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Green Economy as a Mediator Between Local Revenue, Investment, and Financial Sustainability in Rural SMEs

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Abstract. This study investigates the mediating role of the green economy in the relationship between local revenue, local investment, and financial sustainability in rural SMEs. Employing a quantitative approach, data were collected from 100 SMEs in rural Indonesia using structured surveys and analyzed with SmartPLS. The findings reveal that local revenue significantly influences the green economy and financial sustainability, while local investment directly impacts financial sustainability but not the green economy. Additionally, the green economy acts as a significant mediator in the relationship between local revenue and financial sustainability but not between local investment and financial sustainability. These results underscore the pivotal role of the green economy in enhancing financial sustainability through effective utilization of local revenue. This study provides valuable insights for policymakers and practitioners, emphasizing the need to prioritize green economic practices to strengthen the financial sustainability of rural SMEs. Future research is recommended to explore broader variables and regions for a more comprehensive understanding of this dynamic relationship.

Keywords: Financial sustainability, Green economy, Local investment, Local revenue, Rural SMEs.

1. INTRODUCTION

The phenomenon of financial sustainability (FS) in rural SMEs has become a critical topic in recent years, particularly in the context of enhancing local economic resilience and development. Local revenue (LR) and local investment (LI) play significant roles in shaping the financial performance and sustainability of rural enterprises. However, their impacts are not direct and often require an intermediary mechanism to optimize their influence. One such mechanism is the green economy (GE), which enables SMEs to adopt environmentally sustainable practices, improve resource efficiency, access broader markets, and ensure long-term business sustainability.

Research indicates that social sustainability practices positively correlate with the financial performance of SMEs, suggesting that enhancing social sustainability can lead to improved financial outcomes for rural enterprises (Masocha, 2019). This aligns with the notion that local investments and revenues can be effectively leveraged through diversified product offerings, which not only attract a wider customer base but also stabilize income streams during economic fluctuations. Furthermore, the role of government support in facilitating financial and non-financial assistance is crucial for the sustainability of SMEs, as it helps them navigate challenges and enhances their operational capabilities (Aslam et al., 2023). This support can be particularly beneficial in rural settings where SMEs may lack access to traditional financial resources.

Moreover, the adoption of innovative financial practices, such as banking waivers during crises, has been shown to positively impact the survival and recovery of SMEs (Kurniawan, 2023). This underscores the importance of having flexible financial strategies that can adapt to changing market conditions. Additionally, financial literacy among SME owners is critical for effective financial management and decision-making, which directly influences the sustainability of these enterprises (Masdupi, 2024; Parmitasari & Rusnawati, 2023). By fostering financial literacy, rural SMEs can better manage their resources, optimize local investments, and ultimately enhance their financial sustainability.

The green economy not only serves as a risk mitigation strategy but also increases market competitiveness. Research shows that MSMEs that adopt green economy practices are in a better position to respond to market demand and consumer preferences, thereby improving their financial performance (Zhang et al., 2022) This is especially relevant in rural contexts, where market access is often limited. The integration of sustainability practices into business models further supports the financial performance of MSMEs, as this is in line with the trend of consumers who tend to choose environmentally friendly and socially responsible products (Rutkowska & Sulich, 2019).

When strategically implemented, the green economy not only enhances the competitive advantage of SMEs but also acts as a mediating variable that bridges the gap between available resources and financial outcomes. Research has shown that effective adoption of green economy practices can lead to improved financial performance by enabling SMEs to reduce risks associated with market fluctuations and consumer preferences (Rutkowska & Sulich, 2019; Zhang et al., 2022). This is particularly relevant in rural contexts where market access can be limited. The integration of sustainability practices into business models further supports the financial performance of SMEs, as it aligns with consumer trends towards environmentally and socially responsible products (Mochizuki & Sato, 2021;

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Kumar & Singh, 2020). Studies indicate that SMEs that embrace green initiatives are better positioned to respond to changing consumer preferences and market demands, ultimately leading to improved financial outcomes (González-Benito & González-Benito, 2020; Dangelico & Pujari, 2010). Furthermore, the implementation of green supply chain management practices has been shown to enhance the financial performance of SMEs by reducing operational risks (Jabbour et al., 2014; Hussain & Awan, 2021). Overall, the literature underscores that the green economy serves as a critical pathway for SMEs to achieve sustainable growth and resilience in an increasingly competitive market (Bocken et al., 2014; Pérez-López et al., 2020).

While the individual roles of local revenue (LR), local investment (LI), and the green economy (GE) in promoting financial sustainability (FS) have been explored, studies that combine these variables in an integrated framework remain limited. Research by Smith et al. (2023) highlighted how LR contributes to rural economic growth but did not focus on its implications for SMEs' financial sustainability. Similarly, Jones et al. (2022) examined the role of LI in business development without considering its synergy with the green economy. This knowledge gap underscores the need for a comprehensive analysis that examines how LR and LI, mediated by GE, influence the FS of rural SMEs. Therefore, this study aims to fill this gap by investigating the following research questions:

RQ1: How does local revenue influence financial sustainability in rural SMEs?

RQ1: How does local investment impact financial sustainability in rural SMEs?

RQ1: How does green economy mediate the relationship between local revenue, local investment, and financial sustainability?

This research contributes to the academic discourse by presenting a novel framework that integrates LR, LI, and GE as determinants of FS in rural SMEs. Additionally, the findings will provide practical insights for policymakers and SME practitioners to develop strategies that leverage local resources and diversification for sustained financial growth.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Local Revenue

Local revenue (LR) is a critical component for the economic development and sustainability of local governments, as evidenced by various studies highlighting its multifaceted role. Research indicates that LR significantly contributes to economic growth, with local taxes and retribution positively impacting development outcomes (Wicaksono, 2020). Furthermore, the relationship between revenue sharing and fiscal incentives has been shown to enhance economic resilience, particularly in the context of infrastructure financing (Y. Chen, 2023). The stability of local revenue systems is vital, as systemic prerequisites for tax revenue generation can influence local fiscal autonomy (Storonyanska, 2023). Additionally, local governments face vulnerabilities in revenue generation during disasters, necessitating policies that mitigate these impacts (Ahmadu & Nukpezah, 2022). Fiscal decentralization has been linked to improved economic development, advocating for greater local autonomy in revenue generation (Nkoro & Otto, 2023). The volatility of local revenues can adversely affect public service delivery, underscoring the need for diversified revenue sources (Ouedraogo et al., 2020). Moreover, the effectiveness of local government revenue systems under macroeconomic pressure has been highlighted, with property taxes providing stability during crises (Guziejewska & Walerysiak-Grzechowska, 2020). Strengthening community resilience through local revenue is essential, especially in the wake of challenges such as the COVID-19 pandemic (Setiawati et al., 2022). Effective revenue administration has been shown to enhance local government performance, promoting voluntary compliance and improved socio-economic outcomes (Benavides & Nukpezah, 2020). Finally, regional fiscal policies significantly impact economic growth, with local revenue playing a crucial role in financing regional expenditures (Sinurat, 2023; Sunaryono, 2021). Collectively, these studies underscore the importance of local revenue as a foundation for sustainable economic development and effective governance.

2.2. Local Investment

Local investment (LI) is a fundamental driver of local economic development, as it fosters job creation, innovation, and community resilience. Recent studies highlight the critical role of business incubators in promoting local economic dynamism by facilitating the establishment of small businesses and enhancing sectoral specialization (Martins, 2023). The integration of smart city technologies has also been shown to contribute positively to local economic development by addressing barriers that hinder growth (Abutabenjeh et al., 2021). Furthermore, the perspectives of city practitioners indicate that innovation is essential for effective local economic planning, which can significantly shape the local context (Phan et al., 2021). The creative economy has emerged as a vital component, demonstrating connectivity's positive impact on local economic development (Pratomo et al., 2021). Additionally, the analysis of economic sector potential through various methodologies reveals the importance of collaboration between local governments and communities to stimulate regional economic activities (Pangow et al., 2023). The role of local products in special economic areas has been emphasized as a strategy for driving innovation and growth (Masrun, 2024). Moreover, tourism has been identified as a significant sector for local economic development, with the potential to enhance income and quality of life in communities (Huda, 2020). The effectiveness of local economic development strategies is contingent upon the active participation of local

governments and the private sector, which can facilitate public-private partnerships (Woldesenbet et al., 2020). Finally, the establishment of a well-articulated local economic development framework is crucial for sustaining growth and ensuring that local investments yield long-term benefits (Tessema, 2022). Collectively, these studies underscore the importance of local investment in fostering sustainable economic development and enhancing community welfare.

2.3. Financial Sustainability

Financial sustainability (FS) has emerged as a critical focus for organizations aiming to balance economic viability with social and environmental responsibilities. Recent studies illustrate the positive correlation between sustainability reporting and firm performance, indicating that transparent sustainability practices can enhance financial outcomes Xie et al. (2020). Moreover, financial constraints in bioeconomy firms highlight the necessity for strategies that not only stabilize finances but also promote sustainable practices (Miranda-García, 2024). The diversification of revenue streams has been linked to improved financial sustainability in microfinance institutions, suggesting that engaging in non-lending activities can leverage existing resources for sustained competitive advantage (Githaiga, 2021). Additionally, corporate sustainability management has been shown to influence sustainable tax strategies, shifting the focus from short-term gains to long-term financial stability (Young & Park, 2021). Financial literacy plays a crucial role in the sustainability of micro, small, and medium enterprises (MSMEs), as it equips business owners with the skills necessary to navigate financial challenges and foster growth (Dwyanti, 2024). The banking sector's approach to sustainability also varies, with some institutions integrating sustainable practices into their core operations, thereby enhancing their financial performance (Zimmermann, 2019). Furthermore, corporate sustainability strategies significantly impact the financial well-being of stakeholders, emphasizing the interconnectedness of financial and social outcomes (Johan et al., 2022). The implementation of sustainable development goals (SDGs) is increasingly recognized as essential for achieving financial sustainability, with financial institutions playing a pivotal role in this transition (Santis et al., 2021). Lastly, the relationship between environmental strategies and financial performance underscores the importance of adopting sustainable practices to enhance overall financial health (Boakye et al., 2020; Sunaryono, 2024). Collectively, these studies highlight the multifaceted nature of financial sustainability, demonstrating that integrating sustainability into business strategies is essential for long-term success.

2.4. Green Economy

The concept of the green economy has gained significant traction as a framework for promoting sustainable development while addressing environmental challenges. Recent literature emphasizes the role of green finance as a critical component of the green economy, facilitating investments in environmentally friendly projects and technologies. For instance, Guo et al. (2022) highlight how green finance, when integrated with the digital economy, can enhance total factor productivity by promoting technological advancements that reduce energy consumption. Similarly, Lei et al. (2021) explore the local-neighborhood effects of green credit, demonstrating its positive impact on green development through enhanced technological innovation and environmentally friendly production processes. Nawaz et al. (2020) discuss the nexus between green finance and climate change mitigation, emphasizing the need for robust financial policies to support the transition to a green economy in emerging markets. Tian et al. (2022) further investigate the efficiency of green financial investments, revealing that advancements in the digital economy can significantly enhance green finance outcomes.

The importance of green finance in achieving low-carbon development is underscored by the comprehensive analysis provided by Shi (2024), which discusses the challenges and opportunities presented by green finance in various countries. Additionally, Xiong et al. (2023) demonstrate that green finance can optimize industrial structures by reducing financing costs for green enterprises and promoting sustainable practices. The role of green finance in resource efficiency and economic growth is also highlighted by Xu et al. (2023), who argue that it is essential for fostering sustainable development. Moreover, Huang et al. (2021) examine how renewable energy investments, supported by green finance, can significantly reduce carbon emissions. Lastly, X. Chen & Chen (2021) provide empirical evidence that the development of green finance not only reduces carbon emissions but also stimulates green technology innovation, reinforcing the interconnectedness of financial mechanisms and environmental sustainability. Collectively, these studies illustrate the multifaceted benefits of the green economy, emphasizing the need for integrated approaches that leverage green finance to achieve sustainable development goals.

2.5. The Conceptual Framework

Building upon the hypotheses developed in the previous section, researchers designed a conceptual framework to illustrate the interconnections among the variables under study. This framework visually represents how local revenue, local investment, and green economy collectively influence the financial sustainability of rural SMEs. By mapping these relationships, the framework provides a structured approach for testing the hypotheses and uncovering pathways of influence and interaction. This systematic design allows for a deeper understanding of how these variables synergistically contribute to the resilience and long-term viability of rural SMEs, offering

valuable insights for both academic exploration and practical application.

Furthermore, the conceptual framework integrates theoretical perspectives and empirical evidence from previous studies to ensure its relevance and robustness. It highlights the direct impacts of local revenue and local investment on financial sustainability while emphasizing the mediating role of the green economy in enhancing these effects. The framework underscores the interconnectedness of these variables, showcasing how the green economy enables rural SMEs to mitigate risks, access broader markets, and optimize financial outcomes. This holistic approach ensures that the framework aligns with key sustainability principles while offering a flexible model that can be applied to similar studies in other rural and organizational contexts.

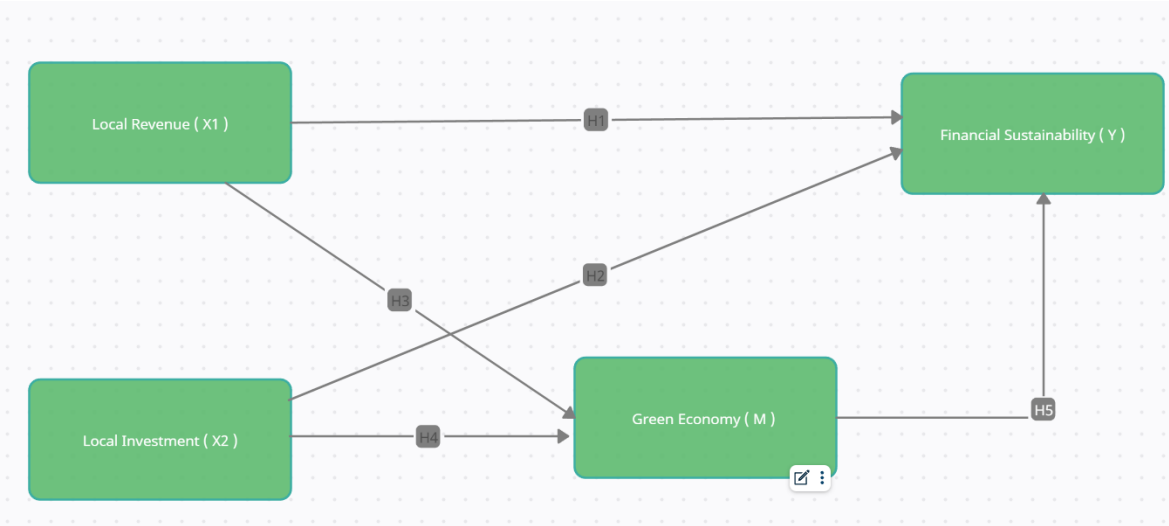

Figure 1: Model of Research.

Until now, no scientific theory has specifically investigated the integration of local revenue, local investment, and product diversification as key determinants of financial sustainability in the context of rural SMEs. Based on the arguments and discussions presented above, we hypothesize that:

H_1: There is a significant relationship between Local Revenue and Financial Sustainability.

H_2: There is a significant relationship between Local Investment and Financial Sustainability.

H_3: There is a significant relationship between Local Revenue and Financial Sustainability if mediated by the Green Economy.

H_4: A significant relationship exists between Local Investment and Financial Sustainability if mediated by the Green Economy.

H_5: There is a significant relationship between Green Economics and Financial Sustainability.

3. METHOD

3.1. Design`

This research adopted a quantitative approach to analyze hypotheses by proposing statistical and qualitative data; the data collection tools include structured interview questions with closed questions and a Likert scale. The research was carried out from a survey service by Telkom called TSurvey was used. Of the 100 SMEs proposed to be observed. The data collected were analyzed using Microsoft Excel and SmartPLS because SmartPLS is well-equipped for SEM. Moreover, interviews with SMEs organizations enriched the findings with qualitative information about their development. As a result of this research, the level of sustainable engagement of SMEs and its impact on local communities will be ascertained, and the improved recommendations for their contribution to the region's development will be provided.

3.2. Respondents and Data Collection

The approach incorporates numerical data to analyze and corroborate the put-forward hypotheses. Data collection was done using a survey method with subjects responding to questions on the Likert scale to guarantee the inclusion of data from all sub-topics in the research scope. The survey sample was a total of 100 from Indonesia. All participants were community leaders who were well-informed about the development SMEs in their respective villages. Such diversity in the sample enabled the researchers to understand the factors that affect the SMEs in respective regions.

3.3. Measures

The collected data was objectively analyzed to transform numerical responses into valuable information that best illustrates the dynamics of the green economy in rural SMEs. The analysis aimed to identify patterns and relationships between local revenue, local investment, and financial sustainability, with the green economy acting

as a mediator. This approach provides a solid foundation for understanding how these variables influence the financial performance and sustainability of SMEs in rural communities. Such a sampling technique ensures a comprehensive view of the role of the green economy in enhancing the sustainability of rural SMEs, as the responses come from diverse areas, with participants possessing a deep understanding of local enterprises and their economic contexts.

This research focuses on the role of the green economy as a mediator between local revenue and local investment in achieving financial sustainability for rural SMEs. The analysis aims to explore how local revenue, derived from local economic activities, and local investment, reflecting capital inflows from local stakeholders, interact and are influenced by the adoption of green economy practices in shaping the financial sustainability of SMEs. The green economy serves as a strategy to reduce risks, enhance competitiveness, and help SMEs access broader markets, thus supporting income stability and long-term financial sustainability. By identifying the relationships between these variables, this study provides a deeper understanding of how the green economy can enhance the management of local revenue and investment to achieve better financial sustainability for rural SMEs.

4. RESULTS

4.1. Measurement Model

The outer model, otherwise known as the measurement model, must be assessed when applying the SEM with the help of SmartPLS. It has been used to determine the internal and external credibility of the constructs used in the research. This procedure examines the interconnection between the hypotheses the research instrument seeks to measure and the indicators used to measure them in the outer model.

Besides construct validity, the outer model assessment concentrates on the internal reliability and reliability of indicators within a construct. This assessment includes ensuring that each object we have under a given construct matches the other well to provide a good representation of the theoretical construct in question. Usually, they check composite reliability, average variance extracted (AVE) and item loading check; every indicator has to meet threshold values to ascertain whether or not they are relevant measures of the particular construct. In this stage of employment, SmartPLS strengthens the credibility of each construct side by side by establishing the groundwork for structural model analysis, increasing the reliability and validity of the research outcomes.

Table 1: Measurement model.

Variable	Cronbach's alpha	CR	Rho_A	AVE
Local Revenue (X1)	0.915	0.916	0.946	0.855
Local Investment (X2)	0.883	0.889	0.928	0.813
Green Economy (M)	0.907	0.914	0.941	0.843
Financial Sustainability (Y)	0.775	0.792	0.898	0.815

Table 2: Discriminant validity.

Variable	Local Revenue (X1)	Local Investment (X2)	Green Economy (M)	Financial Sustainability (Y)
Local Revenue (X1)	0.925			
Local Investment (X2)	0.899	0.902		
Green Economy (M)	0.836	0.790	0.918	
Financial Sustainability (Y)	0.899	0.897	0.840	0.903

The Cronbach Alpha, composite reliability and average variance extracted indices were used to ensure that the analyzed constructs are reliable and valid. Reliability for all constructs is high and conforms to the test-retest reliability with Cronbach's Alpha figures well above 0.7 (Hair et al., 2019). The CR of each construct examined in this research is shown below, and all are above 0.7. Hence, the constructs tested in this research are reliable (Fornell & Larcker, 1981). The AVE values are also above the convergence validity index 0.5 by Bagozzi et al. (1991). They indicate that the measures are distinct for each construct. These R-squares ensure that the constructs are explicit and accurately assessed by these indicators. The ESESIA and Sustainability constructs show acceptable internal consistency with factor loadings > 0.7, ensuring that all the indicator measures are valid representations of their construct relevant to structural model analysis.

The measurement model plays a crucial role in ensuring the accuracy and consistency of the variables. According to the literature, this model addresses composite reliability, discriminant validity, and convergent validity. To satisfy composite reliability, the composite reliability (CR) value should exceed 0.6, while Cronbach's alpha should be greater than 0.7 (accepted). Convergent validity is assessed by examining the average variance extracted (AVE) (Hair et al., 2019), which must meet the minimum threshold of 0.5. As indicated in Table 1, Cronbach's alpha values range from 0.775 to 0.915, and CR values vary between 0.792 and 0.916, signaling a reliable model. Furthermore, the AVE values range from 0.813 to 0.855, confirming that convergent validity is achieved. Table 2 shows the results for discriminant validity, assessed using the criteria of Fornell and Larcker For discriminant validity to be met, the correlation score between a construct must be higher than the scores for other constructs in the table. This demonstrates that the manifest variables in the model satisfy discriminant validity, making them suitable for further structural model analysis.

4.2. Structural Model

The figure below shows a structural model assessing an sustainability model with local revenue, local investment and green economy factors for financial sustainability of SMEs in rural. This model maps the conceptual dimensions, their specific measures, and the loading values and path coefficients, showing how each link was analyzed through SEM using SmartPLS 3.0. The internal consistency of the measures was established using Hair et al. (2019) with Cronbach's alpha of more than 7 to test the internal consistency (Field, 2005; Pallant et al., 2016; Yousef, 2000).

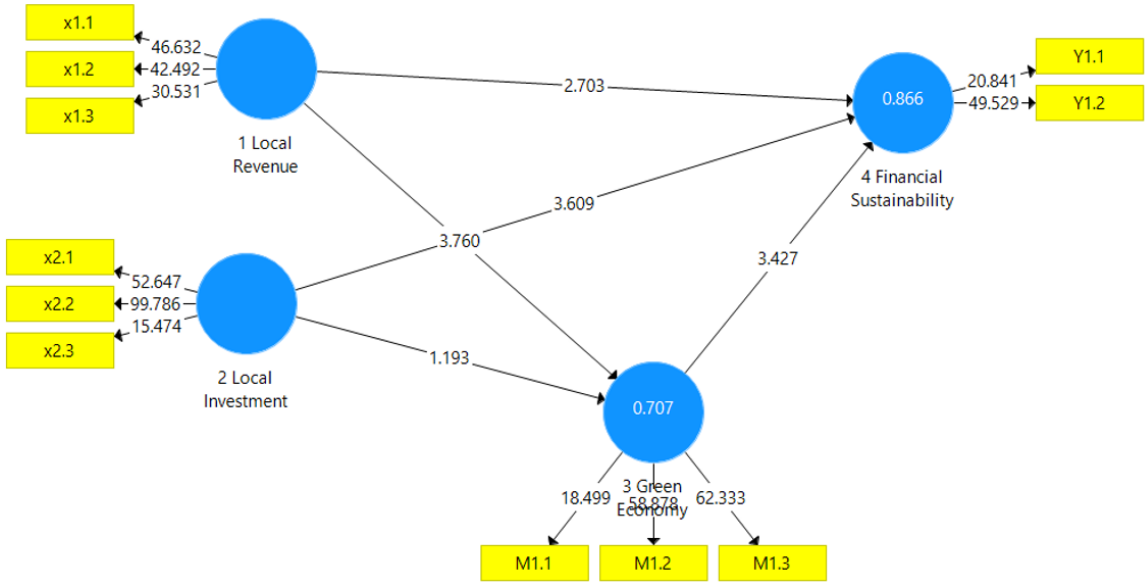

Figure 2: Structural model.

The structural model is designed to evaluate the model and hypotheses using path analysis, while also taking into account R-squared (R^2), f-squared (f^2), and the predictive model (Q^2). The final structural model is depicted in Figure 3. The R^2 value for Sustainability (Y) stands at 0.866, indicating that the ability of Local Revenue (X1), and Local Investment (X2) factors, along with the Green Economy (M), to explain Financial Sustainability is 86.6% (substantial category). In addition, the R^2 for the Green Economy (M) is 0.707, showing that the ability of Local Revenue (X1) and Local Investment (X2) to explain the Green Economy (M) is 70% (moderate category). The f^2 values are utilized to assess the strength of the manifest variables' effects. The statistical analysis reveals that many effects in the model are considered strong, while the effect of Local Investment (X2) on Green Eonomy (M) is weak and not statistically significant.

To assess the direct effects, this study utilized p-values and t-values, as outlined in Table 3. According to the results, five direct effects were accepted, and one was rejected due to a p-value greater than 0.05 and a t-value below the 1.96 threshold. Local Revenue (X1) demonstrated a significant effect on the Green Economy (M) (p-value = 0.000, t-value = 3.760) and on Financial Sustainability (Y) (p-value = 0.007, t-value = 2.703). Conversely, Local Investment (X2) did not significantly impact the Green Economy (M) (p-value = 0.233, t-value = 1.193) but had a significant effect on Financial Sustainability (Y) (p-value = 0.000, t-value = 3.609). Additionally, the Green Economy (M) significantly influenced Financial Sustainability (Y) (p-value = 0.001, t-value = 3.427).

After identifying the direct effects, the study examined the indirect effects and mediation functions, as shown in Table 4. Two indirect paths were analyzed: Local Revenue (X1) → Green Economy (M) → Financial Sustainability (Y) and Local Investment (X2) → Green Economy (M) → Financial Sustainability (Y). The analysis revealed that the path from Local Revenue (X1) to Financial Sustainability (Y) mediated by the Green Economy (M) had a coefficient value of 0.156, with a t-value of 2.518 and a p-value of 0.012, confirming the hypothesis. However, the path from Local Investment (X2) to Financial Sustainability (Y) through the Green Economy (M) had a coefficient value of 0.048, with a t-value of 1.118 and a p-value of 0.264, leading to the rejection of the hypothesis. These findings underscore the significant mediating role of the Green Economy in the relationship between Local Revenue and Financial Sustainability while highlighting the lack of mediation in the case of Local Investment (Cohen, 1988; Fields et al., 2013).

Table 3: Direct effect.

Path	Original sample (O)	Sample mean (M)	Std. Dev.	T-value	P-value	Decision
Local Revenue -> Green Economy	0.653	0.630	0.174	3.760	0.000	Accepted
Local Revenue -> Financial Sustainability	0.329	0.319	0.122	2.703	0.007	Accepted
Local Investment -> Green Economy	0.203	0.229	0.170	1.193	0.233	Rejected
Local Investment -> Financial Sustainability	0.413	0.421	0.114	3.609	0.000	Accepted
Green Economy -> Financial Sustainability	0.239	0.239	0.070	3.427	0.001	Accepted

Table 4: Indirect effect.

Path	Original sample (O)	Sample mean (M)	Std. Dev.	T-value	P-value	Decision
Local Revenue -> Green Economy -> Financial Sustainability	0.156	0.151	0.062	2.518	0.012	Accepted
Local Investment -> Green Economy -> Financial Sustainability	0.048	0.055	0.043	1.118	0.264	Rejected

5. DISCUSSION

A green economy has emerged as a crucial mediator in supporting financial sustainability, particularly in the development of rural SMEs. By fostering synergies between local revenue and local investment, the green economy acts as a strategic link that enhances resource utilization and drives innovation tailored to local economic needs. This approach strengthens the capacity of rural SMEs to create sustainable solutions that align with financial objectives, promoting resilience and long-term viability in their operations.

The first findings show that local revenue factors (X1) have a significant influence on the green economy (M) and financial sustainability (Y). The relationship between local revenue (LR) and financial sustainability (FS) is critical for the economic resilience of local governments, particularly in rural areas. Local revenue serves as a primary source of funding for public services and infrastructure, which are essential for promoting sustainable development. Studies have shown that higher local revenue positively impacts financial independence, enabling local governments to finance their development initiatives without excessive reliance on external funding (Rizky, 2023). Furthermore, local revenue is instrumental in fostering a green economy, as it provides the necessary financial resources to invest in sustainable practices and technologies. While the specific reference to Githaiga (2021) does not directly support the claim regarding local revenue and green economy investments, it does highlight the importance of revenue diversification for financial sustainability in microfinance institutions, which can be conceptually related (Githaiga, 2021).

For instance, green investments funded by local revenue can lead to improved environmental outcomes and economic growth, thereby enhancing the overall financial sustainability of communities. However, the reference Abed et al. (2022) does not specifically address local revenue's role in green investments, focusing instead on broader green investment strategies. Additionally, the integration of green economy principles into local revenue generation strategies can create a synergistic effect, where the benefits of increased revenue are amplified by investments in sustainable practices (Sari et al., 2019). This relationship is further supported by evidence that local governments with diversified revenue sources are better positioned to implement green initiatives, which in turn contribute to their financial sustainability (Maličká, 2021). The interplay between LR, FS, and the green economy highlights the importance of developing comprehensive fiscal policies that not only enhance local revenue but also promote sustainable economic practices (Hayati et al., 2021). Overall, the literature underscores that local revenue is a vital component in achieving financial sustainability, particularly when aligned with green economy objectives, thereby fostering long-term economic resilience and environmental stewardship (Agustina, 2024).

Research indicates that local investment (LI) significantly influences financial sustainability (FS), providing essential resources for local governments to enhance their economic resilience and service delivery. Studies have shown that increased local investment leads to improved infrastructure and public services, which are critical for fostering sustainable economic growth Niyazbekova et al. (2021). However, the relationship between local investment and the green economy is complex, as some studies suggest that while local investments can support green initiatives, the direct impact on the green economy remains limited (Topić-Pavković, 2020). This suggests that local investments may not inherently prioritize green projects unless specifically directed by policy frameworks or incentives. Moreover, the interplay between local investment and financial sustainability is further mediated by the green economy, highlighting the potential for local investments to enhance sustainability outcomes when aligned with green initiatives. For instance, investments in green infrastructure can lead to long-term financial benefits by reducing operational costs and enhancing environmental quality (Nurcahya, 2024). Similarly, targeted local investments in sectors that promote sustainability can yield significant economic returns while supporting the green economy (Firmansyah, 2024).

Furthermore, the integration of green finance into local investment strategies can amplify the positive effects on financial sustainability. Investments in clean energy and green technologies not only contribute to environmental sustainability but also enhance the financial performance of local governments by attracting additional funding and improving public perception (Li et al., 2022). Regions with higher levels of green investments tend to experience better economic outcomes, reinforcing the idea that local investment can drive both financial sustainability and green economic growth (Kabir & Раков, 2023). In conclusion, while local investment is crucial for enhancing financial sustainability, its relationship with the green economy is complex and requires intentional alignment through policy and strategic planning. The mediation of the green economy can enhance the financial sustainability of local investments, creating a synergistic effect that benefits both economic and environmental outcomes (Matyushenko et al., 2022). Therefore, fostering a green economy through targeted local investments is essential for achieving sustainable development goals and ensuring long-term financial viability (Fang & Chang, 2022).

Finnaly, Research indicates that local investment (LI) plays a significant role in enhancing financial sustainability (FS), particularly when mediated by the principles of the green economy (GE). Local investments provide essential funding for infrastructure and services that are critical for sustainable development, thereby directly contributing to the financial health of local governments (Aura et al., 2019). Studies have shown that

increased local investment leads to improved economic outcomes, which are vital for achieving long-term financial sustainability (Nurcahya, 2024). However, while local investment is crucial for financial sustainability, its direct impact on the green economy is less pronounced, suggesting that local investments may not inherently prioritize green initiatives unless guided by specific policies (G. Chen, 2019). The integration of green economy principles into local investment strategies can create a synergistic effect that enhances financial sustainability. For example, investments in renewable energy and sustainable infrastructure not only contribute to environmental goals but also yield financial returns through reduced operational costs and increased efficiency (Storonyanska, 2023).

Furthermore, local investments that focus on green projects can attract additional funding and support from both public and private sectors, reinforcing the financial sustainability of local governments (Pan, 2024). Moreover, the mediation of the green economy in the relationship between local investment and financial sustainability is significant. When local investments are aligned with green initiatives, they can lead to improved financial outcomes by fostering innovation and attracting environmentally conscious businesses (Firstyanto & Nuswantara, 2021). This relationship is supported by evidence that regions with higher levels of green investments tend to experience better economic performance, highlighting the importance of integrating green economy principles into local investment strategies (Abuamria, 2019). In conclusion, while local investment is essential for enhancing financial sustainability, its relationship with the green economy requires intentional alignment through policy frameworks and strategic planning. The mediation of the green economy can amplify the positive effects of local investment on financial sustainability, creating a pathway for sustainable development that benefits both the economy and the environment (Batare & Znotiņa, 2019). Therefore, fostering a green economy through targeted local investments is crucial for achieving sustainable development goals and ensuring long-term financial viability (Safitra et al., 2020).

6. CONCLUSIONS, IMPLICATIONS, AND FUTURE DIRECTION

The findings underscore the critical role of the green economy as a mediator in enhancing financial sustainability for rural SMEs by effectively linking local revenue and local investment. This study reveals that integrating these factors through the lens of a green economy fosters improved resource allocation and innovation, thereby strengthening the financial outcomes of rural enterprises. The results emphasize the importance of focusing on these economic interconnections rather than adopting a fragmented approach, as the synergy between local revenue, investment, and the green economy provides a solid foundation for achieving financial resilience.

From a practical perspective, these findings urge policymakers and rural SME stakeholders to prioritize strategies that incorporate green economic principles, enabling sustainable growth and fostering long-term viability. However, the study's scope is primarily limited to specific economic factors, leaving opportunities for future research to explore broader applications of the green economy model across different contexts or industries. Expanding this framework could provide more nuanced insights into how a green economy can universally support sustainable development efforts.

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The authors confirm that the research was conducted with full transparency regarding the methodology, data collection, analysis, and reporting of results. All data, methods, and findings presented in this study are documented accurately and are available for verification upon request. Additionally, the study adhered to ethical research standards, ensuring that all participants and stakeholders were informed and consented to their involvement in the research.

Competing Interests:
The authors declare no competing financial, personal, or professional interests that could influence the findings or interpretation of this study. This research was conducted independently, and the conclusions drawn reflect an unbiased assessment of the data.

Authors' Contributions:

- [Sunaryono]: Conceptualized the study, designed the research framework, and supervised data analysis.
- [Yusron Toto]: Conducted data collection, statistical analysis, and prepared the initial draft of the manuscript.
- [Udin Saryono]: Provided critical revisions to the manuscript, ensured methodological rigor, and contributed to the discussion section.

- [Yulianto, Silpanus Dian Sapala]: Reviewed the literature, managed data curation, and supported in visualizing results.

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