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Sustainable Practice of IFRS And Economic Growth: Evidence From A Case Study on A Developing Country

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Abstract: This research aims to investigate whether there is a link between the adoption of International Financial Reporting Standards (IFRS) and the benefits of Foreign Direct Investment (FDI), both of which were significant contributors to Afghanistan's economic growth between 2003 and 2020. This study uses panel integration and causality assessment. It looks into the underlying causes of the problem in terms of short- and long-term partnerships, as well as diversity. The findings of this study support the existence of a positive and significant relationship between the adoption of IFRS and the flow of FDI, as well as the correlation between them. Furthermore, the examination of causes shows that IFRS-related FDI is both a short-term source of EG and a long-term cause of diversification. The analysis of causes demonstrates this. This study investigates Afghanistan and expands on the relationship between IFRS acquisition and FDI income. This research could help developing countries that use IFRS and those that do not use IFRS identify the financial implications of IFRS practices and boost economic growth.

Keywords: Foreign Direct Investment (FDI), International Financial Reporting Standards (IFRS), Economics growth, Comparability, Quality, Transparency, Opportunity and risk

1. Introduction

The development of international business has been significantly advanced by globalization. Additionally, this has heightened the need for investors to access financial reports that are standardized, uniform, and comparable. Since adopting the International Financial Reporting Standards (IFRS), over one hundred countries now compete more effectively for Foreign Direct Investment (FDI) (UNCTAD, 2007; Poria, 2019). Several other major nations are planning to transition from their current Generally Accepted Accounting Principles (GAAP) to IFRS (Hussain, 2022; Nurunnabi, Donker, & Jermakowicz, 2022). However, a lack of trust in financial reporting remains a significant challenge, adversely affecting the ability to attract FDI. This issue is particularly acute in developing countries that lack advanced monetary reporting systems. The adoption of IFRS is seen as a strategy to address this challenge, and numerous developing nations have embraced or are moving towards full adoption of IFRS to enhance institutional transparency and financial statement disclosure (Ben Slama, Oussii, & Klibi, 2022; Al-Okaily, Alkayed, & Al-Okaily, 2024).

IFRS has been widely used as a crucial tool to improve the quality of accounting reports and impact investment outcomes (Ma et al., 2022). According to the study Ma et al., (2022) one of the fundamental principles of an effective international monetary strategy is to develop financial systems, often achieved by attracting FDI into the country's economy.

Studies noted that global speculation strategies have improved since the 1980s, yet developing countries, particularly in Africa, remain behind others in attracting FDI. Additionally, the implementation of IFRS has eliminated national barriers, allowing investors to save on costs that would otherwise be spent on maintaining disparate accounting standards (Bakre, McCartney, & Fayemi, 2022; Lennox & Wu, 2022). Although countries like Indonesia and Vietnam have not yet adopted IFRS, they have still reported substantial FDI inflows. This demonstrates that a country's adoption of IFRS must align with its strategic objectives. For example, Brazil's adoption of IFRS enabled foreign companies to disclose their balance sheets to investors more effectively and facilitated accurate financial reporting (Ben Slama et al., 2022). Recent studies have provided further insights into the complex relationship between IFRS adoption, FDI inflows, and economic growth (EG). For instance, a study by Uzma SH and Nurunnabi M (2021) highlights that while IFRS adoption generally improves financial transparency and comparability, its impact on

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FDI and EG can vary significantly depending on the existing regulatory and institutional framework of a country. This suggests that the benefits of IFRS are not uniform across different contexts, and countries with weaker institutions may not experience the same positive effects as those with more robust regulatory environments. Conversely, Elhamma A (2023) found that in certain emerging markets , IFRS adoption led to increased investor confidence and higher FDI inflows, supporting the argument that standardized financial reporting can attract foreign investment (Ma C, Awan RU, Ren D, Alharthi M, Haider J, & Kouser R, 2022). However, they also noted that transitioning to IFRS can be costly and challenging, especially for countries with limited resources and expertise in international accounting standards. These conflicting findings underscore the importance of considering country-specific factors when evaluating the impact of IFRS on FDI and EG.

Moreover, to critically evaluate the methodologies in previous studies on IFRS adoption and its impact on FDI inflows and economic growth (EG), several gaps are evident, particularly relevant to the context of Afghanistan. Many prior studies, such as those by Uzma and Nurunnabi (2021) and Elhamma (2023), have primarily utilized cross-sectional or longitudinal approaches across multiple countries, which can obscure country-specific factors and contextual nuances. These methodologies often fail to address the unique institutional, regulatory, and political environments that influence the effectiveness of IFRS adoption. Moreover, while cross-sectional analyses provide a snapshot at a single point in time, they do not capture the dynamic nature of IFRS implementation and its long-term effects, as stated by Singh, P. (2023). Longitudinal studies, although better at capturing changes over time, may not fully consider external economic shocks or political instability, particularly pertinent to Afghanistan. This approach can help address the methodological limitations observed in broader, multi-country studies and provide more targeted insights into the impacts of IFRS adoption on FDI and EG in Afghanistan.

Therefore, this research aims to explore the contribution of IFRS to the EG of Afghanistan and its role in the inflow of FDI. Moreover, as IFRS can be associated with better clarity and improved information disclosure guidelines, it has been argued that similar effects may influence national political issues and foreign trade reforms. The role that inflexible variability plays in defining the link between IFRS adoption and FDI is investigated in this research. Adopting IFRS requires proper rigidity and financial fidelity, vital resources for developing protection and investment measures (Akisik, O., Gal, G., & Mangaliso, M. P., 2020). These topics have been inadvertently omitted from IFRS acceptance programs. As a result, it is crucial to assess the significance of dynamic interventions, which persistently question the models used by established researchers and have the potential to shift the success of outcomes based on their rigorous analysis. Due to the absence of literature, it is challenging to properly identify whether there is a connection between the adoption of IFRS, FDI, and EG in Afghanistan. In this research, a board addition is used to investigate the link between IFRS adoption, FDI inflows, and EG.

In addition to the study results conducted using this approach, it would be beneficial for countries that can utilize IFRS to promote the financial implications of adopting these standards. Conversely, this study's results will also provide valuable tools for advising countries that do not embrace IFRS. This study aims to understand the relationship and effect of IFRS on EG, ascertain the association of IFRS with FDI inflow, explore the association between FDI inflow and economic growth, and determine the role of FDI inflow in the interplay between IFRS and EG. A concise overview of the relevant literature is presented in the next section, formulating hypotheses. The subsequent section will discuss the integration plan and the causal testing. The conclusion of this research will address all the research questions. The latter portion of this paper includes a discussion of the study, limitations, suggestions, and the conclusion. The following research questions seek answers: Does the practice of IFRS dimensions affect EG? Is there any association between IFRS and FDI inflow? Is there any relationship between FDI inflow and EG? What is the relationship between IFRS, EG, and FDI inflow?

2. Theoretical background

The study's theoretical background revealed that there are theories that explain the phenomenon of selecting the investment option according to their needs, aim, purpose or requirements. Whether it is an individual investor or a government of any country, all have the same intention to increase their wealth but get more returns on their investments. In this study, we use one of the prominent theories called investment theory and exogenous theories to establish the study's theoretical background.

2.1. Investment theory

Investing theory is based on a few presuppositions about the investing process by looking at numerous elements while making an investment decision and better understanding what an investor's achieved. According to (Hussain & Haque, 2016) a dynamic study of Bangladesh, FDI, trade, and gross domestic development (GDP) growth are linked. There was an extra effect that demonstrated a considerable impact on the GDP growth of each particular country due to the volatility of international trade and investment (Hussain & Haque, 2016) Positive spillover effects from FDI inflows into India enhance the country's TFP development (Choi and Beck, 2017). Another study revealed that FDI shares and assets were steadily consolidated during the Indian budget (Sengupta & Puri, 2020). According to economic and finance theories, FDI has a large and positive impact on economic development and growth. According to (Gunby, Jin, & Reed, 2017) studies, the effect of FDI on China's financial growth is much lower than projected, given the unexpected combination of current estimates.

Individual product growth from FDI is stronger than domestic investment in US nations when meeting the extremely low Human Capital value (Iheduru, 2008). Studies have shown that FDI has a negligible effect on the productivity of high-income nations such as the United States. For any country, EG and expansion are the priority objectives. That's why choosing the right time and investment plan has become crucial. Adopting IFRS for the Afghanistan economy is considered an investment to achieve a return in the future. Therefore, it becomes crucially important to understand the real impact of IFRS on FDI and the economy of Afghanistan.

2.2. Exogenous theory

The foreign growth theory posits that economic growth (EG) is caused by the interplay of several external forces that are not directly related. This concept is based on the observation that the unjust expansion of the economic sectors is not influenced by the economy and other internal factors, but rather by external causes. The core concept of this theory posits that the main drivers of economic prosperity are external forces, which function independently of internal and external factors. The neoclassical growth model serves as the basis for the concept of external growth, which may be observed from a broader macroeconomic perspective. The external growth model encompasses several key characteristics that are pertinent to the examination of economic growth (EG), productivity and inflation levels, savings rates, and the extent and intensity of technological diversity. According to the hypothesis, growth is attributed to the impact of external economic forces, specifically foreign direct investment (FDI) in this study. Foreign Direct Investment (FDI) is often regarded as the primary catalyst for Economic Growth (EG). Hence, in order to facilitate the adoption of transparent, comparable, and accessible financial statements beyond national borders, it is imperative to enhance foreign direct investment (FDI) as a means of promoting growth. Therefore, it is crucial to examine the applicability of the exogenous theory in the specific context of Afghanistan, as well as the impact of International Financial Reporting Standards (IFRS) on Foreign Direct Investment (FDI) and the Economic Growth (EG) of Afghanistan.

3. Empirical Literature Review

3.1. International Financial Reporting Standards (Comparability) and Economic Growth

IFRS is a worldwide GAAP that establishes standards based on recognised standards accessible by the International Accounting Standards Board. These standards aim to generate high-quality financial statements comparable to one another to enable explanation. According to Akenbor & Okoye, (2012), the following are some of the challenges created by the implementation and execution of IFRS: Current challenges with IFRS compliance suggest a language barrier in international accounting (Weaver & Woods, 2015). Onyekwelu & Boniface, (2014) notes that although the standard calculates a certain way, the results show a discrepancy. As part of government policy in Nigeria, prices are reassessed using a last-in, first-out (LIFO) system to evaluate an unapproved stock for tax reasons. According to Okoye & Akenbor, (2014), it is common knowledge that adopting IFRS necessitates the completion of practical audits, tax inferences, internal processes and official reporting, and technical organisation and institutional concerns.

3.2. International Financial Reporting Standards feature (Quality) and Economic Growth

Previous data suggest that high-quality financial reporting increases the effectiveness of investments when it either brings the level of investment down to its bare minimum or eliminates it, leaving very little to be desired. This research attempts to establish the association between investing in firms operating in highly invested (non-investment) contexts and reporting quality. Even the most prominent financial organisations are likely to vary significantly from their target investment levels and show minimal sensitivity to the economy. These results imply that another method to connect quality reporting with efficiency and investment is to lower the likelihood of risk aversion and bad decisions that limit effective investments.

However, (Jung, Lee, & Weber, 2014) suggest that the quality of financial reporting level helps support economic progress. According to him, an increase in the quality of the reports produced leads to improved project ownership and selection and a reduction in financial expenses, which ultimately results in accelerated growth. Assuming that the uncertainty of the information increases the complexity of decision-making problems within the organisation and that the quality of the reports reduces the complexity of these problems, this research hypothesised and found that businesses with high levels of insecurity experienced significant growth in countries with improved reporting quality. In particular, they discovered that high-level uncertainty businesses were quickly expanding between 0.12% and 0.22% in most developing countries. The findings of other evidence back up our position as a report on the nature of the impacts of external shocks utilising the IFRS. According to Chen et al. (2011), the quality of financial reporting moves the asset performance of small businesses in developing marketplaces.

Consequently, this effect increases financial institutions like banking support and reduces profits for tax evasion drives. Other research has investigated the effects of IFRS on businesses' finances (Chen, Cheng, Lin, Lin, & Xiao, 2016; Martínez-Ferrero, 2014; Chen & Gong, 2019; Chen, Chin, Wang, & Yao, 2015). IFRS indicators such as data quality, IFRS and FDI, financial markets, analysts' EG, and cost equity are examples.

3.3. International Financial Reporting Standards feature (Transparency) and Economic Growth

IFRS provides openness to the market by enhancing the quality of financial data and worldwide comparisons.

This, in turn, enables shareholders and other market participants to make informed financial decisions. The (Owen, Brennan, & Lyon, 2018) has a wide vision that connects different investor groupings and governments. This vision throws light on the situation. Suppose there is information sharing among the interested parties. In that case, there will be a possibility of better-informed judgments and an improvement in the responsibilities of investors and enterprises for how to access and utilise belongings, which will reduce the amount of corruption. When it comes to financial transparency refers to having basic and comprehensive economic information and clarity about the mechanisms that influence economic interactions, such as the production and supply of wealth across the country. Corruption and financial exploitation are a source of conflict; as a result, the United Nations Development Program (UNDP) considers dishonesty a kind of equality and personal advancement, which diminishes accountability, faith, and transparency. Lack of transparency leads to dishonesty in financial dealings and has a detrimental effect on asset and development growth, leading to a failure to meet goals in international financial expansion.

The market needs more competition, but maintaining confidentiality will lessen it. Lack of openness may contribute to the ineffectiveness of administrative functionality. Organisation output's energy and financial assets might be used to create low-wage jobs, expand gang administrations, or both. In addition to this, it is supported by unused resources from the country. These assets cannot contribute to the country's financial growth since a lack of transparency diverts support away from the organisational and country's purpose. According to the World Bank, poverty and corruption are two of the most significant factors holding back economic and social development. It hinders growth and threatens the fundamentals upon which financial development is dependent by subverting the law. (Christensen, Glover, & Wood, 2012; Lourenço & Branco, 2015):Lambert, Leuz, and Verrecchia 2007) They consider that an improvement in display quality reduces material indecision, material irregularity, cost equity, and characteristics that lead to an improved degree of risk. Additional transparency of financial statements contributes to enhanced comparisons, increased accuracy, expanded knowledge excellence and financial markets, and improved financial market performance (Gordon et al., 2012; Aliabadi & Shahri, 2016; Ball, 2016). Recent years have seen an increase in the number of republics that have adopted IFRS as their standard accounting framework (Chen et al. 2014; (Khan, Usman, & Jan, 2021; Yousefinejad et al., 2018). As a result, it may be essential to understand the financial repercussions of adopting IFRS in certain regions or nations.

3.4. International Financial Reporting Standards features (opportunity and risk) and Economic Growth

Savers benefit from IFRS values because they help them identify and categorise various types of risk and uncertainty, which helps them better manage their financial resources. Financial and international reporting costs are reduced when organisations employ an independent, credible mathematical language. Many financial statements emphasise the need for audited financial accounts to preserve records and keep tabs on creditors. According to Armstrong, Guy, and Weber (2010) and Nikolaev Christensen and Wittenberg-Moerman (2010 and 2011), the financial institution may ask for a borrower's financial statements from an independent regulator to learn more about the borrower's creditworthiness or as part of a standard contract procedure.

3.5. International Financial Reporting Standards and Economic Growth

Research on IFRS and economic development and growth (Ben Othman & Kossentini, 2015; Daske 2006) and equity expenses (Zehri & Abdelbaki, 2013) have already been discussed (Hail & Leuz 2007; Daske, Hail, Leuzmerillo & Verdiino; & Orgazplans 2016) since it is widely accepted that IFRS helps savers make more informed and accurate asset choices, better reporting and overall improvement over other international financial statements result, which has a favourable effect on global commerce.

Axisk (2014) examined the connection across 12 Latin American countries from 1997 to 2010. According to extensive research, FDI positively impacts the calculation measures of IFRS. Between 2003 and 2007, Hu, Hung, and Li, DeFond (2011) examined changes in FDI in EU firms after the mandatory implementation of IFRS. Improvements in comparability were cited by Akisik (2014) and DeFond et al. Corresponding (2011) in their conclusions that FDI rose after the adoption of mandatory IFRS. Chen, Ding, and Xu (2014) examined the effect of IFRS adoption on FDI in 26 developing countries between 1996 and 2014. According to the report, there is a strong correlation between FDI and IFRS adoption. Soobaroyen and Nnadi (2015) found a negative correlation between IFRS acquisition and FDI, contrary to the previous research findings. The research included 34 African countries over 20 years. FDI focuses on Soobaroyen and Nnadi's IFRS findings. Owusu et al. (2017) also examined the correlation between IFRS and FDI purchases in 116 developing countries between 1996 and 2013. IFRS detection has been demonstrated to have little effect on FDI infiltration, according to their research. There's a clear sign that IFRS and FDI aren't widely accepted, particularly in developing nations (Gull, Farid, & Maqsood, 2023). De Moura, A. A. F., Altuwaijri, A., & Gupta, J. (2020) examined the effects of IFRS on financial transparency and FDI in African markets, confirming significant positive relationships. Research works on ASEAN regional members are also sparse, though. Therefore, it has become important to identify the real impact of TFRS implementation and its effect on the growth of Afghanistan's economy. Hence the following hypothesis has been formulated:

H1: *There is no significant impact of IFRS and EG*

3.6. International Financial Reporting Standards (all features) and FDI

Okpala K.E. (2012) found a connection between IFRS adoption and FDI in Nigeria. The study showed that while IFRS was recognised in Nigeria, just a minority of its companies applied for it. On the other hand, it is anticipated that the IFRS would increase the amount of FDI and financial growth. This viewpoint was supported by a study conducted by Owolabi F and Adetula D.T. (2014). The researchers discovered a positive and negative link between the findings of FDI and IFRS, which indicated the possibility of IFRS adoption. Additionally, (Ajibade, Okere, Isiaka, & Mabinuori, 2019) investigated African countries using the regression approach and found that IFRS adoption had a significant and favourable influence on FDI. These results are based on Jinadu O, Ojeka S.A., and Ogundana O.M. (2016), who discovered that IFRS has a beneficial influence on FDI in Nigeria.

In addition, Klibi & Kossentini, 2014; Ebaid, (2022) conducted a study of 116 developing countries between 1996 and 2013, and they discovered that the adoption of IFRS does not, by itself, affect the FDI inflow in developing countries. This position was also supported by Rahim R.A., Ahmad A., Mdsalleh F., and Nejad M.Y. (2018), who examined 10 Asian republics between 2001 and 2016. They discovered a positive correlation between IFRS adoption and the generation of FDI inflow. This viewpoint agrees with (Ahmad A, Yousefinejad M, Azam H. M, Rahim R. A, Salleh F.M, 2018). Which took into consideration the different ways in which equitable information was communicated. According to the results, IFRS adoption challenges FDI entrance and EG.

There has been a significant concern around IFRS availability in recent years. A few earlier studies have identified the IFRS as one of the primary factors contributing to the country's financial success (Zaidi & Huerta 2014 and Larson & Kenny 1995). Previous research on IFRS acquisition optional has generally shown that IFRS acquisition CEOs (Lambert, Leuz, & Verrecchia 2007; Football 2006; Yousefinejad et al., 2018) are seen with more favourable results. They are certain in their belief that enhanced display quality principles will reduce the amount of material uncertainty, physical irregularity, cost equity, and principles that will lead to an increased cause of loss. Additional transparency in financial information contributes to enhanced comparisons, increased accuracy, advanced knowledge quality and financial markets, and improved financial market performance (Gordon et al., 2012; Wong, 2018; Nejad et al., 2017). Recently, many nations decided to adopt IFRS to implement more accurate and transparent accounting systems. Leykun Fisseha, F. (2023) studied 30 developing countries, highlighting improved financial reporting quality and increased FDI post-IFRS adoption. Recent studies highlight the importance of understanding IFRS adoption's financial implications in developing countries (Chen et al. 2014; Kraal, Yapa, & Joshi, 2015; Zaidi & Paz 2015). Therefore, it may be important to understand the financial ramifications of adopting IFRS in various developing countries. Numerous studies have been conducted to investigate the financial implications of IFRS (Nnenna, 2021; Ajibade et al., 2019; Chehade & Procházka, 2022) for financial information quality and transparency, financial markets, and analysts' ability to predict, compare, and apply information IFRS was founded.

According to Gordon et al. (2012), one of the primary reasons governments approve IFRS is that it sends a clear message to savers and investors that their firms are prepared for more transparent financial material than other countries which do not use IFRS. This indicator should have a favourable influence on appealing savers since very transparent financial information might contribute to the development of asymmetric knowledge. Therefore, based on the principle of the declaration of signing and the discourse that was taking place above, this research formulated the hypothesis as follows:

H2: *There is a positive impact of IFRS practices (C, Q, T, and O) on FDI inflow.*

3.7. Foreign Direct Investment and Economic Growth

According to Rogmans & Ebbers, 2013; and Zhang & Ebbers, (2010), FDI has important ramifications for the home country that receives it, including transferring technology, management technology, and better productivity and efficiency. According to (Ngouhouo & el-Mawazini, 2012; Ngimanang & Ngouhouo, 2016; Ngouhouo, Nchofoung, & Njamen Kengdo, 2021) the influence of FDI on local enterprises is inevitable and may be broken down into the following categories: The mobility of FDI is hindered by competitive advantages. Second, there is the positive influence that the decline in FDI has on the long-term prospects of domestic investment. This is a consequence of the collapse of FDI. Competition brought about by FDI is one of the primary contributors to enhanced economic performance, including higher productivity. International firms are expanding their presence in the domestic market, and as a result, domestic businesses are being brought in to react to this rivalry, leading to lower pricing to enhance productivity and keep their market share. Utilisation of resources (Pessoa, 2007). Omri and Kahouli (2014) contend that international business & trade direct investment are the two most essential variables for contributing to expanding an economy. (Hunjra et al., 2014; Azeem et al., 2013; Sohail & Mirza, 2020; Ullah et al., 2012) note that a higher ratio of exports to imports is one of the conditions that must be met for a nation to experience EG. In a similar vein, direct FDI has been a significant contributor to the increase in exports. It has been shown that firms associated with MNCs have a robust export strategy and are more sensitive to exports than local companies are. This is because MNC-related companies have cheaper exportation costs due to their worldwide marketplace knowledge. Houcine, A., Zitouni, M., & Srairi, S. (2022) focused on Asian economies, demonstrating that IFRS adoption led to better market performance and higher FDI inflows. In addition, Bouchoucha & Ali, 2019; and Stamatiou & Dritsakis, (2015) suggested that FDI enhances the amount of exporting of the host state, boosting the host country's revenues in foreign currency. This is particularly true in developing nations. It also encourages investment and job creation, increases technological transfer, and supports complete EG and development.

H3: *There is no significant impact on FDI and EG.*

3.8. International Financial Reporting Standards, Foreign Direct Investment, and Economic Growth

Özcan, (2016); Abdullaeva et al., (2023); Elmghaamez, (2023); and Akpomi & Nnadi, (2017) inspected whether the acceptance of (IFRS) is pretentious to the EG of developing economies and assessed their role. Use the panel data for the past three years in 78 developing countries from 1996 to 2013 and use effective two-phase (GMM) measurement approaches; He noted that countries using IFRS data attract foreign direct investment, leading to better EG than non-host countries. Rhan Akisik and Mzamo P. Mangaliso (2020) discovered a link between IFRS and FDI types and EG. Furthermore, our findings show that IFRS positively impacts the growth impact of foreign investment. FDI is differentiated in many different traditions. According to Kumar (2007), FDI involves establishing long-term relationships with companies located in other countries. There are a variety of approaches to striking a balance. Because of this, the economic rationale for providing specialised remuneration is often founded on the belief that a distant enterprise would create foreign exchange in the form of inflation and depreciation, carrying important technology and knowledge with it. This is for local depositors and increases productivity throughout the budget (Ajaegbu, 2014; Effiom & Etim Edet, 2019; Faku, 2022), Oyetoye et al. 2011). It combines the advantages of FDI, trade restrictions, hidden costs, and other factors. Simbi, C., Arendse, J. A., & Khumalo, S. A. (2023) investigated the long-term economic effects of IFRS in developing countries, confirming its role in attracting FDI and fostering economic growth. FDI, trade restrictions, and other factors combine to support EG. Based on the above discussion we proposed the following hypothesis.

H4: *FDI inflow doesn't serve as a mediator between IFRS and EG.*

4. Conceptual Framework and Research Design

The study's conceptual framework consists of one independent variable, one dependent variable, and one moderate variable. The research adopted IFRS as an independent variable from the previous studies conducted in developed and developing countries. IFRS consists of comparability, quality, transparency, opportunity, and risk dimensions (Chen et al. 2014; (Joshi, Yapa, & Kraal, 2016; Maina, Chouhan, & Goswami, 2020); Zaidi & Paz 2015; Weber (2010); (Christensen & Nikolaev, 2012). FDI as a moderator adopted from the study by Omri and Kahouli (2014); (Tauqir, Majeed, & Kashif, 2022) and Dependent variables EG adopted from (Zehri, Abdelbaki, & Bouabdellah, 2012); Daske, (2006); Hail & Leuz, (2007); Daske, Hail, Leuzmerillo & Verdiino; & Orgazplans (2016). Figure 1, presents the framework of the study.

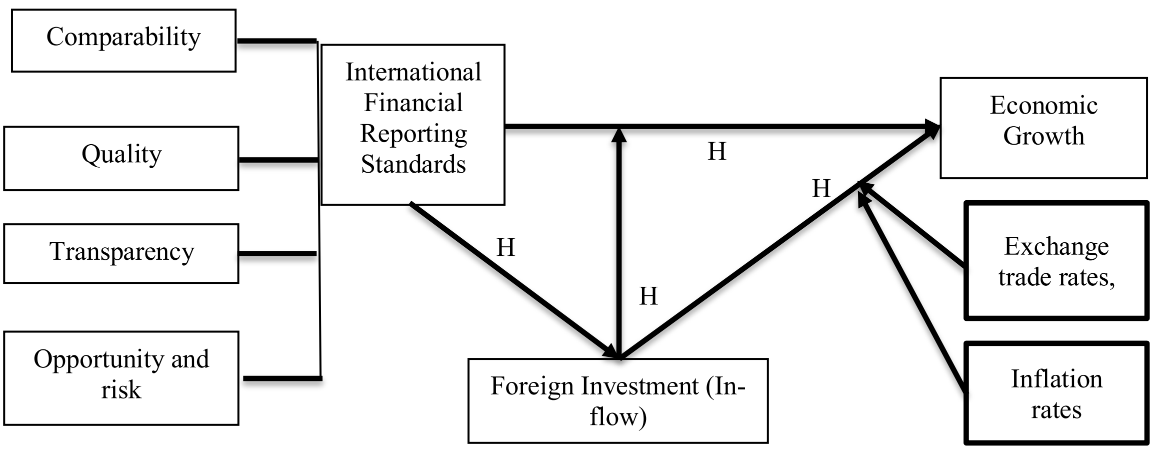

Figure 1: Study Framework

The study utilizes panel data from Afghanistan spanning from 2003 to 2020. The data sources include IFRS implementation data collected from financial reports, government publications, and previous research studies; FDI data sourced from the World Bank, International Monetary Fund (IMF), and Afghanistan's central bank reports; and economic growth indicators such as GDP growth rates, exchange rates, trade rates, FDI inflows, and inflation rates obtained from the World Bank and Afghanistan's national statistical agency. The sample consists of annual data over 18 years, providing sufficient observations to conduct robust statistical analyses.

The research design employs panel integration and causality analysis to examine the relationships among IFRS adoption, FDI, and EG. The use of panel data is justified as it allows for controlling individual heterogeneity, capturing both cross-sectional and time-series variations, which is crucial for analyzing the dynamic nature of the variables involved. Panel integration is suitable for identifying long-term relationships among variables across multiple time periods and entities, helping to establish whether variables are cointegrated, indicating a long-term equilibrium relationship. Causality analysis, specifically the Granger causality test, is used to ascertain the direction of causality between IFRS adoption and FDI, and between FDI and EG, which is essential for understanding whether changes in IFRS practices lead to changes in FDI, and subsequently, EG.

4.1. Data Analysis and Interpretation

The study shows the connection between IFRS obtained in Afghanistan from 2003 to 2020 and FDI and EG. The control variables affecting EG were exchange trade rates, FDI inflows, and inflation rates. Bivariate regression between the dependent variable EG and IFRS adoption practices as an independent variable is studied. The second step to check the meditation testing the redirect effect between the IFRS and FDI is tested by taking bivariate regression. In the 3rd step, the direct effect is checked between IFRS and EG by applying multiple regression. IFRS and FDI are predictors, and EG has been a direct variable.

In the same way, the direct effect is tested between the FDI and EG and IFRS and FDI as predictors, and EG has been taken as a direct variable. The multicollinearity test was applied to check the control variables' effects, and the causality test checked the causal relationship among variables. This study used descriptive and conventional analysis to analyse the association between IFRS acquisition and FDI and EG in Afghanistan.

4.1.1. Descriptive analysis

Descriptive analysis shows the typical value of the variable qualities, while the most extreme and least qualities demonstrate the most elevated and least in the informational collection separately. The standard deviation demonstrates proof of deviance from the mean size. Many of the factors tried in the Afghanistan examinations are normally dispersed because their qualities are significant at 5%.

Table 1: Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
EG of Afghanistan	-2.3511	21.3905	6.163893	6.2280123
Foreign Direct Investment of Afghanistan	12970147.9800	271000000.0000	105870596.405556	80076114.0541377
IFRS Adoption in Afghanistan	3	8	5.61	1.501
Inflation in Afghanistan	-6.8112	26.4187	5.957566	6.9758241
Exchange rate in Afghanistan	46.4525	77.7379	57.054538	10.7392598
Valid N (listwise)				

Source: Calculated by the Author.

4.1.2. Correlation analysis

Correlation analysis shows the connection between free factors and multicollinearity testing. As the most elevated level of connection among factors, it is clear that there is a lack of multicollinearity between factors.

Table 2: Correlations

		EG of Afghanistan	FDI in Afghanistan	Inflation in Afghanistan	ER Afghanistan
EG of Afghanistan	Pearson Correlation	1	.237	-.142	-.537*
	Sig. (2-tailed)		.000	.575	.000
Foreign Direct Investment of Afghanistan	Pearson Correlation	.237	1	-.002	-.421
	Sig. (2-tailed)	.000		.000	.002
Inflation in Afghanistan	Pearson Correlation	-.142	-.002	1	-.360
	Sig. (2-tailed)	.575	.00		.000
Exchange rate in Afghanistan	Pearson Correlation	-.537*	-.421	-.360	1
	Sig. (2-tailed)	.000	.001	.142	

*. Correlation is significant at the 0.05 level (2-tailed). Source: Calculated by the Author.

4.2. Regression Result

Regression analysis of the relationship between IFRS and FDI inflow in Afghanistan shows that the R square is 0.75 while the changed R esteem is 0.60. A 60% transformation to a variable (FDI) can be characterized freely (IFRS) and control expansion changes and trade rates. This shows the significance of the exploration model. Durbin Watson's 0.73 worth demonstrates the presence of a programmed sequential autocorrelation series that is typically present in time-series information. Consequently, the model recommends that a significant connection exists between the practices of IFRS and FDI in Afghanistan, which incorporates the control variables of inflation and exchange rates. The outcomes show an endlessly bad connection between the Adoption of IFRS and FDI in Afghanistan, demonstrating a coefficient of 0.2678 with a P-value of 0.2678. This demonstrates that IFRS practices will reduce FDI in Afghanistan by 27% per unit, although not at 5%. Likewise, the outcome is positive (0.002667) and shows an association between Inflation and FDI in Afghanistan.

Furthermore, the analysis shows a positive (0.005300) and critical relationship between the exchange rate and FDI in Afghanistan. The discoveries additionally concur with those who considered moderate factors and observed that they were fostering the IFRS-FDI Nexus. From the outcomes which catch the connection between IFRS and FDI adoption in Afghanistan, the R-square is 0.75, and the changed R esteem is 0.78. It shows that 74% of variable-subordinate factors (FDI) can be characterised as reliant (IFRS) and adaptable variables inflation and exchange rates.

5. Discussion on results

The results of this study are in line with prior research, which has also shown mixed results regarding the impact of IFRS adoption on FDI. For instance, studies in developing countries have found that IFRS adoption can lead to increased transparency and comparability in financial statements, thereby attracting more FDI (Chen et al., 2014: Joshi, Yapa, & Kraal, 2016). However, other studies have pointed out that the adoption of IFRS may initially lead to increased compliance costs and operational complexities, which could deter FDI in the short term (Zaidi & Paz, 2015; Omri & Kahouli, 2014).

Moreover, the positive association between inflation and FDI aligns with some economic theories suggesting that investors might seek to invest in high-inflation environments where returns could be higher, although this relationship is generally context-specific. The positive relationship between exchange rates and FDI is also supported by previous studies, indicating that favourable exchange rates can make a country more attractive to foreign investors by enhancing its purchasing power.

Table 3: Collinearity Diagnostics

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions	
				(Constant)	IFRS Adoption in Afghanistan
1	1	1.968	1.000	.02	.02
	2	.032	7.823	.98	.98

a. Dependent Variable: EG of Afghanistan.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	. 0.000016	.75	.025	60.1503029

Predictors: (Constant), IFRS Adoption in Afghanistan Source: Calculated by the Author.

The collinearity diagnostics indicate potential multicollinearity issues within the regression model. Specifically, the second dimension's eigenvalue is very low (0.032), and its condition index is relatively high (7.823), suggesting multicollinearity. Both IFRS Adoption and the constant have high variance proportions (0.98) in this dimension, reinforcing this concern. The model summary shows a very weak linear relationship between IFRS adoption and economic growth (EG), with an R-value of 0.000016. The R Square value of 0.75 appears inconsistent with this and might be a typographical error. The adjusted R Square of 0.025 suggests low explanatory power, and the standard error of the estimate (60.1503029) indicates considerable deviation between observed and predicted EG values.

Table 5: Estimates of Fixed Effects[a]

Parameter	Estimate	Std. Error	Sig.
Intercept	1.26788	0.464009	.000
IFRS_A	-.211173	0.140802	.012
INF_A	.365504	0.174944	.000
ER_A	.540273	0.280516	.000
FDI_A	5.420894E-9	0.677778	.000

a. Dependent Variable: EG of Afghanistan.

Table 6: Model summary cont...

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.237[a]	0.56	0.035	60.2371138

a. Predictors: (Constant), Foreign Direct Investment of Afghanistan

Source: Calculated by the Author.

The estimates of fixed effects reveal that IFRS adoption negatively affects EG, with a significant coefficient of -0.211173 (p = 0.012). Inflation (INF_A) and exchange rate (ER_A) positively impact EG, with coefficients of 0.365504 and 0.540273, respectively, both highly significant (p = 0.000). FDI (FDI_A) has a negligible positive effect on EG yet is statistically significant (p = 0.000). The second model summary, which likely includes FDI as a predictor, shows a weak positive relationship between FDI and EG (R = 0.237). Here, the R Square is 0.56, and the adjusted R Square is 0.035, again indicating limited explanatory power. The standard error of the estimate (60.2371138) remains similar, indicating consistent prediction errors

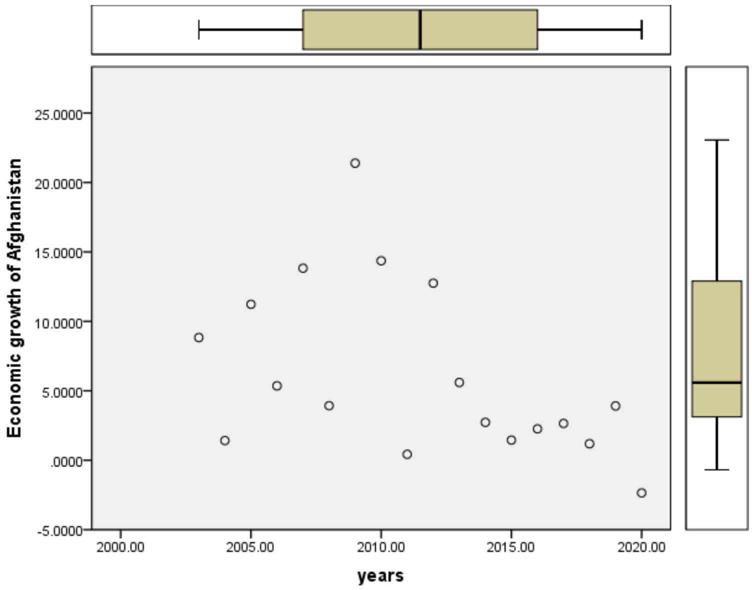

Figure 2: Growth Analysis of Afghanistan.

6. Conclusion

The findings indicate a positive and significant correlation between IFRS and Afghanistan FDI, displaying a coefficient of 1.26788 with a significance value. This was determined by analysing the results of the study. It indicates that each unit will increase assuming that IFRS would bring the total to 1.284, major growth of FDI in Afghanistan by 5%. Similarly, the results demonstrate an inverse connection (-.211173) between inflation and EG in Afghanistan. Similarly, inflation, currency rates, and FDI are positively associated with Afghanistan's overall economic development. As a result, descriptive analysis was the method for this research to achieve its exploratory purpose. This research aims to provide some evidence of the key monetary consequences that have resulted from Afghanistan's adoption of IFRS. This research provides clear evidence of a correlation between achieving IFRS compliance and increasing foreign direct investment (FDI) levels, which are essential for Afghanistan's EG. The IFRS-FDI connection confirmed the assumed values for Inflation and Exchange Rate, which brought this process to a successful conclusion.

The findings highlight this point—an unfavourable link and of little importance between IFRS and FDI in Afghanistan. Similarly, even if it is shown, the finding of IFRS does not significantly impact FDI inflow. Further research into the influence of IFRS procedures and control inconsistency revealed crucial factual linkages between FDI and EG in the study. This ensures that inflation exchange rates are largely in charge of the link between IFRS obtaining and FDI inflow and that FDI acts as a mediator between the relationship between the EG and IFRS. An indirect relationship exists between the attainment of IFRS and the influx of EG that is respectable and considerable, and the FDI Inflow facilitates this connection into Afghanistan. This suggests that the implementation of IFRS standards in Afghanistan has resulted in significant benefits concerning FDI revenue.

7. Limitation of the Study

This study aimed to investigate and analyse the relationship between IFRS and FDI in Afghanistan between 2003 and 2020. This study focuses on the economics of Afghanistan, the implementation of IFRS in Afghanistan, and the promotion of FDI for economic expansion. According to the study's findings, there is a beneficial association between FDI and IFRS adoption, eventually improving EG and development. To examine the validity of the connection, two mediator elements have been investigated and studied; nevertheless, many more factors may also significantly influence the economy's expansion. Political influence has a significant bearing on the economy's expansion, although this aspect of the topic is not investigated in this study. In Afghanistan, opportunities for economic expansion are greatest in the construction and agricultural sectors of the country's economy. The Afghan economy may benefit from investments made in certain sectors of the country's economy.

8. Implications and Suggestions

Adopting the IFRS for reporting drives may be advantageous in attracting FDI to the country, as the results suggest; however, acceptance of the IFRS alone is not sufficient to encourage FDI entry into the state unless the organisations are of a high standard. Therefore, it is recommended that the decision to embrace IFRS be matched with organisational improvements aiming to improve the organisation's quality, rather than merely as an independent plan. This is because IFRS is an international standard for financial reporting. To put their acceptance decisions into action, emerging nations who have already adopted IFRS and those who want to do so should ponder rigorously pursuing recognised development and transformation. Using this approach allows one to appreciate the IFRS's planning tools fully. An important factor that will slow down the completion of this research is determining how the official origin of the sample states will impact the limited results. Changes need to be made to Afghanistan's security and insurance policies to entice local and international investors to invest in the country. Afghanistan needs to enhance its exports by developing its infrastructure, building new roads, improving its transport, and upgrading its equipment to lower manufacturing costs inside the nation. To make the most of FDI and other types of funding, anti-corruption and political stability policies are essential. To make the most of FDI in finding qualified and trained labourers, enhancing the quality and quantity of individuals who possess skills through improved education, health, and training is necessary. The societal impacts of IFRS adoption extend beyond the financial sector. Improved financial reporting can lead to greater transparency and accountability, which are essential for building investor confidence and fostering a culture of good governance. This can enhance the overall business environment, promote economic stability, and ultimately contribute to broader socio-economic development. However, the initial increase in compliance costs and operational complexities may disproportionately affect small and medium-sized enterprises (SMEs), which are less equipped to handle the transition. Policymakers must therefore ensure that support mechanisms are inclusive, targeting not only large corporations but also SMEs to prevent widening the gap between different sectors of the economy.

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