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GREEN FINANCING AND ITS INSTRUMENTS: FOREIGN AND GEORGIAN EXPERIENCE

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Abstract

At the current stage of society's development, environmental measures related to climate change and sustainable development are highly relevant, which requires financing these measures through additional cash flows. Accordingly, the intensification of sustainable and green financing issues has put on the agenda the need for the emergence of innovative financing instruments and their dissemination in the financial and credit markets. After the adoption of the Paris Climate Agreement and the UN Sustainable Development Goals (SDGs), sustainable financing, including environmental, social and governance (ESG) aspects, is increasingly attracting the attention of the international community. The leader in the field of sustainable financing is the European Union and other UN-subordinated structures that support the creation of a financial system focused on sustainable development. However, Georgia has joined the sustainable and green international agenda together with the EU countries and other developed and developing countries. The main goal of our study is to determine the extent to which Georgia is integrated into the sustainable development envisaged by the global agenda, and, accordingly, which innovative green financing instruments are widespread in the country's financial and credit system.

Keywords: *green finance, sustainable development, financing instruments*

Introduction

Green finance refers to the financial support and promotion of activities that address environmental and social issues, such as decarbonization (reducing carbon dioxide emissions) or promoting biodiversity. "Today, 'green' finance is an integral component of sustainable development and the formation of a 'green' economy, both globally and at the national level" (Nozadze M., Chelidze M., Kapanadze M., Sesadze N., 2024).

The concept of 'green finance' has been developing globally for almost 20 years and is linked to the implementation of the goals of the Paris Climate Agreement, as well as the UN Sustainable Development Goals – improving well-being and protecting our planet.

Research method

First of all, the study assessed sustainable and green finance and its instruments, identified green finance-related instruments that are widespread in foreign countries and are widespread in developing countries, including Georgia.

In the research process, we take into account materials published in local and international scientific journals on the issues of green financing and its instruments by Georgian and foreign scientists, research results of international rating organizations, and statistical data. The research is based on the processing of secondary analytical materials based on open sources. The research process uses the methods of analysis and synthesis, deduction, and induction.

Results analysis

Green financing is to increase level of financial flows (from banking, micro-credit, insurance and investment) from the public, private and not-for-profit sectors to sustainable development priorities (UNEP), 2024). It is important to note that the criteria for "green projects" are determined by the relevant taxonomy. In world practice, the standards for such projects and the issuance of green instruments are mainly determined by the Green Bond Principles developed by the International Capital Market Association (ICMA), as well as the Climate Bond Taxonomy developed by the international organization Climate Bonds Initiative (CBI).

Accordingly, the main directions of green financing are:

– Support for the public sector in financing favorable environmental measures;

– Promotion of public-private cooperation in financing mechanisms, such as green bonds, green loans, green mortgages;

– Increasing the capabilities of business entities in terms of green lending.

The issuance of sovereign green bonds is usually very large, increasing the likelihood that they will become benchmarks for the corporate green bond market. "It is known that one of the first green financing instruments is the green bond. For the first time, green bonds were issued by the European Investment Bank and the World Bank" (EU4 Environment, 2024). After that, several international financial and credit institutions have also actively started issuing innovative financial instruments – green bonds. "In 2013, IFC issued the first global U.S. dollar benchmark green bond in the market, setting a precedent as the largest of its kind at the time and demonstrating mainstream demand for what was then considered a niche produc" (International Finance Corporation, 2024).

This was a truly unprecedented event in the history of financial markets, which to a certain extent contributed to the spread of the mentioned financial instrument and the growth of its popularity. It is important to note that a wide range of bonds is presented in modern financial markets, the classification of green bonds includes 4 main types: 1. Standard green bonds of revenue use; 2. Green Revenue Bond; 3. Green Project Bond; 4. Secured green bonds.

In addition to the above, one of the green financing instruments today is sovereign green bonds, the volume of which has increased significantly for recent years. "In all countries which have issued sovereign green bonds, the average issuance size is more than 10 times larger than the average historical issuance size of corporate green bonds in the same market" (Cheng G., Ehlers T., Packer F., Xiao Y., 2024, p. 8).

Regarding the issuance of green bonds by country, ''Between 2014 and 2023, the United States was the leading country in terms of issuance of green bonds, with 454 billion U.S. dollars. China was second in the ranking, followed by Germany" (Statista Research Department, 2024).

As is known, green financing instruments include green loans, including green mortgages, as well as bonds. "Banks are increasingly making more green finance available and accessible to fund green projects such as wind and solar farms, and to invest in businesses themselves to help them become greener" (Lloyds Banking Group; Wire S., 2024).

When characterizing green bonds, it is important to consider that, „Green loans and green bonds also follow different but consistent principles: The Green Loan Principles and the Green Bond Principles (GBP) of the International Capital Market Association (ICMA)“ (World Bank Group, 2021).

In addition, “green label is a tool that would help borrowers identify loans with specific features in line with the definition and require them to comply with certain obligations to benefit from these loans (European Banking Authority, 2023, p. 12).

As a rule, information regarding green loans should be transparent, therefore „Many, but not all, of the largest European banks report and publish their “green financing” or “sustainable financing”. Highest among the largest European banks that specifically reported “green financing” was the value from Barclays, which reached almost 19.6 billion euros (Statista Research Departmnet, 2024).

Recent statistics show that demand for green loans from borrowers has increased significantly: “Currently, only US$1.6 billion of the US$33 billion in green loans are in developing countries. But the market is growing rapidly and will outpace the green bond market in the near future” (European Comimssion, 2024).

Georgia, as a state party to the UN Framework Convention on Climate Change and the Paris Agreement, is obliged to take into account the principles defined by the above-mentioned international agreements and to fulfill the obligations defined at the national level. In Georgia, with the help of international organizations and a number of leading countries, the concept of sustainable and green financing has been formed and is developing. “The concept of ‘green’ banking as one of the most innovative environmental policy instruments has become widespread, stemming from the active participation of international financial institutions in addressing environmental challenges (Gelitashvili G. Chikviladze N. Nozadze M. Chelidze M. 2024, P. 106–107).

The National Bank of Georgia has been working on developing a sustainable financial framework since 2017, after joining the Sustainable Banking Network (SBN). It is noteworthy that the Sustainable Development Taxonomy was developed by the National Bank of Georgia together with foreign and local experts, taking into account the characteristics of the Georgian economy. “All this determines the practicality of the taxonomy and its credibility both locally and internationally“ (National Bank of Georgia, 2024).

The main goal of developing the SFT in Georgia was to create a consistent and standardized regulation and common definitions for the classification of loans for commercial banks and other financial institutions. “According to the SFT regulation, there are three types of loans: green loans, social loans, and sustainable loans. Banks are not allowed to use these three terms when classifying loans if they do not comply with the SFT” (Green Economy Financing Facility, 2024).

According to the latest Sustainable Finance Report of the National Bank, Georgian companies have actively started issuing green, social and sustainability-related bonds. Let’s briefly review the green bonds issued by Georgian companies in 2022–2023.

JSC “TBC Leasing”, the first among financial institutions, placed green public bonds denominated in GEL – in July 2023, with the support of “TBC Capital” LLC.

Automotive industry leader “Tegeta Holding”, with the support of “TBC Capital” LLC, issued a green bond worth 20 million GEL and placed it on the Georgian Stock Exchange in July 2023. It is important to note that the bond deal is the largest corporate transaction in the regional market to date.

Automotive industry leader Tegeta Holding, with the support of TBS Capital LLC, issued green bonds worth 20 million lari and placed them on the Georgian Stock Exchange in July 2023. “The 20,000,000 lari raised as a result of the issue will be used for the holding’s green initiatives” (Tegeta Holding, 2023). This transaction is the first placement of green bonds in the national currency, as well as in the automotive industry of the region. The main investor in the bonds is the Asian Development Bank.

Conclusion

– Today’s globalized economy is based on financial markets, through which money flows through the purchase and sale of innovative financial instruments.

– The concept of sustainable development has put on the agenda the issue of introducing and disseminating new financial instruments such as green bonds, social bonds, green loans and green insurance.

– Georgia has joined the concept of global climate change and sustainable development, and with the help of the government and the National Bank of Georgia, the concept of sustainable development has been formed. Green bonds are issued and sold with the help of international financial and credit organizations (EBRD, IFG, Asian Development Bank).

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