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GREEN BONDS AND ESG RATINGS AS TOOLS FOR CORPORATE INVESTMENT ATTRACTIVENESS

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ABSTRACT

In the modern business world, the success of a corporation is no longer measured solely by the size of its net profit. Today, when sustainable development is one of the pressing issues at the global level, ESG factors - environmental, social and governance standards - are on the agenda, which determine how responsible a business is towards society and environmental conditions.

This article examines the relationship between environmental, social, and governance (ESG) factors and their impact on a corporation's investment attractiveness. The aim of the study is to determine, through comparative and qualitative analysis, how the implementation of ESG standards affects the investment attractiveness of companies, drawing on international practices and the example of Georgia.

The paper analyzes the mechanisms by which non-financial data is transformed into cash flows; furthermore, it discusses the importance of green bonds in diversifying sources of financing.

KEYWORDS

ESG, Investment Attractiveness, Cost of Capital, Green Bonds, Sustainable Finance

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Introduction

ESG comprises three core pillars - Environmental, Social, and Governance - used to evaluate a company's global impact and its commitment to sustainable development. The Environmental (E) component assesses how a firm addresses climate change, natural resource management, and waste reduction. Far from being merely an ethical choice, ESG integration is a strategic imperative that directly influences a corporation's reputation, investment attractiveness, and long-term viability.

Over recent decades, a growing body of research has corroborated the positive correlation between ESG factors and financial performance. However, while existing literature predominantly focuses on developed markets and leading European nations, transition economies like Georgia remain under-researched from a qualitative perspective. Consequently, this study examines not only the quantitative data but also the institutional frameworks and reputational impacts within the Georgian context.

Methodology

The methodology of this study employs both qualitative and quantitative analytical approaches to evaluate the relationship between ESG indicators and corporate investment attractiveness. To ensure a comprehensive analysis, the following methods were utilized:

Literature Review and Theoretical Analysis: A systematic review of academic frameworks and institutional reports (including MSCI and the National Bank of Georgia - NBG) was conducted to identify the primary ESG factors influencing financial performance.

Comparative Case Study Analysis: To provide empirical evidence, the paper examines the transformation strategies of international energy companies, alongside a detailed analysis of the sustainable financing frameworks within the Georgian banking sector.

Triangulation of Financial Data: Data from international rating agencies and the National Bank of Georgia's sustainable development reports were reconciled to assess the impact of green bond issuance on corporate financing costs.

Literature review and Theoretical Framework

The relationship between ESG and a corporation's investment attractiveness has been studied by many researchers, but it has gained particular relevance in recent decades.

Over time, more and more investors are starting to think about the role ESG plays in their investment decisions, creating unprecedented opportunities and challenges for businesses and investors alike (Gao, 2024).

Instead of relying only on conventional costs/benefit analyses and internal rate of return calculations to make budgetary and capital expenditure decisions, companies must begin to use equations that factor in the primary social and environment effect on their operations (Pfizer, 2023).

Improving ESG practices often lead to higher stock and bond prices, especially in wealthier sectors and stable economic conditions. As the authors note, empirical studies have shown that, notably the environmental aspect of ESG shows a correlation with both ROA and ROE. This discovery supports the growing focus on sustainability implying that proactive environmental strategies may be increasingly valued by investors and could potentially boost a company's position (Zhou, 2024).

The authors of this study note that the results of the study show a negative relationship between ESG indicators and profitability. We also find that the negative association between ESG performance and profitability turns positive after ESG scores reach a certain level. We further show that the negative relationship is weaker in firms with a better information environment (Oğuzhan Bahadır, 2024).

Numerous studies have examined the impact of ESG on investment attractiveness and profitability. However, the findings on these issues are largely mixed. ESG-firm value relationship is moderated by country-specific institutional and market factors, such as regulatory framework, stakeholder expectations, resource availability, and market efficiency (Le Chau, 2025).

Independently of the ESG strategy adopted to set up a sustainable optimal portfolio, investors do not have to sacrifice performance for sustainability and thus they can do well by doing good. Even more, the adoption of an appropriate level of screening allows to increase profitability along with ESG score (Beatrice Bertelli, 2025).

The theoretical basis of this study is Freeman's stakeholder theory. According to this theory, businesses should consider the interests of all stakeholders, not just shareholders (Freeman, 1984). For investors, the stakeholder-based model exemplifies a corporation focused not only on short-term profit but also on

sustainable development. 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).

Information asymmetry in financial markets between issuers and investors creates a so-called 'distrust risk.' When green bonds circulate in the market, investors often find it difficult to distinguish 'genuinely green' projects from instances of 'greenwashing.' Within the context of Signaling Theory, green certification (e.g., the Climate Bonds Standard) serves as a „credible signal“ to the market. CBRT investments are certifiable if they satisfy all of the following requirements: 1. The investment makes a Substantial Contribution to climate resilience; 2. Any associated maladaptation risks have been identified and managed; and 3. The investment does not cause significant harm to climate mitigation objectives (Criteria for Certification against the Climate Bonds Resilience Taxonomy, 2025).

Through the lens of Signaling Theory, the issuance of green bonds is not merely a tool for raising capital; it serves as a credible signal of a company's long-term strategic vision.

Results and Discussion

The implications of the CSRD extend beyond the borders of the European Union, directly affecting companies in transition economies like Georgia. For Georgian firms integrated into global supply chains or those seeking to attract European investment, compliance with these rigorous disclosure standards is becoming a strategic necessity. Furthermore, as Georgia continues to align its national regulatory framework with EU directives, the adoption of CSRD-aligned reporting serves as a critical mechanism to reduce information asymmetry, mitigate 'greenwashing' risks, and enhance the overall investment attractiveness of the local corporate sector. Investors are increasingly interested in “green” projects. Companies that demonstrate a commitment to sustainable development become more attractive for investment (Mzevinar Nozadze L. V., 2025).

While ESG represents a comprehensive framework of criteria, green bonds serve as a specific financial instrument designed to fulfill these requirements, particularly the Environmental (E) component. Green bonds are one type of ESG bond. They must meet the special standards of the International Capital Markets Association (ICMA) - the Green Bond Principles (GBP) (Mzevinar Nozadze N. S., 2025).

The scale of risks and expected returns associated with green bonds is critical for investors aiming to incorporate these instruments into their investment portfolios. Green bonds are influenced by government policies, regulations, and incentives aimed at promoting sustainable development and mitigating climate change (Nini Johana Marín-Rodríguez, 2023). Consequently, shifts in regulations surrounding green bonds can lead to a degree of uncertainty among investors, potentially triggering a significant change in their investment behavior.

Institutional investors, such as pension funds and banks, increasingly construct their portfolios based on ESG ratings. For a corporation, issuing a green bond represents a direct mechanism to enhance its ESG profile and attract impact-oriented capital focused on sustainability.

The efficacy of green bonds as a tool for enhancing investment attractiveness is clearly demonstrated by the Spanish energy giant, Iberdrola. Having issued its first green bond as early as 2014, the company has become one of the world's largest corporate issuers, with over €50 billion in raised capital as of 2026. Iberdrola has successfully aligned its business model - focused on wind and solar energy, as well as smart grids - with evolving European regulations, ensuring a seamless integration of sustainability and financial growth. Accordingly, the offering drew strong demand with an order book exceeding €8 billion from more than 400 investors across Europe and the UK, Asia and North America (Segal, 2025).

This fact underscores that ESG-oriented financial instruments have become primary drivers of today's investment market. 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. 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 (Rusudan Kutateladze, 2025).

The “Sustainable Finance Roadmap” of the National Bank of Georgia serves as a primary benchmark for local companies, enabling them to align with international standards and attract foreign investment. The National Bank of Georgia has developed ESG GUIDELINES. It involves the systematic and transparent disclosure of the bank's ESG performance and impacts. By demonstrating strong ESG performance, banks can attract socially responsible investors and access capital more easily (ESG Guidelines Through Double Materiality Perspective 2023, 2023).

Table 1. Key ESG Criteria in Georgian Banks

Category	Criteria in Georgian banks
E- Environment	financing of energy-efficient projects, Share of green loans in the portfolio, reduction of paper and electricity consumption by the bank
S - (Social)	financial education projects, Gender balance in management, consumer data protection and ethical lending
G - (Governance)	The presence of ESG committees in the Supervisory Board, Anti-corruption policy;, Transparent reporting (within Pillar 3)

Source: Compiled by the authors based on the National Bank of Georgia's (NBG) Sustainable Finance Roadmap and ESG Reporting Principles.

The Georgian banking sector is a leader in the region in implementing ESG (Environmental, Social and Governance) standards. Mandatory ESG disclosure requirement for commercial banks: ESG Reporting and Disclosure Principles and corresponding form; The ESG reporting form is part of the Pillar 3 Annual Reporting.

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's key ESG criteria include: Environmental (E): TBC Bank prioritizes financing energy-efficient construction and sustainable development projects.

- Social (S): The bank focuses on supporting small and medium-sized enterprises (SMEs) in Georgia. In early 2024, EIB Global, the international arm of the European Investment Bank (EIB), signed a guarantee agreement with TBC Bank in Georgia to allocate €31 million to support SMEs.

- Governance (G): TBC Bank strictly adheres to Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) standards across all its group companies.

ESG Rating: As a company listed on the London Stock Exchange (LSE), TBC Bank is subject to stringent international rating assessments (such as MSCI ESG Ratings). This compliance significantly enhances its attractiveness to global institutional investors, who prioritize transparent and high-performing ESG profiles.

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 of 2024, Lion Financial Group PLG received an MSCI ESG Rating of AA (Sustainability Report (2024), 2024).

Table 2. SWOT Analysis of ESG Integration in Georgian Companies

Strengths	Weaknesses
Strong regulatory push from the National Bank of Georgia and the SARAS	Difficulty of data collection
High motivation to access cheaper international capital (Greenium)	Greenwashing-related reputational risk
Opportunities	Threats
Operational efficiency through energy and resource optimization	Competitive disadvantage if regional peers adapt faster to ESG trends

Source: Compiled by the authors based on the National Bank of Georgia's (NBG) and ESG Reporting and Disclosure Principles.

The SWOT analysis reveals that while the Georgian banking sector benefits from a robust regulatory framework and international backing, the primary challenges lie in data scarcity and the specialized expertise required for ESG transition.

Furthermore, the National Bank of Georgia employs a specialized ESG scoring system to evaluate commercial banks, which serves as a crucial benchmark for investors in their decision-making process.

Conclusions

The study demonstrates that the impact of ESG factors on corporate investment attractiveness has evolved beyond ethical considerations, becoming a fundamental component of financial modeling.

The core findings of the research confirm the following:

- Risk Mitigation: A high ESG rating functions as a form of 'financial insurance', safeguarding the corporation against regulatory sanctions, environmental liabilities, and governance scandals.

- Financing Optimization: The strategic utilization of green bonds and sustainable credit lines provides companies with access to lower-cost capital—known as the 'Greenium' effect- thereby enhancing their overall market competitiveness.

Conclusions and Future Outlook

- In summary, the transition towards sustainable finance is no longer a peripheral trend but a fundamental shift in the global financial architecture.

- Market Expectations: For international investors, ESG has evolved from an optional 'add-on' into a mandatory filter for portfolio construction. This study confirms that firms failing to integrate these factors risk being excluded from global capital flows.

- The Georgian Context: Evidence from the local banking sector, particularly the leadership of TBC Bank, proves that for emerging markets, adopting ESG standards is the most efficient pathway to mitigating information asymmetry and attracting international investment.

- Strategic Alignment: As Georgia continues its regulatory convergence with the European Union under the Association Agreement, the integration of ESG criteria will become a prerequisite for corporate competitiveness.

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