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MODERN FINANCIAL MARKETS AND SUSTAINABLE FINANCE INSTRUMENTS

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Abstract

This paper examines the transformative impact of Environmental, Social, and Governance (ESG) criteria on modern financial markets. It analyzes key sustainable finance instruments, specifically focusing on green bonds, green loans, and sustainability-linked mechanisms, to determine their effectiveness in allocating capital toward environmental activities. In addition, the study assesses the strategic readiness and regulatory framework of the Georgian financial sector in alignment with the global sustainable development agenda. The findings provide insights into the challenges and opportunities for integrating sustainable finance practices within the context of emerging market economies.

Keywords: *ESG Integration, Environmental Taxonomy, Financial Markets, Sustainable Finance, Georgian Financial Sector*

Research method

The study uses a systematic literature review, comparative and qualitative analysis methods. Reports and peer-reviewed articles published by leading financial institutions (e.g. World Bank, EBRD) over the past decades are analyzed to identify common trends between sustainable development and the changing financial market landscape. The article provides a SWOT analysis of sustainable bonds and sustainability-related bonds as part of the comparative analysis.

Introduction

The global challenges of the 21st century, especially climate change and social in-

equality, have fundamentally changed the role of capital markets in the modern economy. Once a niche segment, sustainable finance has grown into a multi-trillion dollar market that now dictates investor behavior and corporate strategies. Along with traditional securities, modern financial markets offer sustainable financing instruments that are essential tools for financing renewable energy, green infrastructure, and social initiatives. This article examines how modern financial markets address the demand for sustainability and evaluates the role of innovative financial assets in this transition.

Results analysis

At the current stage of society's development, climate change and natural resource degradation represent a fundamental economic dilemma. Traditional financial models, which were focused solely on the classical relationship between profit and risk, are today being transformed into the context of sustainable financing, where ESG (Environmental, Social, and Governance) factors play a crucial role.

The evolution of business social responsibility reflects the relationship between the success of business entities and social benefits, which leads to an integrated approach to the field of business social responsibility (Mzevinar Nozadze, 2024).

Consequently, global climate commitments, such as the Paris Agreement and the UN Sustainable Development Goals (SDGs), have necessitated the development of innovative financial instruments and a standardized taxonomy to facilitate the financing of environmental initiatives. Sustainable Development Taxonomy – This is a classification system that determines which economic activities or investment projects can be considered “green” or “sustainable”. The most developed and influential model of sustainable taxonomy was created by the European Union. The EU taxonomy is a cornerstone of the EU's sustainable finance framework and an important market transparency tool (EU taxonomy for sustainable activities. What the EU is doing and why, 2025). The EU taxonomy is a transparency mechanism. It helps: Investors – to avoid “Greenwashing” (when a company deceives itself by pretending to be environmentally friendly), Companies – to become more attractive to capital, as banks and funds give preference to projects that “conform to the taxonomy”.

Green finance and sustainable business create a synergy, where businesses integrate environmental, social, and governance (ESG) principles into their long-term perspective (Mzevinar Nozadze L. V., 2025). As mentioned above, sustainable development is unattainable without the integration of innovative, sustainability-related financial instruments. 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 (Rusudan Kutateladze, 2025).

Among these instruments, **Green Bonds** have emerged as a primary vehicle for mobilizing large-scale private capital toward carbon-neutral projects. In global practice, the standards for such projects and the issuance of green instruments are determined mainly by the Green Bond Principles developed by the International Capital Markets Association (ICMA) (Mzevinar Nozadze G. B., 2025). As for the “Climate Bonds Initiative” (CBI), it is regulated by the “Climate Bonds Taxonomy” – accordingly. The GBP recommend a clear process and disclosure for issuers, which investors, banks, underwriters, arrangers, placement agents and others may use to understand the characteristics of any given Green Bond (Green Bond Principles, 2025).

The cumulative amount of green, social, sustainability, sustainability-linked, and transition (labeled sustainable) bonds issued in the market reached USD6.1 trillion as of March 2025. The increasing share and growing popularity of green bonds in global financial markets are evidenced by the following data provided by the World Bank. Green bond issuances represented the largest share of the labeled sustainable bond market, representing 53.2% of the overall issuances in Q1 2025, with a significant rise in sustainability issuances (Labeled-Bond-Quarterly-Newsletter-Issue-No-11, 2025).

Green loans are financing instruments used to finance specific projects that have clear environmental benefits, such as energy efficiency, clean transportation (for example, electric cars), green buildings, or pollution prevention, in support of sustainable development goals. The green loan market aims to facilitate and support the key role that credit markets can play in financing progress towards environmental sustainability (Green Loan Principles, 2025).

It is important to distinguish between Sustainability Bonds and Sustainability-Linked Bonds (SLBs), as they differ in their structure and the allocation of proceeds. In **Sustainability Bonds**, the proceeds are ring-fenced, meaning the issuer is committed to spend-

ing the capital exclusively on eligible green or social projects (the installation of solar panels). In 2024, global issuance of sustainable bonds amounted to USD522 billion in the corporate sector and USD473 billion in official sector. At the end of the year, the outstanding amount in the corporate sector totalled USD2.4 trillion, representing 7% of all outstanding corporate bonds (Sustain-

able Bonds Trends and Policy Recommendations, 2025).

Sustainability-Linked Bonds (SLBs) are any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ESG objectives ((htt1) Sustainability-Linked Bond Principles, 2024).

Table 1. *Comparative Analysis: Sustainability Bonds vs. Sustainability-Linked Bonds (SLBs)*

Criteria	Sustainability Bonds (Use-of-Proceeds)	Sustainability-Linked Bonds (SLB)
Capital Allocation	Funds are dedicated exclusively to specific environmental or social projects	Proceeds are flexible and can support overall corporate operations
Primary Focus	The nature of the project being financed	The ESG performance of the entire company
Financial Structure	Fixed terms; no direct link between interest rate and sustainability performance	Variable terms; coupon rates may increase (step-up) if targets are missed

Source: *Compiled by the author based on International Capital Market Association (ICMA) Guidelines*

In recent years, Georgia’s financial landscape has undergone a significant transformation. While ‘sustainable finance’ was previously perceived as a purely theoretical concept, it is now being materialized through concrete financial instruments, such as green bonds and energy-efficient loans.

It is important to note that the National Bank of Georgia has developed a taxonomy of sustainable finance in collaboration with local and international experts and stakeholders. „This framework involves the consideration of environmental, social and governance (ESG) issues by financial sector and capital market participants, and the management of related risks, which are important for financial stability and sustainable economic development“ (Sustainable Finance Taxonomy for Georgia (2022), 2022). The issuance of green bonds was a turning point for the Georgian financial sector, as it laid the foundation for the ‘greening’ of the capital market.

Bank of Georgia was among the first to take significant steps toward sustainable in-

struments on the international stage. Event: In 2019–2020, the Bank began actively mobilizing green resources. Its collaboration with International Financial Institutions (IFIs), such as the EBRD and IFC, is particularly noteworthy. **TBC Bank** has played a significant role in shaping the local green capital market. In 2022, TBC Bank issued GEL 75 million worth of sustainable bonds. This marked the first time that such bonds were denominated in the national currency (GEL), thereby reducing currency risks for local borrowers.

Despite the sustainability reporting regulatory framework in the Georgian context is immature and not detailed, some of the entities (especially foreign stock exchange listed banking entities) seem to have well-embarked in the journey (Erekle Pirveli, 2022).

In addition to commercial banks, various Georgian companies are also issuing green bonds. Georgia Global Utilities (GGU) set a groundbreaking precedent in the corporate sector by issuing \$250 million in **Green Eurobonds** in 2020. This marked the first time

a Georgian non-financial corporate entity raised capital on the international market through a green instrument. The green Eurobond is listed on the Euronext Dublin and aligns with the International Capital Market Association's Green Bond Principles (EBRD invests in Georgia Global Utilities green Eurobond, 2024).

This transaction confirms that the Georgian business sector – including both commercial banks and corporate entities – possesses the potential to meet international environmental standards, issue sustainability financial instruments, and attract high-quality investments.

Conclusion

In conclusion, the development of sustainable finance instruments represents an

irreversible evolution of modern financial markets. For market participants – both issuers and investors – financial returns and socio-environmental responsibility are becoming inextricably linked. Looking forward, increased transparency, the refinement of taxonomies, and the integration of digital technologies (including Fintech, Green Blockchain) will further facilitate capital mobilization toward achieving Sustainable Development Goals (SDGs). This research confirms that sustainable finance is no longer the exclusive prerogative of developed markets but is actively emerging in developing economies as well. For Georgia, this process presents a strategic opportunity to attract responsible investment and modernize its economy in alignment with international standards.

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