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BUSINESS SOCIAL RESPONSIBILITY AND "GREEN INNOVATIONS" – CAUSE-AND-EFFECT RELATIONSHIP

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ABSTRACT

At the present stage of society development, one of the global problems is the transition to sustainable and inclusive development and regulation of related issues. The purpose of the study is to determine the role of corporate social responsibility in relation to sustainable development measures and environmental protection. The study also emphasizes that the government has traditionally been the main subject of environmental protection measures, although in recent years the issue of business participation has become increasingly visible in the international sustainable development agenda. Particular attention is paid to financial and credit institutions, with the support of which innovative, environmentally friendly financial instruments are introduced and distributed in the financial markets of various countries. Thus, the more effectively and extensively business entities use innovative financial instruments related to green projects, the more the social value of their activities will increase. As a result of the study, recommendations were formulated indicating methods for optimizing the social responsibility of business entities in terms of implementing environmental policies.

KEYWORDS

Social Responsibility, Climate Change, Environmental Measures, Financial Innovation

CITATION

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Introduction.

Corporate social responsibility is the contribution of business to improving the social, economic and environmental conditions of society. Corporate social responsibility is becoming increasingly relevant for the management, investors and shareholders of enterprises, allowing them to contribute to sustainable development and improve the management of relevant environmental measures. In addition, corporate social responsibility covers charitable, environmental, economic and ethical aspects.

Research methods.

In the process of research, we take into account materials published in local and international scientific journals by Georgian and foreign scientists on issues of corporate social responsibility and environmental protection measures, research results of international rating organizations, statistical data. The research is based on the processing of secondary analytical materials from open sources. The research method is analysis and synthesis, deduction and induction.

Results and Discussion.

Modern business is not focused solely on expanding sales and increasing revenues. At this stage, such an indicator as corporate social responsibility is increasingly used to assess the quality of a company's work. In business, social responsibility is known as corporate social responsibility (CSR), and due to changing social norms, this area is becoming an increasingly important part of the activities of modern companies.

Corporate social responsibility has undergone significant changes from its early concept to the current global concept. Its development The beginning of the 20th century can be considered a landmark. As already mentioned, the development of this concept was promoted by Howard in the middle of the 20th century. Bowen's work "The Social Responsibility of the Businessman" - published. In Howard's work, R. Bowen argued that company executives have responsibilities beyond their financial interests. This concept has become increasingly widespread and It gained popularity after industrial magnates such as Andrew Carnegie and John D. Rockefeller expressed the desire and urged entrepreneurs to be morally and socially responsible, and that the wealth they acquired should belong not only to them but also to society.

There are many interpretations of corporate social responsibility (CSR), they differ significantly from each other, but they are united by one idea: the responsibility of business to the society in which it conducts its activities" (Shengelia & Berishvili, 2024, p. 222).

In today's world, it is unthinkable that a company with a normal reputation would not be active in terms of corporate social responsibility and would not care about alternative, innovative financing of environmental protection activities. This has already become a popular and widespread form of doing business. It characterizes the participation of business entities in solving social, environmental and economic issues not related to their core business. In addition, "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 (Nozadze, Beridze, & Chelidze, 2024).

By implementing a social standard, a company publicly declares its commitment to environmental protection, minimizes harmful impacts on the environment, ensures the creation of a safe environment for future generations and promotes sustainable development.

Based on our research questions, we focus on environmental measures and related "green innovations". "The financial system plays a vital role in guiding and allocating capital efficiently in the real economy. Thus, greening the financial system is a first and essential step in greening the economy itself" (Gilchrist, Yu, & Zhong, 2021).

The Paris Agreement is the first ever legally binding statement on global climate change, adopted at the Paris Climate Conference in December 2015. The 190 signatories include the European Union, its Member States and the Eastern Partnership countries. The agreement sets a global framework to prevent dangerous climate change by limiting global warming to well below 2°C and taking action to limit it to 1.5°C. It also aims to strengthen countries' ability to combat the impacts of climate change and support their efforts. In the EU's policy context, "sustainable finance is understood as finance to support economic growth while reducing pressures on the environment to help reach the climate- and environmental objectives of the European Green Deal" (Europian Commission, 2024).

Green financing policy is aimed at attracting additional financial capital to economic entities to finance green projects. "These policies are implemented through financial institutions and markets, in contrast to other regulatory measures that rely on administrative orders" (Wu, Ji, & Liu, 2024).

The implementation of green finance policies has put the need for the introduction and dissemination of innovative financial instruments on the international agenda. Innovative financial instruments include: green bonds, green loans, sustainable and sustainability-related bonds. „Green innovation has the potential to help businesses become more environmentally responsible, which would enhance their CSR performance" (Wu, Ji, & Liu, 2024).

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. As is known, in 2007, the European Investment Bank (EIB) and the World Bank were among the first to issue and place "green" bonds on the financial market. In March 2013, green bonds issued by the International Finance Corporation were sold out within an hour of their issue. "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" (Kutateladze, Nozadze, Chelidze, & Beridze, 2024, p. 57).

"The growing role of green bonds as an innovative financing instrument for environmental initiatives is proof of their effectiveness and usefulness" (Sobik, 2023, pp. 287-303). It should be noted that the Green Bond Principles (GBP) are not mandatory, but rather advisory in nature, containing provisions on disclosure and transparency. "Issuers of Green Bonds signal their commitment to addressing environmental issues both externally and internally by financing projects with clear environmental benefits" (The International Capital Market Association (ICMA, 2024, p. 8).

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), as well as the Climate Bond Taxonomy developed by the international organization Climate Bonds Initiative (CBI).

Although a wide range of bonds are available in modern financial markets due to the need for sustainable development and reducing environmental impact, the classification of green bonds itself includes 4 main types: 1. Standard bonds with environmentally friendly use of proceeds; 2. Green bonds; 3. Environmental bonds; 4. Secured green bonds.

When it comes to the credibility of green bonds, investors want to know whether the issuer will actually use the funds raised to finance environmental projects. Green bonds are audited by a third party to ensure that the funds raised are used for their intended purpose. The certification process ensures a high level of transparency and accountability, including disclosure by the issuer of how effectively the funds raised were spent, so that investors can be confident that the projects are truly environmentally friendly.

While "the approach and extent of external oversight may vary among market participants, such practices undoubtedly reduce information asymmetries between issuers and investors (Fatica & Panzica', 2020).

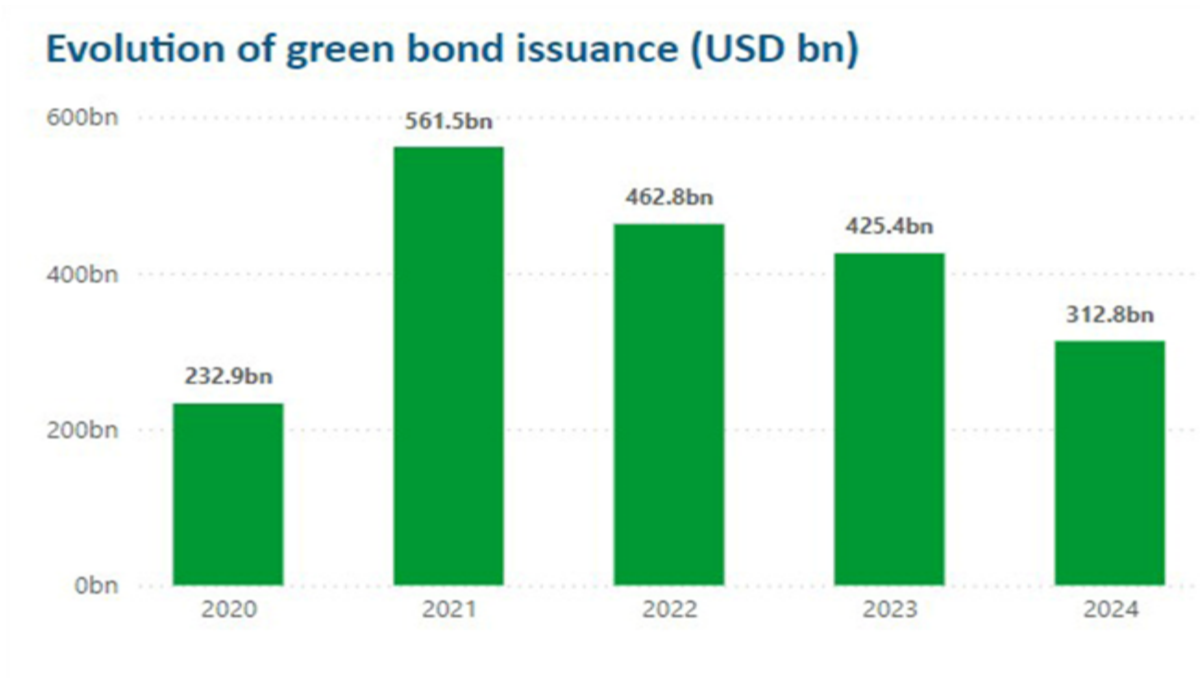

Fig. 1. *Sustainable Bond Market Date*
Source*: https://www.icmagroup.org/sustainable-finance/sustainable-bonds-database*

As can be seen from the presented diagram, the volume of issuance of green bonds reached the highest level in 2021, and already today its volume has decreased by almost 45%.

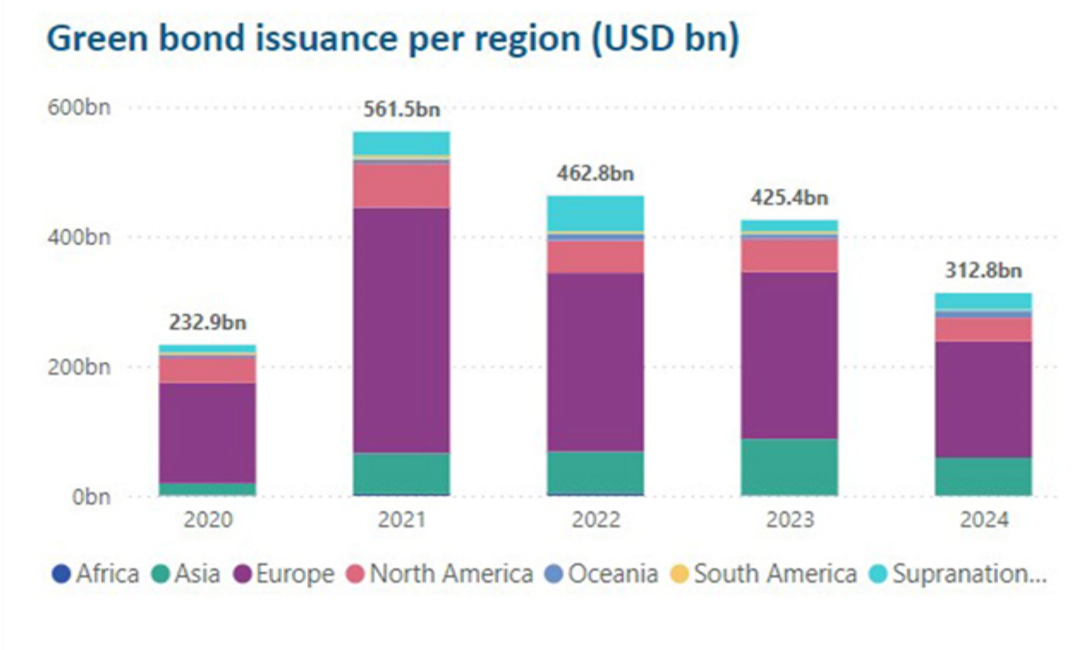

Fig. 2. *Sustainable Bond Market Date*
Source: *https://www.icmagroup.org/sustainable-finance/sustainable-bonds-database*

According to the information in the diagram, Europe is the leader in green bond issuance worldwide in 2020-2024, followed by Asia and North America.

It is known that green projects financing instruments, along with green bonds, include green loans and green mortgages. A green loan is similar to green bonds, since the essence of these financial instruments is to finance environmental activities using attracted funds. A green loan is similar to green bonds, since the essence of these financial instruments is to finance environmental activities using attracted funds.

"The green loan market aims to facilitate and support the key role that credit markets can play in financing progress towards environmental sustainability" (Loan Markets Association (LMA), 2023, p. 2). However, issuing green bonds involves a larger issue volume, special bond issuance rules and higher transaction costs. "Banks are discovering that taking a responsible and sustainable approach to lending and operations can have huge financial benefits" (Statista, 2024).

Sustainable loans make up a significant portion of the market for sustainable debt. "According to Environmental Finance Data, volumes of sustainable loans exceeded $860 billion during the 12-month period, with more than $8 of every $10 of sustainable loans signed during this time in a sustainability-linked loan (SLL) format" (Environmental Finance, 2023). The role of green innovation in increasing corporate social responsibility is enormous. However, it is important to use emissions trading and responsible investment to increase social responsibility. Carbon credits are an effective tool for sustainable development, allowing businesses to reduce their carbon footprint.

"Industrial firms, particularly those with significant carbon emissions, need to be encouraged to lead the way in reducing carbon emissions to meet their social obligation of preserving the natural world" (Chen, 2023). In addition, the government or international organization sets an upper limit (cap) on the permissible emissions of greenhouse gases into the atmosphere in the form of quotas. If a company exceeds the set limit, it must pay a fine or buy carbon credits on the open market. A company or country that has not fully used its quota can sell carbon credits. As a result, the buying company does not pay a fine, and the seller contributes to greening the environment. It is important to note that the largest carbon trading scheme currently in operation is the European Union Emissions Trading Scheme.

As we have already mentioned, responsible investment plays an important role in corporate social responsibility. Socially responsible investment (SRI) refers to approaches that apply social criteria and environmental criteria in evaluating companies. "SRI investors score companies along their chosen criteria, either for their investment universe as a whole or sector by sector; some apply differential sector-specific weightings, and all establish a hurdle for qualification or disqualification within their investment universe" (Cambridge Institute for Sustainability Leadership, 2024).

"Green investment refers to approaches that seek to invest capital in 'green' assets, whether these are funds, companies, infrastructure, projects and so on" (Cambridge Institute for Sustainability Leadership, 2024)

In recent years, international companies have taken a fairly active environmental stance: they not only comply with local and international environmental legislation, but also act as syndicates aimed at tightening environmental standards within their corporations, and invest heavily in this area. In developed countries, companies with high social responsibility that actively use green financial innovations to finance environmental and green projects achieve significant increases in production efficiency, competitiveness and reputation.

Conclusions.

Based on the findings of this study, which highlight the significant impact of green finance on strengthening corporate social responsibility (CSR) and environmental policies, the following practical recommendations are offered:

- CSR and green financial innovation complement each other as they promote environmental protection and the socio-economic development of business entities. Using innovative financial instruments for environmental protection measures helps corporations achieve their social responsibility goals as it is more comprehensive on a global scale. However, environmental management is a holistic and interrelated process, meaning that achieving one goal can contribute to achieving others. The government traditionally finances environmental protection activities. However, cooperation between the government and the private sector in the field of green and sustainable financing will increase the effectiveness and scale of green innovation.
- The role of green technologies is important in the implementation of green innovations that will minimize the negative impact of human activity on the environment and society. It covers a wide range of products, services and practices that contribute to a more sustainable future for current and future generations.
- Implementation of mechanisms for strict monitoring and evaluation of the impact of green financial innovations on corporate social responsibility in order to make green financial flows more transparent and effective.

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