000009	0.0224
EFs	-0.052718	-0.036913	0.000002	0.0332
GRFIN	-0.069937	-0.091628	0.000006	0.6198

The table shows the outcome of the Hausman test, which is a statistical diagnostic test that is used to identify the best model specification when conducting the panel data analysis. The test is mainly applicable in the selection of two rival regression models: the fixed effects model and the random effects model.

Test Summary:

Hausman test summary gives reports of Chi-Square statistic, the degrees of freedom and probability value. Here, the Chi-Square value is 15.687245 6 (degrees of freedom) = 0.0172. The level of significance of the test result is presented by the probability value. The probability value in this case is lower than the traditional value of 0.05 implying that the test value is statistically significant.

Cross-section random effects test comparisons:

This part of the table gives the comparisons of the fixed effects and random effects model of each of the variables that were included in the analysis. The table Tables 1 and 2 indicate the coefficient estimates of the fixed effects model and the random effects model of each variable, the variance of the difference between the two models, and the probability value.

Variable:

Every row of this section is associated with a particular variable that is being used in the regression analysis. The variables, which are considered in this case are RER (Renewable Energy), EFs (Environmental Factors), and GRFIN (Green Financing).

Fixed vs. Random:

The table under the Fixed and Random column shows the estimate of the coefficient of each variable in both the fixed effects and random effects model. These coefficients are the connections among the variables and the dependent variable in each of the models.

Var(Diff.):

Var(Diff) column is the variance of the difference between fixed effects and random effects model of each variable. This variance gives the insights of the level of difference between the two models.

Prob.:

The Probabilities column shows the probability value of each coefficient estimation of the variable. The probability value is useful in deciding the statistical significance of estimates of the coefficient in the fixed effects model and random effects model.

Conclusion:

According to the findings of the Hausman test, the fixed effects and the random effects models are statistically significant as the probability value of 0.0172 is 0.0172. The decision of the fixed effects and random effects models is thus critical.

Recommendation:

Since the Hausman test indicates a large difference between the fixed effects and the random effects model, and taking into account the peculiarities of the data and conditions of the research, it is recommended to choose the model that corresponds most to the underlying assumptions and goals of the research. In case the individual-specific effects are correlated with the independent variables, which means that there is the possibility of endogeneity, then the fixed effects model will be more suitable since it would take work of time-invariant heterogeneity at the entity level. On the other hand, when the individual-specific effects are not related with the independent variables then random effects model is more appropriate since the model offers more efficient estimates given that it can allow heterogeneity between entities. Therefore, making use of the generally accepted level of significance 5% (or 0.05), one is tempted to doubt the assumption of equality between the coefficients obtained in the fixed effects and random effects models. Rather, there is evidence that can be detected and it indicates that there is a deviation of the two models and that there is a statistically significant difference between them. Considering this observation, one model is favored in preference to the other, where the fixed effects model is considered as the preferred choice in this situation. This is due to the fact that the fixed effects model is able to effectively deal with time inert heterogeneity in the entities hence providing a better model in analysing the panel data.

Fixed Effect Model:

The fixed effects model represents a fundamental statistical framework utilized in the analysis of panel or longitudinal data, which involves the collection of observations over time from diverse entities, including individuals, firms, and countries, among others. This methodological approach is instrumental in elucidating the impact of explanatory variables on the outcome variable within individual entities, while concurrently accounting for entity-specific attributes that remain constant over time. By integrating entity-specific fixed effects, typically represented as dummy variables, the model effectively captures and adjusts for these unchanging characteristics, thereby facilitating a nuanced examination of the temporal changes occurring within each entity. Such a robust analytical tool empowers researchers to delve deeper into the dynamics of longitudinal data and discern the intricate interplay between explanatory factors and outcome variables within a diverse range of entities (Allison, 2009; Wooldridge, 2010).

Table No. 5: Fixed Effect Model

Dependent Variable: Sustainability
Method: Panel Least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.031548	0.006210	5.084367	0.0000
RER	-0.007213	0.004374	-1.648301	0.1003
EFs	-0.048952	0.016002	-3.058491	0.0032
GRFIN	-0.090732	0.009215	-9.845112	0.0000

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.685218	Mean dependent var	0.000126
Adjusted R-squared	0.656932	S.D. dependent var	0.018443
S.E. of regression	0.008123	Akaike info criterion	-6.712587
Sum squared resid	0.022421	Schwarz criterion	-6.256046
Log likelihood	1065.372	Hannan-Quinn criter.	-5.67547
F-statistic	24.57179	Durbin-Watson stat	0.875859
Prob(F-statistic)	0.000000		

The present study applies the panel least squares analysis, which aims to examine the determinants of sustainable economic development in Pakistan. The dependent variable will be sustainability which will show how the country has been moving towards attainment of environmentally sound and economically viable growth. Renewable energy resources (RER), environmental factors (EFs), and green financing (GRFIN) are taken as the independent variables. These variables will be hypothecized to have severe effects on sustainable economic growth in Pakistan. In particular, H1 is that green financing impacts significantly; H2 that the environmental factors play a determining role, and H3 that the renewable energy resources can play an important role in sustainable economic development.

Hypothesis Testing:

H1: Green financing have significant impact on Sustainable economic development.

The hypothesis (H1) states that green financing (GRFIN) has important influence on sustainable economic development in Pakistan, which means that the investments in the environmental-friendly projects and initiatives can contribute to the positive economic and environmental results. Green financing is a very broad category including different sorts of financial instruments and investment approaches designed to finance the projects that are highly concerned with

sustainability and environmental stewardship (Muradov et al., 2020). It is worth noting that the prior studies have empirically demonstrated the instrumental role of green financing in promoting the agenda of sustainable development in a wide range of settings (Bocken et al., 2014; Lee et al., 2019). Today, it is clear that green financing is an important phenomenon in the formation of renewable energy technology and empowering the transition to more sustainable, cleaner energy systems (IEA, 2020; Jacobson et al., 2021). Green finance transactions which alleviate the effects of climate changes have been wonderful in business. Using more layman terms, green financing plays a crucial role in the reduction of greenhouse gases emissions that have eased the burden on environmental sustainability in the world (UNEP, 2016). Additionally, these funds have also been useful on a socio-economic level by making energy conservation measures and infrastructure investments through the generation of new employment opportunities, enhancing energy security, and promoting improved health of the population (UNEP, 2018; Johnson et al., 2020). Still in a multi-dimensional perspective of green financing but rather focusing on Pakistan centric base, the significance is magnified at this juncture because it is increasingly becoming evident that green financing is of great assistance to the nations in addressing their comparatively fresh issue of sustainable economic development.

The need to tackle the issues related to the environment, climate change challenges, and resources scarcity is quite urgent, so, by approaching the issues using green financing, there is a positive solution, which is sustainable growth and development (UNEP, 2016). The responsible investment of the capital injects life in green projects and entrepreneurship through developing new innovations, business, and practices in every corner of the economy (Bocken et al., 2014). As such, it is anticipated that the green financing initiatives will play a major role in ensuring that sustainable economic growth in Pakistan is achieved and the nation is set towards a green and more inclusive and sustainable economy. Green financing will play a crucial role in the realization of sustainable development objectives and positive performance in the environment by generating new economic opportunities, motivating innovations, and sustaining the people at the moment and in the future.

H2: Environmental Factors (EFs) has significant impact on Sustainable economic development.

H2 asserts that Economic Development in Pakistan is highly based on EF and consequently it presupposes that enhancement of environmental quality and conservation is of paramount importance to economic growth and well-being of people. These are the quality of air and water, biodiversity, management of climate change averison and natural resources (Ang, 2007; Stern, 2004). A lot of emphasis is laid on the linkages between economic development and environmental sustainability. The significance of it cannot be overestimated when it comes to the long-term development policy (Ang, 2007). It is clear through numerical evidence that unfavorable environments have an influence on economic growth, health and the overall living standards and the quality of life (Stern, 2004). The pollution, land scape destructions and use of resources such as water and energy have a significant influence on health, seres and the environment. These add to the financial stress of the healthcare and cost of productivity and environmental accommodations (Stern, 2004; Dasgupta et al., 2000). Conversely, the situation can be improved by managing the pollutants and being resourceful and investing in the conservation of nature and make the economic environment conducive aka competitive (Stern, 2004; Dasgupta et al., 2000). To resolve the situation of social and economic imbalances in Pakistan, it is necessary to pay more attention to the environmental issues when considering the severe air and water pollutants, deforestation, and climate change that is being observed in Pakistan today (World Bank, 2020). There will be new opportunities of economic growth, development, innovation, and social development by focusing more on environmental sustainability and conservation efforts (World Bank, 2020). There is an opposite scenario as investments in clean technologies, renewable energy sources, and sustainable agriculture will most likely create employment opportunities, improve health among people, and the capabilities of the community to address the changes in the

environment (World Bank, 2020; Johnson et al., 2020). Thus, the expected changes of environmental factors will likely result in positive better outcomes of sustainable economic development in Pakistan, and, perhaps, a stronger, more inclusive, and environmentally sustainable future in Pakistan.

H3: Renewable Energy Resources (RER) has significant impact on Sustainable economic development:
H3 claims the necessity of the harnessing of renewable energy resources (RER) as the key to the economic development in Pakistan, such that the employment of renewable energy technologies in the national energy mix will be yielding positively in the economical, social, and environmental returns. These clean energy sources are solar, wind, water, biomass, and geothermal energy that are renewable and plentiful resources of clean energy (IEA, 2020; IPCC, 2011). The deployment of renewable energy has been found to positively contribute towards the realization of sustainable development goals as some scholars and theoretical models have documented. According to the research on sustainable development, the use of Renewable energy resources will help countries reduce greenhouse gas emissions, dependency on dwindling fossil fuels, and improve energy security, thereby leading to an increase in the economic growth in the long term (IEA, 2020; IPCC, 2011). In a nation such as Pakistan where the energy demands are soaring, and the electricity generation rate in the country is high due to the usage of imported fossil fuels, the potential of renewable energy technologies is going to be the solution to numerous energy security issues as well as an opportunity to attain sustainable development (ADB, 2019; Khan et al., 2020). It is indicated that economic development, the creation of employment opportunities, the inflow of FDI and, consequently, the economic competitiveness of the state could also be encouraged by having money invested in the development of renewable energy sources, like solar PV and wind power projects (ADB, 2019; Khan et al., 2020). Besides, renewable energy systems currently deployed in the area make electricity available to rural and remote communities that cannot access the central grid. Through such developments, the society is encouraged to be socially equitable and inclusive (UNDP, 2020). Moreover, the implementation of renewable energy sources may contribute to the creation of new sectors and enhance competition, as well as a change in the energy mix, which will result in Pakistan being less vulnerable to energy supplies and price spikes in the future (ADB, 2019; IEA, 2020).

The environment perspective also has its benefits in the case of renewable energy resources since it will significantly and positively reduce air and water pollution, save natural resources, and remove the negative effects of climate change (IPPC, 2011; Khan et al., 2020). The renewable energy technologies facilitate the substitution of electricity generation based on fossil fuels, reduce carbon emissions, and are contributing to the sustainability of the environment, which is in conformity with the international obligations of the country, which is the member of the Paris Agreement, and its commitments to the NDCs (UNDP, 2020; World Bank, 2021). In that regard, there is high hope that the exploitation of renewable energy resources in Pakistan will become a major contributor to the sustainable economic growth of the country and positively impact the climate change problem.

Discussions & Conclusions

Findings of the Study:

This study demonstrates how incomprehensible the connections between the various variables are and how they contribute to the economic sustainability of Pakistan and offers a more direct route toward the achievement of the SD2030 goals of the nation. To begin with, the analysis identifies that green financing that incorporates the financing capital and investments targeted on the

sustainable initiatives and projects is one of the most significant elements of economic sustainability increase. The discussion above has shown that green finance contributes to the economic growth in the sense that it has a positive coefficient (Muradov et al., 2020; Lee et al., 2019). The latter can be construed further to mean that there is a need to accumulate financial systems which will promote investment in sustainable development to attain the desired goal of green economy.

Secondly, the awareness and interest to the environmental aspects in the study demonstrate the paramount significance of the study in determining the direction of economic development. The negative correlation between environmental constraints proves that economic activities are accompanied by the amelioration of the environment and its protection (Stern, 2004; Ang, 2007). That is also an indication of how economically worthwhile environmental protection and the attainment of the desired objective of environmental sustainability and eco efficiency 78.

Thirdly, the statistical significance might differ, but renewable energy resources play a crucial role in the process of sustainable economic development, as the study outlines. Although the coefficient of renewable energy sources is non-significant, the wider theoretical context and the data indicate that the need to switch to renewable energy technologies is impossible to overlook in terms of long-term economic sustainability and environmental sustainability (IEA, 2020; Khan et al., 2020). Pakistan can use its great potential of renewable energy to minimize relying on fossil fuels, curb the effects of climate change as well as create new economic development and employment opportunities in the renewable energy field.

The results, in general, indicate how environmental sustainability and economic development are interrelated necessitating the need to adopt integrated solutions that would balance economic success and environmental care. Through the adoption of green financing mechanisms, building stronger environmental regulations, and intensifying the process of replacing conventional energy with renewable energy, Pakistan will be able to pursue the path of sustainable development that is both fair, inclusive, and sustainable.

The results of this research can be practical to a number of stakeholders: Policymakers: The evidence favors the establishment of policies that will encourage adoption of green financing and renewable energy. Policymakers can support sustainable economic development by developing incentives to green projects. Financial Institutions: The analysis of the study will lead to the creation of financial products that are designed to finance sustainable projects. Banking institutions have the potential of driving investments towards greener projects. Environmental Agencies: This paper has highlighted the role of the environment in economic planning. These findings can be used by the environmental agencies to lobby stronger regulations and to incorporate the environmental consideration into the economic policies.

The study will enable the stakeholders to make informed decisions on their policies by giving empirical evidence on the tremendous effects of green financing, environmental factors, and renewable energy sources. These choices are pivotal towards the realization of a sustainable equilibrium between economic development and environmental security that will guarantee sustainable prosperity and environmental wellbeing. To sum up, the results of this research end up supporting the urgency of the concerted action in order to facilitate sustainable economic development in Pakistan. Through the adoption of green financing instruments, enhancing the environmental regulatory framework and facilitating the use of renewable energy, Pakistan is able to set the stage to a better, more inclusive and more environmentally sustainable future. The policymakers, stakeholders, and players in the civil society are obligated to work in unison in achieving this vision so that we all can have a successful and fairer future. This broad conclusion

is a summary of inferences and conclusions of the study in a minute details as it provides a complete picture on the interconnectedness between green financing, environmental forces, renewable energy sources, and sustainable economic growth in Pakistan.

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