

THE IMPACT OF GREEN BANK GOVERNANCE ON SUSTAINABLE ECONOMIC DEVELOPMENT

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Abstract

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Green banking has emerged as a critical instrument for promoting sustainable economic development in Albania, yet adoption remains limited due to multiple challenges. This study examines public perceptions of green banking, focusing on awareness levels, perceived benefits, barriers to adoption, and demand for green products. A cross-sectional survey was conducted with 350 respondents from urban and rural areas using a structured questionnaire distributed online and in person. Data were analyzed using descriptive statistics and thematic analysis. Findings show moderate awareness (42 percent), strong belief in green banking's role in economic growth, job creation, and environmental protection, but also highlight barriers such as high initial costs, limited knowledge, and regulatory hurdles. Despite these, optimism is high, and demand for tailored green products is notable. The study concludes that targeted policies, incentives, and education are essential for accelerating adoption, positioning green banking as a key driver of Albania's sustainable transition.

Keywords: Albania, Economic Development, Green Banking, Green Products, Sustainability

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1. INTRODUCTION

Green banking has emerged as a crucial tool for fostering economic development and sustainability in Albania. It offers a wide range of benefits, including positive environmental impacts, improved financial performance, and enhanced social outcomes. As global awareness of climate change grows, green banking practices will likely become more prevalent. By adopting these practices, banks not only contribute to sustainability but also improve their own resilience and long-term profitability. Green banks have also supported small and medium-sized enterprises (SMEs), especially in rural areas, by providing access to capital for green projects, thus driving financial inclusion and boosting local economies.

Currently, detailed and up-to-date statistics on green banking in Albania are somewhat limited due to the emerging nature of the green finance sector in the country. While Albania is increasingly aligning itself with European Union (EU) environmental standards and policies related to sustainable finance, the green banking sector has not yet reached the scale seen in some other European countries. However, there are some general trends and indicators available that help outline the state of green banking in Albania.

Dorri and Shahini (2024) emphasize the challenge of balancing economic and construction growth with environmental sustainability in Albania's real estate sector, underscoring the need for more effective financial mechanisms — such as green loans — to mitigate environmental degradation while

supporting economic development. Ozili (2022) provides a comprehensive review of global green finance literature, noting significant regional disparities in implementation and highlighting the need for localized studies — like those in Albania — to understand how green finance can effectively support national sustainability goals. Topalli and Monnin (2023) report that the Bank of Albania is actively promoting the adoption of green loans by encouraging commercial banks to prioritize environmentally sustainable lending practices within their portfolios. Hsu et al. (2021) emphasize that while green finance initiatives are gaining momentum in the Western Balkans, Albania still faces challenges in scaling up sustainable investment, particularly in rural development and climate-resilient infrastructure.

Green loans, which are typically provided for renewable energy projects, energy efficiency improvements, and environmentally friendly businesses, are gradually emerging in Albania's financial system. However, detailed statistics on the volume of green loans are not always readily available. Based on trends in neighboring EU countries, green loans in Albania are expected to grow as demand for sustainable finance increases. Albania has significant potential for hydropower, which represents a major portion of its energy sector. The Albanian financial sector is beginning to offer green loans for renewable energy projects, particularly hydroelectric power plants and wind energy. However, detailed numbers on how much of the banking portfolio is dedicated to renewable energy projects are not frequently reported. As of now, Albania has not developed a large market for green bonds, though green bond issuance is a growing trend in the region, particularly in the EU. Albania's financial sector is in the early stages of exploring green bond markets, and its future growth will likely be driven by EU integration and the country's commitment to sustainable development. Albania's participation in EU-funded projects focusing on green infrastructure and renewable energy might increase the potential for green bond issuance in the future. The role of international financial institutions like the European Bank for Reconstruction and Development (EBRD) in Albania's green finance sector is significant, as they often provide support for environmental projects.

Raiffeisen Bank and Tirana Bank are two of the prominent banks in Albania that have been active in supporting green projects, such as financing energy-efficient buildings and renewable energy projects. These banks are starting to integrate more sustainable practices into their portfolios, but specific figures on their green loan portfolios remain limited. Banks are still developing their green finance strategies and products, with a focus on aligning with EU regulations and the EU Green Deal, which encourages the financing of projects that contribute to sustainability. Rashid and Ullah (2023) argue that green financing practices, though expanding globally, vary significantly in complexity and effectiveness, underscoring the need for robust institutional frameworks to ensure meaningful contributions to sustainable development. While consumer demand for green banking products is still emerging, there is an increasing trend toward sustainability, especially among the younger population. Eco-conscious customers are beginning to request green products such as sustainable loans, energy-efficient mortgages, and other environmentally

friendly banking options. Consumers are also interested in paperless banking and digital services, which are part of the broader movement toward sustainability in Albania.

The Albanian government is aligning its environmental policies with the EU's Green Deal, which will increasingly influence the growth of green banking. Albania's commitment to sustainability as part of its EU integration process is expected to drive further green finance initiatives. The Albanian government, in collaboration with EU institutions, offers incentives for green investments, especially in the renewable energy sector. These incentives may include subsidies, tax breaks, and favorable financing conditions for businesses and individuals investing in green technologies. As part of its EU accession process, Albania is working toward aligning its financial regulations with the EU's sustainable finance framework. This includes adopting EU guidelines on environmental, social, and governance (ESG) issues, as well as aligning with the EU Taxonomy for Sustainable Activities. Albania benefits from EU funding and technical assistance to support sustainable development projects. Banks in Albania are starting to tap into these resources to finance green projects. As green banking is still in its nascent stages, reliable and consistent data on green finance metrics, such as the percentage of bank portfolios allocated to green loans, is often not publicly available. There is a need for greater awareness and education about green banking among both financial institutions and consumers. A lack of understanding of the potential benefits of green finance can hinder the uptake of these products. Developing the financial infrastructure required to support green banking products, such as green bonds and sustainable investment funds, is still a challenge in Albania.

Albania has substantial renewable energy potential, especially in hydropower and wind. Green financing in this sector will likely grow as the country continues to develop its renewable energy capacity. Financing for energy-efficient projects in buildings, industrial operations, and transport infrastructure could also expand. Green banking could play a significant role in supporting sustainable farming practices and investments in eco-friendly agriculture. With increasing EU integration and a growing emphasis on sustainable development, green banking in Albania is poised for growth, especially in sectors like renewable energy and energy efficiency. However, more detailed, reliable, and comprehensive data is needed to accurately track the progress of green finance in the country.

Wang et al. (2021) provide evidence that aligning green finance with carbon trading mechanisms enhances environmental impact, suggesting that integrated financial strategies are key to achieving long-term climate goals. Naqvi et al. (2021) provide empirical evidence that Albania's transition toward a green economy is hindered by limited institutional capacity and financing mechanisms, highlighting the critical role of green banking in addressing these structural gaps.

The literature gap highlights that although green finance is increasingly recognized globally and in the Western Balkans (Hsu et al., 2021), there is limited empirical research on how green financial instruments specifically influence Albania's green transition, especially regarding job creation, financial inclusion, and rural development. Existing

studies have yet to fully explore the effectiveness of green loans, bonds, and sustainability-linked financing within Albanian financial institutions and their real impact on key sectors such as renewable energy and sustainable agriculture. Furthermore, qualitative insights from stakeholders on implementation barriers and enablers remain underdeveloped, leaving a gap in understanding practical challenges in this emerging field.

The research aim of the study is to evaluate the economic and environmental impacts of green banking in Albania, with a focus on the role of green financial instruments in promoting job creation, environmental sustainability, financial inclusion, and rural development.

The study provides the next research questions:

RQ1: To what extent are green financial instruments (green loans, green bonds, sustainability-linked financing) utilized by Albanian financial institutions?

RQ2: How effectively do these instruments support environmentally friendly investments in renewable energy, agriculture, and eco-friendly infrastructure?

RQ3: What are the main barriers and facilitators experienced by stakeholders in adopting green banking practices?

RQ4: How do these practices contribute to Albania's alignment with EU climate policies and its low-carbon economy goals?

Regarding the theoretical/conceptual framework, the study applies a sustainability finance framework, combining theories of green finance and sustainable development, to analyze the intersection of financial systems and environmental objectives. It draws on the financial intermediation theory to understand how banks allocate resources toward sustainable projects and the stakeholder theory to incorporate perspectives from various factors influencing green banking. Additionally, the research considers policy integration frameworks related to climate risk management and EU alignment to contextualize regulatory impacts on financial practices (Topalli & Monnin, 2023).

About the relevance and significance of the study, it addresses a critical knowledge gap by providing empirical and qualitative evidence on green banking's contribution to sustainable development in Albania, a country undergoing a crucial green transition under EU climate policy frameworks. By focusing on economic (job creation, financial inclusion) and environmental (sustainability, rural development) impacts, the research offers insights valuable to policymakers, financial institutions, and development agencies. It supports evidence-based policy design and helps enhance the strategic use of green finance as a tool for Albania's climate resilience and economic diversification.

This study contributes to the growing body of literature on sustainable finance by offering one of the first in-depth examinations of the relationship between green banking and financial performance in the context of Albania — a country in transition, strategically positioned between the EU and the Western Balkans. While much of the existing research focuses on advanced economies with well-established green finance frameworks, this study shifts the lens toward an emerging market, where environmental regulation is evolving, and the banking sector is a key driver of economic reform.

The case of Albania is particularly important in the global setting for several reasons. First, as Albania aligns its policies with the European Green Deal and prepares for EU accession, its banking sector is under increasing pressure to adopt sustainable finance principles. Second, Albania represents a broader class of small, developing economies that face the dual challenge of maintaining financial stability while responding to climate imperatives. Insights from Albania can serve as a blueprint for other countries in the Western Balkans and beyond, highlighting how green banking can be leveraged in similar institutional and economic environments.

The findings of this research are especially relevant for informing the wider discourse on green bank governance and its role in sustainable economic development. By exploring how environmental considerations are integrated into governance structures, risk management, and financial strategies, the study provides evidence on how green governance mechanisms can enhance both financial and developmental outcomes. This has practical implications for central banks, regulators, and financial institutions aiming to design policies that align profit motives with environmental and social responsibility. Ultimately, the study positions Albania as a meaningful case in the global green finance transition, offering lessons that extend beyond national borders.

This is the first empirical study to combine quantitative and qualitative evidence on public perceptions of green banking in Albania. By surveying both individual consumers and business representatives, it offers a multi-dimensional view of awareness, perceived benefits, barriers, and product demand — providing actionable insights for policymakers, banks, and development partners.

The structure of this paper is organized as follows. Section 2 reviews the relevant literature mainly for the last five years. Section 3 analyses the methodology that has been used to conduct empirical research on the impact of green banks on economic development. Section 4 describes the results that are gained by the mixed method used in the paper. Section 5 discusses the important improvements that we should make in the future for the development of green banks and their impact. Section 6 concludes with some conclusions about the study, limitations, and gaps that can be improved in the other papers.

2. LITERATURE REVIEW

Green banking refers to the practices and policies implemented by banks to promote environmental sustainability, reduce the carbon footprint, and finance environmentally friendly projects (Mir & Bhat, 2022). It includes eco-friendly operations, green products, and financing solutions that contribute to environmental preservation (Ozili, 2022). The concept of green banking emerged in response to growing environmental concerns and the need for banks to contribute to sustainable development (Sharma & Choubey, 2022). Over the year in Albania, climate change has had an impact on businesses and households (Topalli & Monnin, 2023). According to Dashi (2023), sustainable finance is a key element in advancing our understanding and implementation of green finance in the economy. Climate change is a major

global issue that could have significant effects on green growth and sustainable development (Prendi & Gashi, 2024). According to the findings of Xhuveli and Mani (2024), consumer behaviour and the number of applications for green investments and innovations benefit from creating and disseminating “smart” communication strategies and “green” guides, which are intended to inform, educate, and assist businesses in adopting green innovation.

Over time, various financial institutions have adopted green banking principles by integrating them into their core operations and financial products (Dorri & Shahini, 2024). Key components of green banking are related to sustainable lending practices, energy-efficient operations, green investment, and green bonds. Green banks offer loans for eco-friendly projects, such as renewable energy, energy-efficient buildings, and sustainable agriculture. Banks implement energy-saving technologies in their own operations, such as reducing paper use, minimizing energy consumption in branches, and adopting digital banking to reduce the carbon footprint. Investing in companies and projects that prioritize sustainability and environmental conservation. The issuance of bonds to raise funds for environmental projects. Several banks have launched green banking initiatives, such as green loans and mortgages for customers engaged in eco-friendly projects, sustainable investment funds targeting renewable energy and other sustainable sectors, and carbon footprint reduction goals, setting targets for reducing emissions within their operations and supply chains. It is important to highlight the benefits of green banking, as, environmental benefits about reduced carbon emissions, more efficient energy use, and funding for green initiatives, financial benefits of increased customer loyalty, attraction of eco-conscious investors, and potential for regulatory incentives or the reputation and brand value about being seen as an environmentally responsible institution can attract customers and partners interested in sustainable finance.

As global awareness of climate change grows, green banking practices will likely become more prevalent (Al-Kubaisi & Khalaf, 2023; Basyith et al., 2024; Pasha & Elbages, 2022). Green banking refers to the practices and policies implemented by banks to promote environmental sustainability, reduce the carbon footprint, and finance environmentally friendly projects (Mir & Bhat, 2022; Fleming, 2020; Sihabudin et al., 2024).

There are a lot of challenges in implementing green banking, as the lack of awareness and understanding may prevent many customers and stakeholders from fully understanding the benefits or need for green banking practices. Financial risks that green projects can carry are higher risks, particularly with emerging technologies and industries. Regulatory frameworks in many regions around green banking are still evolving, creating uncertainty for institutions looking to implement these practices. Data and metrics about measuring the environmental impact of banking activities and ensuring transparency can be complex. Studies show a mixed impact on the financial performance of banks that engage in green banking. Some banks report positive outcomes such as greater customer engagement and brand strength, while others face challenges in monetizing sustainable investments.

The future of green banking looks promising with the growing focus on environmental sustainability. As climate change and environmental degradation become more pressing issues, there will likely be increased regulation, innovation in green finance products, and enhanced consumer demand for responsible banking options. The literature suggests that green banking is an important innovation in the financial sector, offering both opportunities and challenges. Its impact on the financial system is multifaceted, influencing everything from risk management to market behavior. As the global financial system increasingly aligns with sustainability goals, the role of green banking in shaping future financial landscapes is likely to grow. This review can be expanded by focusing on specific geographic regions, individual banks, or the impact of new technologies like blockchain in facilitating green banking.

According to De Paola et al. (2022), several studies have shown that banks implementing green banking strategies experience improved customer loyalty and market share. Consumers, especially millennials and environmentally conscious groups, prefer financial institutions that align with their sustainability values. Banks focusing on green bonds, green mortgages, and sustainable projects have seen positive effects on profitability. A study by Sarma and Roy (2021) found that banks with sustainable product offerings tend to have lower funding costs and better access to capital, as they attract ethical investors and long-term capital inflows. Research has shown that green banking practices, such as funding renewable energy projects or promoting ESG-compliant investments, improve banks' ESG scores, which can result in lower borrowing costs and higher investment appeal. According to a study by Laskowska (2018), banks with better ESG integration tend to exhibit stronger resilience during economic downturns. Green banking encourages diversification into sustainable sectors, such as renewable energy, reducing exposure to traditional high-risk sectors like fossil fuels. Studies show that banks with diversified portfolios in green investments face lower long-term risks, especially as global policies shift toward environmental regulation (Dewi & Dewi, 2017).

Green banking practices help financial institutions assess and manage environmental risks more effectively, such as climate-related physical risks and regulatory changes. Research by Miah et al. (2021) highlighted that banks with strong green banking strategies are better equipped to mitigate these risks, leading to more stable financial performance. Banks that incorporate environmental risk factors into their decision-making process show greater resilience to systemic shocks caused by climate change or policy shifts. According to a study by Jayadatta and Nitin (2017), financial institutions that engage in green financing are less vulnerable to systemic risks linked to the environmental crisis.

Empirical results have demonstrated that regulatory frameworks in several countries, such as the EU's Sustainable Finance Disclosure Regulation (SFDR), have provided incentives for green banking. Research by Masud et al. (2018) showed that banks in jurisdictions with strong green finance regulations perform better in terms of risk-adjusted returns and market stability. Many studies, such as one from Chen et al. (2022), indicated that green banks benefit from government subsidies, tax

incentives, and favorable regulatory conditions. These incentives encourage banks to increase green investments, further boosting financial system stability and sustainability.

Empirical studies indicate that investors are increasingly directing funds towards banks that prioritize sustainability. Research by Ghassim and Bogers (2019) found that green banking has led to a surge in green bond issuance, with institutional investors showing a preference for sustainable assets, thus driving demand for green banking products. Green banking encourages long-term investment strategies, aligning with the growing trend of responsible investing. Investors are now more inclined to choose banks that align with their values, especially in the context of the growing importance of ESG factors in global investment decisions.

One of the key challenges highlighted by empirical research is the high initial cost of implementing green banking policies, such as upgrading infrastructure, training personnel, and developing new products. A study by Fraccascia et al. (2018) noted that smaller financial institutions often struggle to bear the upfront costs of adopting green practices. The lack of clear, globally accepted standards for what constitutes “green” or “sustainable” financing can create difficulties in green banking implementation. Studies have highlighted that inconsistent definitions and reporting standards across regions can undermine the effectiveness of green banking policies.

Banks that embrace green banking strategies experience significant improvements in their corporate social responsibility (CSR) profiles. A study by Assaker et al. (2020) found that banks with strong environmental initiatives enjoy higher public trust, which can positively impact their brand value and customer retention. Herath and Herath (2019) explored how banks in China are adopting green banking practices, emphasizing the link between green banking and improved risk management. Kumar and Prakash (2019) studied the relationship between green banking practices and financial performance in European banks, finding positive correlations with long-term performance. Park and Kim (2020) discussed the role of banks in financing green projects and the environmental risks associated with traditional banking investments.

Allen and Craig (2016) analyzed the regulatory challenges and benefits of green banking in emerging markets, particularly in Southeast Asia. Bukhari et al. (2020) studied the role of financial institutions in promoting environmental sustainability through lending practices and investment policies.

Albania's banking sector is influenced by the country's environmental policies, which are increasingly aligned with the EU's Green Deal and sustainability goals. The Albanian government has implemented regulations to encourage the financing of renewable energy projects, and banks are beginning to support these projects through loans and investment products. The Central Bank of Albania is expected to play a more significant role in integrating environmental sustainability into the financial system. As part of its alignment with international standards, the Bank of Albania could eventually encourage banks to adopt ESG criteria in their lending practices. Albania is a candidate country for EU membership, and as such, it is required to align its policies with EU regulations, including those related to sustainable finance.

The EU Green Deal and EU Taxonomy for Sustainable Activities are expected to have a significant impact on how green banking evolves in Albania in the coming years.

As one of the leading banks in Albania, Raiffeisen Bank has taken steps to integrate sustainability into its business practices. The bank has been involved in financing projects related to renewable energy, energy efficiency, and environmental protection. They are also actively involved in promoting green finance in the region, in line with the parent company's commitment to sustainability. Tirana Bank is another prominent financial institution in Albania that has been exploring green financing options. The bank has supported projects related to clean energy and environmental sustainability, though the scale of green financing is still small compared to other European countries. Other banks in Albania, such as Banka Kombëtare Tregtare (BKT) and Intesa Sanpaolo, are beginning to explore green banking but have yet to significantly scale up their green finance offerings. The market is still developing, and many banks are in the process of building the infrastructure for green banking products.

The integration of green banking theories has played a pivotal role in advancing Albania's economic development by promoting sustainable financial practices and aligning the country with EU environmental standards. Albanian financial institutions have increasingly adopted green banking initiatives, such as eco-loans and energy-efficient technologies, which have contributed to both environmental sustainability and enhanced corporate reputations. Furthermore, the Bank of Albania, in collaboration with the European Investment Bank (EIB), has strengthened regulatory frameworks by incorporating climate risk management and developing a green taxonomy to support sustainable investments, thus enhancing the resilience of the financial sector (Bank of Albania, 2023). These efforts align with broader sustainable development goals, facilitating Albania's transition toward a green economy while attracting environmentally conscious investors (World Bank, 2024). However, challenges remain, including the need for a unified classification system for green activities and greater public awareness of climate-related issues (Ullah, 2020; Sihabudin et al., 2024). Addressing these gaps through strategic policies and education will be critical to fully realizing the economic benefits of green banking in Albania. Green banking theories have evolved over the years:

- Early 2000s: Foundations and CSR focus theory were the primary frameworks. Banks began acknowledging their role in society, starting to integrate environmental concerns as part of their CSR efforts. Green banking was mostly voluntary, emphasizing ethical banking practices and philanthropy (Carroll, 1991).

- Mid to late 2000s: Stakeholder and legitimacy theories gain ground. Stakeholder theory expanded green banking's scope, emphasizing that banks have responsibilities toward a broader group beyond shareholders, customers, communities, and the environment. Legitimacy theory explained why banks adopted green policies: to meet societal expectations and regulatory requirements. Governments and international bodies started pushing for more formal green banking practices (Wheeler et al., 2003).

- 2010s: Institutional theory and regulatory pressures. The rise of institutional theory showed how banks conform to external pressures — like environmental laws, industry standards, and investor demands — to legitimize their operations. Green banking shifted from voluntary to more institutionalized practices. The concept of sustainable development theory also became central, focusing on financing projects that promote long-term environmental and economic sustainability. Banks started developing green financial products like green bonds, eco-loans, and sustainable investment portfolios (Ioannou & Serafeim, 2015).

- Late 2010s to present: Strategic approaches and resource-based view (RBV). Green banking became part of the core business strategy, linked to competitive advantage. RBV theory gained prominence, where banks viewed green initiatives as valuable internal resources, enhancing reputation, innovation, and customer loyalty. Technological innovation and digital transformation also influenced green banking models. Climate risk assessment and ESG criteria became integral to banking strategies (Zhixia et al., 2018).

3. RESEARCH METHODOLOGY

The study employed a cross-sectional survey to explore perceptions of green banking among individuals and business representatives in Albania. The survey aimed to assess awareness, perceived benefits, barriers, government roles, and prospects related to green banking, as well as to identify demand for green financial products and services. The survey was designed specifically to gather both quantitative and qualitative data on the following key areas: 1) awareness and familiarity with green banking, 2) perceived economic, social, and environmental contributions of green banking, 3) perceived barriers to green banking adoption, 4) role of government policies in promoting green banking, 5) optimism for the future of green banking, 6) desired green banking products and services, 7) willingness to engage with green banks.

The questionnaire was developed based on prior literature (Mir & Bhat, 2022; Ozili, 2022) and adapted to the Albanian context. It was reviewed by two subject-matter experts and pilot-tested with

15 respondents for clarity. Reliability analysis using Cronbach's alpha indicated acceptable internal consistency across the main constructs ($\alpha = 0.78\text{--}0.86$). The survey instrument consisted of a structured questionnaire comprising closed-ended questions, multiple-choice, and Likert-scale items (1 = Strongly disagree, 5 = Strongly agree) to quantify attitudes and perceptions. Open-ended questions to capture qualitative insights and specific suggestions regarding green banking products and policy interventions. The questionnaire was developed in both Albanian and English to maximize respondent comprehension and accessibility.

The target population included individual banking customers across Albania (urban and rural areas), SME owners and managers, and professionals working in sectors relevant to green finance (energy, agriculture, environment). A stratified sampling method was used to ensure representation from both urban and rural regions and different economic sectors. Sample size is 350 respondents, and the response rate is approximately 70%, with 500 surveys distributed and 350 fully completed and valid responses returned. The survey was distributed using a mixed-mode approach, including online distribution via email lists, social media platforms (Facebook, LinkedIn), and professional networks, capitalizing on digital channels for broader reach. Face-to-face distribution in key regions, including Tirana, Shkodra, Korça, and rural districts, was conducted by trained survey staff to engage participants with lower internet access. Data collection occurred over six weeks between November 2024 and December 2024. Participation was voluntary, and respondents were assured of anonymity and confidentiality. Informed consent was obtained before participation.

Data were analyzed using IBM SPSS Statistics software version 28. Descriptive statistics (frequencies, means, percentages) were used to summarize survey responses. Cross-tabulations were conducted to explore variations in perceptions based on demographic variables (e.g., age, region, occupation). Open-ended responses were analyzed thematically to identify common patterns and insights. Below in Table 1 is a summary of the survey instrument's key sections and terms.

Table 1. Survey instrument's key

Sections	Questions	Answers
Awareness	Have you heard of the concept of green banking?	Yes/No
Information sources	How did you learn about green banking?	Social media, traditional media, bank communications, etc.
Perceived benefits	Green banks contribute positively to economic development in Albania.	Five-point Likert scale
Barriers	What are the main barriers to green banking adoption in Albania?	Multiple options
Government role	Government policies are crucial for the growth of green banks.	Five-point Likert scale
Future outlook	How optimistic are you about the future of green banking in Albania?	Very optimistic to not at all optimistic
Product preferences	Which green banking products or services would you like to see offered?	Multiple options
Engagement	Would you be more likely to engage with a bank prioritizing sustainability?	Yes/No

Source: Authors' elaboration.

To enhance methodological robustness, the study also considers alternative methods that could be suitable for this research:

- Structural equation modeling (SEM): SEM could be used to test complex causal relationships

between governance structures, green banking practices, and sustainable development outcomes, especially where latent variables (e.g., "sustainability culture") are involved.

- Comparative case study analysis: A regional comparative approach — analyzing similar economies in the Western Balkans — could offer cross-country benchmarking and enrich the contextual relevance of Albania's experience.

- Delphi method: Engaging a panel of experts in multiple rounds to reach consensus on governance priorities and sustainable finance indicators could help design policy-relevant frameworks for implementation. By employing a mixed-methods design while acknowledging alternative methodological pathways, this study ensures analytical depth, triangulation, and broader applicability of findings to both academic and policy domains.

4. RESULTS

Table 2 provides a detailed comparison between green banks and traditional banks across key operational and strategic dimensions. The comparative framework in Table 2 is based on secondary data sourced from Zheng et al. (2021), World Bank (2024), International Finance Corporation (IFC, 2022), and EIB (2024), supplemented by thematic findings from survey responses. No confidential bank data was accessed.

Table 2. Green banks vs Traditional banks

<i>Components</i>	<i>Green banks</i>	<i>Traditional banks</i>	<i>Key insight</i>
Financial performance	Prioritize long-term investments in sustainable projects (e.g., renewable energy, green infrastructure).	Focus on diversified investments across sectors, including fossil fuels, real estate, and high-yield industries.	Traditional banks typically outperform green banks in short-term profits, but green banks focus on sustainability, reducing exposure to environmental risks.
	May experience lower short-term profitability due to the high upfront costs and longer payback periods of environmentally focused projects.	Achieve higher short-term profits by targeting established industries with immediate returns.	
	Often supported by government incentives, grants, or blended finance models to reduce investment risks.	Face potential long-term risks tied to carbon-intensive investments as sustainability regulations increase.	
Environmental impact	Direct investments exclusively into projects with positive environmental impacts, such as solar energy, wind farms, or low-emission technologies.	Invest in a mix of industries, including those with high environmental footprints (e.g., fossil fuel extraction, mining).	Green banks have a far greater positive environmental impact than traditional banks, aligning their operations with global sustainability goals.
	Contribute significantly to reducing carbon emissions and promoting renewable energy adoption.	May fund green projects but lacks a focused environmental mandate.	
Risk management	Lower exposure to long-term risks tied to environmental regulations, climate change, and stranded assets in carbon-intensive sectors.	Higher exposure to ESG risks due to investments in polluting industries.	Green banks are better positioned to mitigate risks associated with the transition to a low-carbon economy.
	Focus on sectors that benefit from global trends toward decarbonization and energy efficiency.	May face reputational and financial risks as regulations tighten and consumer preferences shift toward sustainable finance.	
Customer perception and brand value	Attract environmentally conscious customers and investors who value sustainability and CSR.	Serve a broader customer base, but may face criticism or reputational risks for financing environmentally harmful industries.	Green banks enjoy higher brand loyalty among sustainability-driven stakeholders, whereas traditional banks face growing demand to integrate green practices.
	Benefit from a strong reputation as leaders in climate finance and sustainable development.	Increasingly pressured to improve ESG commitments to retain market trust.	
Innovation and market adaptation	Lead innovation in sustainable finance, developing tailored products like green bonds, energy efficiency loans, and low-carbon project financing.	Slow to adopt green innovations but increasingly incorporates ESG initiatives and green products to meet regulatory and market demands.	Green banks are at the forefront of innovation in sustainable finance, while traditional banks are gradually adapting to the green finance trend.
	Support the scaling of emerging green technologies through targeted investments.	May launch sustainability-linked products, but lacks a specialized focus on green sectors.	
Long-term viability	Align with global sustainability trends, making them resilient to future regulatory changes and market shifts toward a greener economy.	Face potential risks from stranded assets, regulatory penalties, and shifts in consumer and investor behavior toward sustainability.	Green banks have a stronger alignment with long-term global economic and environmental trends compared to traditional banks.
	Benefit from growing demand for climate finance and low-carbon solutions.	Require substantial transformation to maintain long-term relevance in a green economy.	

Source: Authors' elaboration.

Green banks focus on financing sustainable projects, accepting lower short-term profits for long-term environmental and economic benefits. They concentrate investments in sectors like renewable energy, which contribute significantly to emissions reduction and align with global climate goals (Zheng et al., 2021; World Bank, 2024). Traditional banks, meanwhile, pursue diversified portfolios, often including carbon-intensive industries, securing higher immediate profits but facing increased long-term regulatory and reputational risks (IFC, 2022). Green banks also demonstrate stronger risk

management practices, lower exposure to stranded asset risks, and greater appeal among sustainability-focused customers. Furthermore, they lead innovation in sustainable financial products, while traditional banks are gradually incorporating green finance to meet regulatory and market demands (EIB, 2024; Voumik et al., 2023). Overall, green banks are better aligned with the transition to a low-carbon economy, offering resilience against future environmental and economic shifts. Traditional banks excel in short-term profitability, while green banks emphasize sustainability and resilience to

environmental risks. Green banks have a far more substantial positive environmental impact, closely aligning their portfolios with global sustainability targets. Green banks are better equipped to manage risks associated with the transition to a low-carbon economy. Green banks enjoy higher loyalty among sustainability-focused stakeholders, while traditional banks must adapt to shifting expectations. Green banks are innovation leaders in sustainable finance, while traditional banks are still evolving to meet the green finance demand. Green banks have a strategic advantage for long-term sustainability

and economic alignment, compared to traditional banks facing higher transition risks. The comparison underscores the fundamental differences between green and traditional banks. While traditional banks maintain profitability in the short term, green banks position themselves as critical players in a sustainable future, aligning financial operations with climate goals, innovation, and risk mitigation. Policymakers, investors, and financial institutions can use these insights to guide the development of sustainable banking strategies tailored to future economic and environmental realities.

Table 3. Awareness and familiarity with green banking in Albania

<i>Indicator</i>	<i>Percentage (%)</i>	<i>Key insight</i>
Respondents familiar with green banking	42%	Awareness is growing, but not mainstream
Learned about green banking via social media	31%	Digital platforms are a main channel

Source: Authors' elaboration.

Table 3 illustrates the level of awareness and knowledge among respondents regarding green banking. The results suggest that while a significant proportion of respondents (42%) are familiar with the concept, awareness remains relatively limited in the broader population. The reliance on social

media (31%) as the main channel highlights the role of digital communication in promoting green finance. This indicates that awareness campaigns could be strengthened through structured information policies.

Table 4. Perceived contribution of green banks to economic development

<i>Statement</i>	<i>Strongly agree (%)</i>	<i>Agree (%)</i>	<i>Total agreement (%)</i>
Green banks positively contribute to Albania's economic development.	40%	35%	75%

Source: Authors' elaboration.

Table 4 summarizes respondents' perceptions of how green banks contribute to Albania's economic development. A clear majority (75%) agrees that green banks positively affect economic development. Respondents particularly emphasized

job creation (60%) and financial inclusion (50%) as key contributions. These findings underscore the potential role of green banks in addressing both economic and social development goals.

Table 5. Benefits and barriers of green banking

<i>Category</i>	<i>Specific item</i>	<i>Percentage (%)</i>
Benefits	Job creation in renewable energy	60%
	Financial inclusion	50%
	Education on environmental degradation	55%
Barriers	High initial investment costs	50%
	Limited awareness	40%
	Regulatory hurdles	30%

Source: Authors' elaboration.

Table 5 presents the main benefits and barriers identified by respondents in relation to green banking adoption. The benefits most frequently recognized were job creation (60%), financial inclusion (50%), and environmental education (55%). However, significant barriers persist, including

high initial investment costs (50%), limited awareness (40%), and regulatory challenges (30%). This dual perspective indicates that while stakeholders recognize the promise of green banking, structural and policy-related constraints remain key obstacles.

Table 6. Outlook and future engagement with green banks

<i>Dimension</i>	<i>Percentage (%)</i>	<i>Implication</i>
Government policies critical (incentives, grants, tax benefits)	65%	Policy support is essential
Very optimistic about future impact	50%	-
Somewhat optimistic	30%	-
Likelihood to engage with green banks	70%	Strong demand for sustainable products
Desired financial products: Small business financing	60%	-
Investment opportunities in renewable energy	55%	-
Products for underserved areas	45%	-

Source: Authors' elaboration.

Table 6 outlines respondents' expectations for future policy support and their willingness to engage with green banks. Optimism about the future of green banking is high, with 80% expressing positive

expectations. Notably, 70% indicated a likelihood of engaging with green banks, especially through small business financing (60%) and renewable energy investments (55%). The finding that 65% see

government policy as critical highlights the necessity of regulatory incentives, grants, and tax benefits to enable growth.

The survey results indicate that green banks have a significant opportunity to contribute to economic development and sustainability in Albania. While the public perceives green banks as essential drivers of job creation, renewable energy investments, and financial inclusion, several challenges — such as initial costs and lack of awareness — must be addressed. Government policies, including financial incentives and regulatory support, are critical for overcoming these obstacles. With strong public support, increased policy focus, and targeted financial products, green banks in Albania could play a key role in transitioning the country to a green economy, supporting sustainable development, and enhancing financial inclusion. The results also show that there is significant potential for growth in the green banking sector as more Albanians seek ways to align their financial decisions with environmental values.

5. DISCUSSION

This study provides new insights into the evolving landscape of green banking in Albania, complementing existing research on sustainable finance in emerging economies (Zheng et al., 2021; World Bank, 2024). The findings confirm that while awareness of green banking is growing, it remains limited, with only 42% of respondents familiar with the concept. This aligns with the IFC (2022) and EIB (2024), which report similar early-stage awareness in developing markets, where sustainable finance is often viewed as a niche concern rather than a mainstream banking practice.

Consistent with prior studies, respondents in this research strongly perceive green banking as a driver of economic development and environmental sustainability. Seventy-five per cent of participants believe green banks contribute positively to Albania's economy, particularly through job creation in renewable energy sectors. This echoes findings from Voumik et al. (2023) and Zheng et al. (2021), which emphasize the role of green finance in supporting green infrastructure, employment, and low-carbon economic growth.

Notably, high initial investment costs were identified by 50% of respondents as a major barrier, mirroring global observations that the financial viability of green projects often depends on government support, concessional financing, or blended finance models (EIB, 2024; World Bank, 2024). Limited awareness and regulatory hurdles were also significant challenges, consistent with the literature highlighting insufficient regulatory frameworks and low financial literacy as constraints on sustainable finance adoption in developing countries (IFC, 2022; Zheng et al., 2021).

A particularly encouraging finding is the high level of optimism regarding the future of green banking, with 80% of respondents expressing positive expectations. This reflects growing environmental consciousness and parallels trends observed across other emerging markets, where sustainability considerations are increasingly shaping consumer and investor behavior (World Bank, 2024). The identified demand for tailored green products, especially financing for SMEs and renewable energy investments, underscores the opportunity for financial institutions to expand green offerings and target underserved segments of the market.

However, the results also suggest that without substantial policy support and public education efforts, the growth of green banking in Albania may be constrained. As previous studies have emphasized, government interventions such as financial incentives, tax benefits, and regulatory clarity are critical to reducing perceived risks and encouraging both financial institutions and consumers to engage in sustainable finance (Zheng et al., 2021; IFC, 2022).

Overall, this study confirms the relevance of green banking as a strategic tool for sustainable development in Albania, but highlights significant gaps that must be addressed to achieve widespread adoption. These findings contribute to the broader discourse on sustainable finance in emerging economies and offer practical implications for policymakers, financial institutions, and development partners working to integrate environmental sustainability into the financial sector.

6. CONCLUSION

This study underscores the growing importance of green banking as a transformative force in Albania's pursuit of sustainable economic development. The survey results reveal that while awareness of green banking is moderate, there is strong public recognition of its potential to contribute positively to economic growth, particularly through job creation in renewable energy sectors and improved financial inclusion for underserved populations. This finding aligns with broader international research highlighting green finance as a key enabler of low-carbon economic transitions in emerging economies (Zheng et al., 2021; World Bank, 2024).

However, the study also identifies significant barriers that may impede the widespread adoption and impact of green banking in Albania. High initial investment costs, limited public awareness, and regulatory challenges emerged as primary obstacles, reflecting common issues documented in prior studies (IFC, 2022; EIB, 2024). Addressing these challenges requires a multifaceted approach combining robust government policies, financial incentives, and comprehensive education campaigns aimed at both consumers and financial institutions.

Encouragingly, the optimism expressed by respondents regarding the future of green banking suggests a favorable environment for growth, particularly as Albania continues to develop its renewable energy capacity and commits to sustainability goals. The clear demand for tailored green financial products, especially those supporting SMEs and renewable energy projects, highlights opportunities for financial institutions to innovate and expand their green portfolios to meet market needs.

The findings emphasize the critical role of coordinated efforts among policymakers, regulators, banks, and development partners to foster an enabling ecosystem for green banking. Enhanced regulatory frameworks, improved transparency, and targeted financial literacy initiatives will be crucial in overcoming current limitations and accelerating green finance adoption.

Ultimately, this study contributes valuable empirical evidence to the growing body of knowledge on sustainable finance in developing countries. Coordinated efforts between policymakers, regulators, banks, and development partners — through targeted incentives, regulatory clarity, and

public education — are essential to overcome current barriers. Such measures will enable green banking to achieve its potential in supporting Albania's sustainable transition and serve as a model for other emerging economies.

This paper is of critical importance for future research in the fields of sustainable finance, green governance, and economic development — particularly within the context of small and transitional economies. First, it bridges a key gap in the literature by focusing on the governance dimension of green banking, which remains underexplored compared to broader studies on green lending or environmental finance. By analyzing how internal governance structures (e.g., sustainability committees, ESG disclosure practices, and board accountability) influence both environmental and economic outcomes, the study offers a framework for future scholars to assess institutional readiness and policy effectiveness in similar contexts. Second, the case of Albania provides a valuable empirical foundation for comparative studies. As Albania aligns its financial regulations with EU standards, it offers a real-time view of how developing economies adapt to global sustainability expectations. Future research can build upon this case to conduct cross-country comparisons across the Western Balkans or other EU accession countries, examining how different governance models affect sustainable transitions. Third, the findings can inform future research exploring the long-term impacts of green banking on inclusive development, including areas such as climate resilience, rural investment, and financial inclusion. Researchers may also expand the methodological framework by integrating geospatial data, carbon impact assessments, or machine learning models for ESG performance prediction.

Despite its contributions, the study has several limitations. Albania's banking sector still lacks comprehensive, standardized ESG data. Inconsistencies in reporting or limited public disclosure may affect the accuracy and completeness of the quantitative analysis. Green banking practices and governance reforms are relatively recent in Albania. As a result, long-term impacts on economic development may not yet be fully observable, limiting the ability to assess causality. While Albania provides a compelling case study, the findings may not be directly generalizable to larger or more mature financial markets. Context-specific variables — such as regulatory environments or market structure — may influence outcomes differently. Interview responses may reflect subjective views or institutional self-promotion. To mitigate this, triangulation with

documentary evidence and anonymous responses is essential. By acknowledging these limitations while laying the groundwork for broader investigations, the study contributes meaningfully to both theoretical development and practical policymaking in the global shift toward sustainable finance.

Also, the cross-sectional survey design captures perceptions at a single point in time, limiting causal inference. Self-reported data may be subject to response bias and limited knowledge of green banking concepts among participants. Although the sample was stratified, certain groups, particularly rural or marginalized populations, may be underrepresented. Additionally, the survey's reliance on structured questions constrained the depth of qualitative insights. Nonresponse bias remains a potential concern despite a 70% response rate.

The academic contribution of the study is related to filling a geographic gap in the literature. Most green banking and sustainable finance studies concentrate on advanced economies (the EU core, the US, and Asia). Albania, as an EU candidate and emerging market, offers fresh empirical evidence from a context that is often overlooked in global green finance research.

While many works focus on financial products (green loans, bonds), fewer investigate how governance mechanisms inside banks (e.g., ESG governance, board oversight, compliance structures) influence sustainable economic development. The study highlights governance as a determinant variable, thus extending theoretical models of green banking.

Transitional economy as a laboratory — Albania's unique context — moving from a post-transition economy toward EU integration — makes it a natural experiment for testing how global frameworks (EU Green Deal, SFDR, ESG standards) translate into local financial governance practices. The case offers comparative value for other small, developing, or transition economies.

By linking green banks' governance with sustainable economic development outcomes, the study adds to the sustainability-finance nexus literature. It provides empirical insights into how finance can operationalize the UN Sustainable Development Goals in practice.

If the study uses new datasets, survey evidence, or econometric models for Albania, this also enriches the methodological toolkit for studying green finance in emerging markets. Together, these contributions make the case of Albania important not only locally, but globally — as a lens through which scholars can understand the interplay between governance, finance, and sustainability in underexplored settings.

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