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ESG STANDARDS IN THE GEORGIAN FINANCIAL SECTOR: AN ANALYSIS OF THE CURRENT SITUATION

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Abstract

This article analyzes the role of Environmental, Social, and Governance (ESG) standards within Georgia's financial system. The primary objective of the research is to assess the current state of the financial sector and the readiness of Georgian financial institutions to integrate sustainable development principles.

The paper examines the measures implemented by the National Bank of Georgia and their alignment with international best practices. The analysis reveals that, despite notable progress, the sector faces significant challenges, such as data quality management and the refinement of ESG risk assessment methodologies.

The concluding section offers strategic recommendations aimed at enhancing transparency and attracting sustainable investments into the country's economy.

Keywords: *ESG Standards, Sustainable Finance, Green Taxonomy, National Bank of Georgia, Pillar 3, Greenwashing*

Methodology

The present study is based on qualitative research methods, specifically a comprehensive analysis of secondary data. The paper employs descriptive and comparative analysis techniques to examine the dynamics of ESG (Environmental, Social, and Governance) standard implementation within the Georgian financial sector.

The information base of the research consists of: The legal framework of the National Bank of Georgia, The "Sustainable Finance Roadmap" and the "Green Taxonomy,"Public disclosures and reports published by commercial banks.

To establish the international context, the study analyzes EU directives and recommendations from international financial institutions. The theoretical framework is built upon scientific literature and sectoral studies from the last decade, ensuring a multifaceted understanding of the subject through existing data without the need for primary empirical research.

Introduction

In today's global economy, Environmental, Social, and Governance (ESG) standards are no longer viewed merely as an expression of corporate goodwill; they have become critical factors determining financial stability and long-term sustainability.

Climate change and the urgent demand for sustainable development have compelled international financial institutions to rethink traditional risk management models and integrate sustainability criteria into them. Currently, on a global scale, it is of paramount importance to implement ESG standards, support environmental initiatives, and introduce innovative financial instruments for sustainable funding.Today, green finance is an integral part of sustainable development and the formation of a green economy both at the global level and at the level of individual countries. (Mzevinar Nozadze, 2025).

For Georgia, as an emerging market and an EU candidate country, the ESG agenda is of paramount importance. The financial sector – the most vital segment of the country's economy – has been at the forefront of this transformation.

In recent years, with the assistance of international organizations, the National Bank of Georgia has taken significant steps to develop the "Sustainable Finance Roadmap," which aims to harmonize the local market with international standarts.

Results and Discussion

The integration of Environmental, Social, and Governance (ESG) standards into the global financial landscape has fundamentally reshaped international development priorities. By prioritizing social equity and environmental stewardship, this framework strengthens institutional resilience against systemic shocks and drives sustainable economic growth. While the three pillars of ESG are intrinsically linked, each possesses distinct operational characteristics.

ESG factors cover a broad range of topics and issues. Many of them, such as climate change, can affect specific firms, sectors or countries but can also impair the stability of an economy (IFC ESG Guidebook, 2021).

This decision has established the legal foundation for the development of "green finance," as member states have committed to aligning financial flows with the principles of a green economy and low-emission development. 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 (Zurabishvili, 2026). ESG standards help banks measure the sustainability of a particular business. Green finance, on the other hand, represents the actual capital (loans, bonds) provided exclusively for projects that meet the environmental (E) component of ESG.

Therefore, ESG standards and green finance represent two inseparable parts of a unified sustainable ecosystem. Green bonds enable companies to raise capital on more favorable terms – a phenomenon known as the „Greenium" – as institutional investors increasingly prioritize assets dedicated to financing environmental projects (Badri Giorgidze, 2026). If ESG is the assessment methodology that determines a company's level of responsibility, then in the Georgian context, integrating ESG standards into banking risk management systems directly increases the accessibility of green finance. 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).

Banks that utilize ESG scoring are more effective at identifying green assets, which ultimately reduces the risks of "greenwashing" and increases investor confidence in the local market. It is the practical mechanism through which capital realization occurs. The implementation of ESG practices within the banking sector, particularly in emerging economies, is fraught with significant challenges. Without well-defined benchmarks and metrics, banks face significant challenges in providing consistent and proactive evidence of their ESG performance.

Based on the analysis conducted, it is evident that the Georgian financial sector is in an active phase of ESG transformation. The reforms initiated by the National Bank of Georgia since 2019 are fully aligned with international best practices. Specifically, within the framework of the "Sustainable Finance Roadmap," commercial banks have begun integrating climate-related risks into their credit policies. Integrating climate and ESG considerations into the operations, internal policies, and activities of central banks and financial sectorregulators is crucial (Sustainable Finance Roadmap For Georgia, 2025).

In Georgia, ESG criteria aim to foster the development of green and sustainable finance, ensuring that banks not only generate profits but also contribute to environmental protection and social development.

In the modern global context, the establishment of ESG standards and support for environmental projects are closely linked to the existence of a unified sustainable finance framework. A fundamental role in this process is played by the Green Taxonomy, which serves as a transparent classification system for economic activities. It is noteworthy that Georgia's Green Taxonomy is largely based on the EU Taxonomy best practices, ensuring the harmonization of the local financial system with international standards. Furthermore, the definition of sustainable finance used within the taxonomy encompasses social finance alongside green finance (including climate-related finance) (Sustainable Finance Taxonomy for Georgia 2022, 2022).

It is a well-established fact that Georgia's two leading commercial banks -TBC Bank and the Bank of Georgia -trade their issued securities on the London Stock Exchange.

The Bank of Georgia executed a strategic transition to the Premium Listing segment in 2012, enabling its shares to be traded directly on the Main Market of the London Stock Exchange.

Bank of Georgia has a strong, formal commitment to Environmental, Social, and Governance (ESG) criteria. The Bank of Georgia's ESG framework includes: – Environmental (E) – The Bank integrates environmental measures into its credit risk management and has supported the Caucasus Nature Fund (CNF) since 2009, which focuses on preserving the region's ecosystem. – Social (S) – Corporate responsibility is driven by initiatives such as the "Tree of Life" Foundation, which supports social issues such as education and inclusion. – Governance (G) – the Bank is listed on the London Stock Exchange and adheres to the UK Corporate Governance Code. As od 2024, Lion Financial Group PLG recieved on MSCI ESC Rating of AA. (Sustainability Report 2024).

In 2016, following the precedent set by the Bank of Georgia, **TBC Bank** achieved a Premium Listing and was subsequently admitted to the FTSE 250 Index. TBC Bank serves as a prime example of the rapid growth in sustainable finance portfolios. The bank actively utilizes dedicated 'green lines' secured from International Financial Institutions (IFIs), such as the EBRD, EIB, and IFC, to fund environmentally sustainable projects. TBC Bank Group PLC (the "Company" and, together with its subsidiaries, the "Group") is committed to the highest standards of corporate governance which are in accordance with UK and international best practice (TBC Releases Its Sustainability Report 2024, 2025). Moreover, under Georgian banking legislation, TBC Bank and Bank of Georgia are required to publish a Pillar 3 Report alongside their annual reports, which includes dedicated tables for ESG risks.

It is important to note that between 2023 and 2025, the National Bank of Georgia (NBG) implemented the "ESG Reporting and Disclosure Principles." This means that not only the major systemic banks but also medium-sized banks and other financial-credit institutions are now obligated to disclose their sustainability indicators.These financial institutions include, for instance, microfinance organisations, institutional investors and credit unions, andenterprises whose securities are admitted to trading on the stock exchange (ESG Reporting and Disclosure Principles, 2020).

An analysis of ESG reporting in the Georgian banking sector reveals that genuine transparency is primarily observed only in relation to environmental standards. Other components (Social and Governance) are not yet adequately reflected in public data. Measuring social impact and long-term benefits is an additional challenge as they involve subjective assessments and difficulties in quantifying social and governance aspects (Andreea-Larisa Olteanu, 2023).

ESG standards for Georgian banks are dictated not only by shareholders but also by creditors (such as the EBRD, IFC, and ADB). Attracting low-interest resources from these institutions is directly linked to how effectively a bank complies with ESG criteria.

The implementation of ESG is not merely an expense but an opportunity – it enables the country to attract more "cheap" and long-term foreign investment.

Conclusion

Despite the positive dynamics, the implementation of ESG standards is associated with numerous challenges, encompassing both regulatory complexities and the readiness of the private sector. The examples of TBC Bank and the Bank of Georgia confirm that international transparency and adherence to sustainable development criteria are directly linked to attracting low-cost financial resources and maintaining competitiveness in the global market.

The "Green Taxonomy" and ESG reporting rules introduced by the National Bank of Georgia provide a solid foundation for preventing "greenwashing" and ensuring data objectivity. The future challenge will be the deeper integration of these standards not only into large systemic banks but also into small and medium-sized financial institutions, which will ultimately determine the long-term sustainability of the country's economy.

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