

**GREEN FINANCE AND RURAL ENTREPRENEURSHIP  
DEVELOPMENT: EVIDENCE FROM SRI LANKA ON THE MEDIATING  
ROLE OF PERCEPTION OF GREEN FINANCE**

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Green finance has emerged as a central policy and financial tool for promoting sustainable and inclusive economic growth, particularly in rural economies dominated by small and medium-sized enterprises (SMEs). Rural entrepreneurs in post-conflict and agrarian regions such as Jaffna District, Sri Lanka, face structural constraints in accessing formal finance and adopting sustainable business practices, thereby limiting the effectiveness of green finance to financial availability alone. This study examines the relationship between green finance and rural entrepreneurship development in Sri Lanka, with a particular focus on the mediating role of green finance perception among rural entrepreneurs in Jaffna. A quantitative, cross-sectional design was adopted, with primary data collected via a structured questionnaire from 152 rural entrepreneurs (out of 200 distributed) across divisional secretariat areas in Jaffna. Data were analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM) employing a two-step approach encompassing measurement model and structural model assessment. The results demonstrate that green finance positively influences rural entrepreneurship development both directly and indirectly through perceptions of green finance, with a total effect and an  $R^2$  of 0.62. Green finance strongly shapes entrepreneurs' understanding, trust, and valuation of environmentally oriented financial products, while perceptions of green finance have a substantial positive impact on entrepreneurial development. The mediation analysis confirms that perception functions as a critical behavioural channel through which green finance translates into entrepreneurial outcomes, indicating that financial resources alone are insufficient to drive sustainable entrepreneurship without accompanying awareness, trust, and understanding. By providing context-specific empirical evidence from a post-conflict and environmentally vulnerable region, this study contributes to the literature on green finance and sustainable entrepreneurship and offers policy-relevant insights for designing inclusive, perception-driven green finance initiatives that support rural development.

**Keywords:** Green finance, Rural entrepreneurship, Green finance perception, PLS-SEM, SMEs, Sustainability, Sri Lanka