The role of regulations in promoting Sustainable Finance in emerging markets The case of Georgia

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Abstract

Emerging market financial systems are undergoing profound transformation as sustainability issues, along with digitalization and the integration of artificial intelligence, become integral parts of high-level investment decisions, long-term strategies and regulatory frameworks.

The paper analyzes how the existing regulatory framework contributes to the promotion of sustainable finance in Georgia, with a particular focus on sustainable finance taxonomy. It examines the conceptual foundations of the national taxonomy, its scope of application and the specifics of its implementation. The study used a quantitative methodology, including taxonomy regulations and collection of data from secondary sources such as official statistics, reports, conference proceedings and scientific journals.

Taxonomies are at the core of sustainable finance. They provide a unified classification system for identifying sustainable economic activities, thereby guiding responsible investment flows, reducing information asymmetry and mitigating greenwashing. The paper examines how Georgian commercial banks apply taxonomy in practice to minimize climate risks, and highlights the challenges of aligning national regulations with best international standards.

The analysis of Georgian banking sector illustrates how the national taxonomy in emerging country is being operationalized and implemented under the leadership of central bank. However, there is also a need for further institutionalization and enforcement, ensure consistent implementation, and closer alignment with international standards.

Keywords: Sustainable Finance, Taxonomy, ESG, Banking regulation

Introduction

Financial systems in emerging markets are undergoing profound changes as sustainability agenda along with artificial intelligence and other innovations become integral parts of investment decisions, corporate strategies and regulatory frameworks.

Sustainable finance can be defined as financial activities aimed at promoting sustainable development. This includes elements of environmental, social and governance (ESG) as well as economic aspects and financial justification.

The first universal global concept of sustainable development was introduced by the United Nations Brundtland Commission, which defined sustainability in 1987 as "meeting the needs of the present without compromising the ability of future generations to meet their own needs" (United Nations 1987, 16).

Since the early 1990s, many organizations have begun to voluntarily integrate sustainability considerations into their business strategies and daily activities, positioning themselves as responsible and impact-driven companies and thereby enhancing the reputation of their brands.

Later, in 2015, the United Nations member states adopted the UN Sustainable Development Goals (SDGs) as a universal and urgent call for action to end poverty, protect the planet, and ensure peace and prosperity. The 17 global SDGs, including 169 sub-goals and targets, have been adopted by all UN member states who also agreed to achieve these targets by 2030 (United Nations, 2026).

In 2015, the Paris Agreement was also adopted - a legally binding international treaty aimed at combating climate change by limiting global warming to well below 2°C above pre-industrial levels.

After adoption of SDGs and Paris Agreement, the sustainability issues started to become mandatory in majority of countries and business industries. Nowadays, sustainability-focused regulations continue to tighten both globally and nationally, including stringent reporting requirements and disclosure standards, creating new type of challenges for many companies and industries worldwide.

At the same time, the "Porter Hypothesis" posits that businesses can derive economic benefits from environmental regulation. Porter and Linde's theory demonstrates that properly designed and implemented environmental regulations can create favorable conditions and additional stimulus for companies to invest more in innovation and improve productivity (Porter and Linde 1995, 100).

Thus, well-designed environmental regulations can lead to both improved environmental performance and increased economic competitiveness, benefiting both society as a whole and the companies themselves.

Effective sustainable finance regulations primarily focus on integrating ESG-related risks and creating taxonomies to guide investment flows toward achieving sustainable outcomes. These regulations combine sustainability taxonomies, mandatory disclosures, comprehensive oversight and carbon pricing mechanisms.

Taxonomies are at the core of sustainable finance. They provide a unified classification system for identifying sustainable economic activities, thereby guiding responsible investment flows, reducing information asymmetry and mitigating greenwashing. Without taxonomy, responsible investors will face difficulties to identify whether a business or product marketed as "green" or "sustainable" really contributes to climate adaptation or mitigation objectives and generates positive socio-economic impact (Dzadzua 2025, 1).

The EU Taxonomy is considered as one of the most advanced sustainable-related regulatory frameworks globally. It establishes criteria and guidelines for identifying activities that contribute to environmental objectives while ensuring that they do not cause significant harm to others (European Commission, 2024).

At the same time, more and more countries are developing their own national taxonomy frameworks, often aligned with international standards, to take into account national and regional priorities as well as to better respond to specific climate risks.

Georgia, an upper-middle-income country in the South Caucasus with one of the fastest-growing economies over the past decade (with real GDP growth reaching 9.1% in the first quarter of 2026) and seeking closer integration with the EU, launched its Sustainable Finance Roadmap in 2019 and formally adopted the National Taxonomy in 2022.

The paper analyzes how the existing regulatory framework contributes to the promotion of sustainable finance in Georgia, with a particular focus on sustainable finance taxonomy. It examines the conceptual foundations of the national taxonomy, its scope of application and the specifics of its implementation.

Methodology

The research was conducted primarily using a quantitative methodology. The analysis was carried out based on information and data collected from various secondary sources such as regulatory documents, official statistics, reports, conference papers, thematic scientific journals etc.

The data analysis is mainly based on official statistics and reports of Georgian commercial banks and the National Bank of Georgia.

Key Findings

Georgia's sustainable finance framework has evolved over the past decade under the leadership and supervision of its central bank - the National Bank of Georgia (NBG), which introduced the sustainable finance roadmap in 2019 and formally adopted the national taxonomy in 2022.

Georgia is the first and leading country in the Caucasus region which implemented a Sustainable Finance Taxonomy. As for other countries of the region: Armenia has initiated a nationally-owned framework for identifying environmentally sustainable investments in 2023, and officially adopted the Green Taxonomy in October 2025, marking a major milestone in establishing a credible system to mobilize green investments and prevent greenwashing. Azerbaijan hosted COP29 in 2024 and launched a Taxonomy Roadmap to ensure interoperability as well as improve cross-border flows of sustainable finance among emerging economies. Although its taxonomy is still under development.

Since 2017 National Bank of Georgia (NBG) is a member of the Sustainable Banking and Finance Network (SBFN), a global knowledge-sharing and capacity-building platform for emerging markets financial sector regulators. Georgia has demonstrated strong commitment and efforts to improve its sustainable finance regulatory framework and has moved to the higher ("Maturing") stage in 2024. This is the 5th of 6 levels of the SBFN Sustainable Finance Progression Matrix, which measures member countries' progress in advancing sustainable finance (SBFN 2024, 11).

With this progress, Georgia demonstrates its leadership position among all post-Soviet countries of the Caucasus, Central Asia and Eastern Europe. This highlights the presence of well-designed regulations in the country and the central bank's consistent efforts to advance the sustainability agenda in the banking sector.

The NBG introduced the Sustainable Finance Roadmap for Georgian banking sector in 2019, the ultimate goal of which was to form predictable, reliable and clear regulatory framework for the industry and prepare the market for smooth transition to sustainable finance. The roadmap laid the foundation for the systematic implementation of sustainable finance practices throughout the domestic financial sector.

The NBG's phase-I roadmap covered periods of 2019-2024 and outlined a step-by-step approach for commercial banks to set and integrate ESG objectives and principles into their financial decision-making. The roadmap placed special emphasis on building institutional capacities as well as voluntary disclosures and compliance with best international standards such as OECD, IFC and EU (Dzadzua 2025, 4)

After successful implementation of the initial phase, in March 2025, the NBG launched the second phase of the Sustainable Finance Roadmap (for 2025-2028), aiming to provide a strategic path to enhance the contribution of financial sector to achieving national sustainable development goals, and support the transition to a sustainable and low-carbon economy.

The phase-II roadmap groups activities into two types of areas: core and supporting, including: 1) sustainable financial flows; 2) integrating climate, nature and ESG considerations and risk management; 3) transparency, disclosure, reporting and measurement (NBG, 2025)

In 2022, the NBG adopted the Regulation on Loan Classification and Reporting according to the Sustainable Finance Taxonomy. The new regulation officially defined green, social and sustainable loans and set the reporting requirements for taxonomy-aligned loans for commercial banks. The Taxonomy Regulation came into force on January 1st 2023 (Dzadzua 2024, 22).

Georgia's Sustainable Taxonomy composed of green and social taxonomies.

- **Green taxonomy** provides a list of activities that aim to achieve environmental objectives and contribute to the development of a green economy. Green loan is defined as a loan exclusively directed to finance economic activities listed in the green taxonomy (NBG 2022, 12).
- **Social taxonomy** provides categories aimed at achieving social goals for the target population including: people with disabilities, migrants, displaced persons, socially vulnerable individuals, people living below the poverty line etc (NBG 2022, 12).

The NBG defines sustainable loan as a loan which is exclusively used to finance economic activities that simultaneously meet the requirements of both - green and social taxonomies. The Georgian taxonomy can be considered unique and innovative, as it includes social finance and reflects national development needs - in contrast to the EU taxonomy, which is primarily focused on environmental objectives.

Georgian commercial banks are required to publish annual sustainability reports according to established forms. The NBG publishes an annual Sustainable Finance Report for entire sector since 2022, highlighting the main progress made by Georgia on its path to sustainable objectives.

Since most commercial banks were in the early stages of implementing the Taxonomy requirements, until 2024 the NBG allowed both definitions to be used to classify green loans in reporting - those in accordance with the Sustainable Taxonomy and those based on the bank's internal definitions.

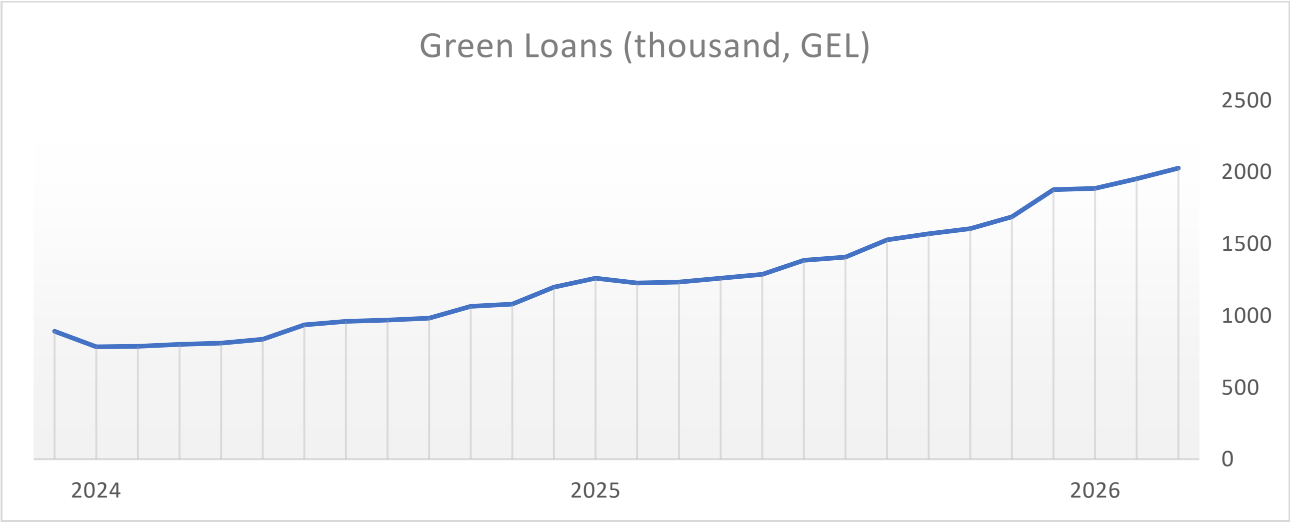
Starting from 2025, banks are required to use only taxonomy-aligned green loan data in their sustainability reports. Of the seventeen commercial banks operating in Georgia, only nine provided data on green loans that comply with the Taxonomy in 2025. Although this represents approximately half of the total commercial banks, the number of financial institutions providing environmental performance data is gradually increasing year by year (5 in 2023, 7 in 2024, 9 in 2025).

This fact illustrates that although there are a few banks who make progress in sustainable finance and are quite advanced in terms of ESG risk management practices, majority of small and medium-sized financial institutions are still in the early stages of their journey to sustainable finance.

As to the dynamic of sustainable finance portfolio, by the end of 2025 the total volume of taxonomy-aligned green loans in Georgian banking sector amounted to GEL 1.8 billion, which is 50% increase compared to 2024 (GEL 1.2 billion in 2024) and 4.5 times more than in 2022 (GEL 0.4 billion), the year when sustainability reporting began.

Chat #1 below shows the dynamic of green loan portfolio growth in Georgian commercial banking sector based on NBG's taxonomy-aligned green loan reports from Dec 2023 to March 2026.

Chat #1. Georgia's green loan portfolio statistics (2023-2026)



* Source: NBG public disclosure of data on green loans as of March 2026.

An analysis of recent year's NBG sustainability reports show that banks currently report only on the "green" component of the taxonomy, but there are no data available on the second component of taxonomy - "social" loans.

Consequently, although the social taxonomy represents an integral part of the Georgian sustainable finance taxonomy and gives it a certain unique character, it is still a more formal requirement from the regulatory body and banks are not obliged to track and report social data of their clients.

The NBG has also developed the ESG Risk Radar Report, a pioneering tool that uses a five-step scoring methodology and sectorial maps to assess broader ESG risks. NBG has developed ESG guidelines through a Double Materiality Perspective. This model, introduced in 2022, compensates for limited loan-level data and offers tailored ESG scorecards for financial institutions, including microfinance banks.

In 2024, NBG has introduced a comprehensive Climate Stress Testing Framework that integrates multiple analytical modules to assess relevant risks. In the assessment of climate-related vulnerability, this framework evaluates risks at the level of both household and corporate portfolios.

While official statistics and reports point to the positive impact of sustainable finance regulation in Georgia, a number of challenges can also be noted while applying the taxonomy:

- **Regulatory mismatch**. There could be mismatch between the global sustainable standards and local regulations. Some requirements are too general and subject to different interpretations.
- **Limited Screening Criteria**. Unlike EU Taxonomy, which provides detailed technical thresholds, Georgia's taxonomy uses relatively broader categories making it a bit difficult for commercial banks to easy identify the sustainable/green categories.
- **High cost of "going green"**. Sustainable finance is a relatively new concept and therefore many banks do not have enough resources and systems to timely adapt to new requirements.
- **Extra bureaucracy**. Additional documents, data collection, specific information and competencies are needed to meet formal requirements of sustainable taxonomy.
- **Lack of Competence**. Many banks are still in the process of building internal teams and systems specialized in sustainable finance.
- **Compliance Costs**. Banks are obliged to submit taxonomy-aligned monthly and other reports at special NBG platform. This requires building new reporting systems, modernizing IT infrastructure, forming extended data collection processes and investing in staff training.
- **Verification and Credibility Issues**. There are no independent and reliable verification mechanisms available at this stage. Banks self-classify loans that match to taxonomy requirements, which increases the risk of inconsistency in application.
- **Lack of data**. Significant part of green portfolio is concentrated in retail and SME lending, where clients rarely provide full environmental or social data required by the taxonomy. Thus, banks may have more investments in green lending, but due to lack of data they cannot officially classify them as green according to taxonomy.

Conclusion

Sustainability-focused regulations continue to become stringent at both the global and national levels, mainly due to mandatory reporting, disclosure standards and data requirements. In this regards, they can create additional administrative or operating burdens as well as institutional challenges for commercial banks.

At the same time, well-designed and effectively implemented sustainability regulations can lead to both improved environmental performance as well as increased economic effect, benefiting both society as a whole and the companies themselves.

Effective sustainable finance regulations primarily focus on integrating ESG-related risks and creating smart taxonomies to guide investment flows toward achieving sustainable outcomes. These regulations combine sustainability taxonomies, mandatory disclosures, comprehensive oversight and carbon pricing.

The analysis of Georgia's Sustainable Finance Taxonomy, as well as reports of the leading Georgian commercial banks, illustrates how the national taxonomy in an emerging country is being operationalized and implemented successfully. Georgia's taxonomy has already strengthened the credibility of its financial system, attracted international interest and positioned the country as a regional leader in sustainable finance. Georgia is one of the few countries globally to embed a social taxonomy alongside the green one.

There is also a need for further institutionalization and enforcement, ensure consistent implementation, and closer alignment with international standards. This will strengthen credibility, attract more international investors and support domestic resilience. So that the national taxonomy translates into measurable impact on climate resilience and social equity.

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