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ISSUES OF DEVELOPING "GREEN" FINANCE IN UZBEKISTAN

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A B S T R A C T

The article analyzes the problems and prospects for the development of "green" financing in Uzbekistan, which is an important tool for sustainable economic growth and environmental protection. In the context of global environmental challenges and Uzbekistan's desire to modernize its economy, the introduction of green financial mechanisms is becoming a key factor in achieving sustainable development. The article discusses the main problems the country faces in introducing green financing, such as insufficient institutional support, limited knowledge and experience in the field of ecology and financing of "green" projects, as well as the need to change legislative and regulatory mechanisms.

K E Y W O R D S

Green finance; sustainable development; ESG; green budgeting; green financial instruments; climate risks; financial market; payments for natural resources.

Introduction

In recent decades, the problems of sustainable development and environmental protection have become some of the most pressing at the global level. In response to these challenges, new areas have emerged in the financial sector aimed at supporting environmentally friendly and sustainable projects. One of these areas is “green” finance, which is aimed at attracting investment in projects that help reduce the carbon footprint and protect nature.

In Uzbekistan, which is actively striving to modernize its economy and improve the environmental situation, the development of green financing is an important element of the transition to sustainable economic growth. Green financing in Uzbekistan is not only a step towards solving environmental problems, but also a way to increase the country's investment attractiveness, integrate into international environmental standards and create new jobs in green sectors.

Despite the growing interest in this topic, the process of developing green financing faces a number of challenges associated with the insufficient maturity of relevant institutions, limited experience in implementing "green" projects and the need to change legislation. This article examines the main problems and prospects for the development of green financing in Uzbekistan, as well as the role it can play in the sustainable development of the country.

2. LITERATURE REVIEW

The green economy can be divided into the following types:

1) renewable energy sources (solar, wind, biofuels, etc.);

2) "green" buildings and structures (active and passive houses) (energy-saving technologies in construction and architecture);

3) clean transport (alternative fuels, development of public transport, hybrid/electric vehicles);

4) water resources management (water purification, water conservation, rainwater harvesting, etc.);

5) waste and industrial waste disposal (reuse (recycling), production of biodegradable containers, etc.);

The "green" quality in the United Nations Environment Programme (UNEP) concept of sustainable development refers to everything related to the sustainable development of the environment.[1]

The European Commission, in its report examining the meaning of the concept of "green" in the context of "green" finance, identified the following tools for its formulation in official documents[2]:

1. Objectives. The main approach to defining a "green" direction is to define the outcomes for which an activity should be considered "green" (e.g. climate change mitigation, sustainability, pollution prevention, etc.). Subsequently, whether a particular investment contributes to achieving such objectives is assessed individually.

2. Taxonomy. Green taxonomies are classifications of areas and investments (technologies, sectors, etc.) that are considered green. Taxonomies can have different levels, each level serving to describe in more detail the elements that make up the higher category.

3. Exclusion criteria. The definition of "green" is used to exclude certain sectors, companies, activities, etc. Often, specific technologies, such as nuclear energy, set exclusion criteria. Other forms of exclusion may be based on norms (i.e. excluding all investments that do not comply with existing norms and standards).

4. Indicators. These are values used to indicate the impact or impact of an activity on the environment (energy/water savings, reduction of greenhouse gas emissions, etc. Indicators may be set with thresholds or minimum acceptable levels of performance and/or target values). Indicators that reflect a desired level of performance may provide a retrospective or prospective measure of performance (e.g. measuring total water consumption).

5. Ratings. Allows for the assessment of the "greenness" of a company, technology or financial product according to predefined criteria[3].

The Organization for Economic Cooperation and Development links green finance and investment to green development, which means achieving economic growth while reducing pollution and greenhouse gas emissions, minimizing waste, and increasing the efficiency of natural resource use[4].

The G20 Green Finance Study Group (GFSG) considers that green finance can be understood as financing investments that deliver environmental benefits in the broad sense of environmentally sustainable development. These environmental benefits include, for example, reduced air, water and

[1] United Nations Environment Programme (September 2016). Inquiry: Design of a Sustainable Financial System. Definitions and Concepts: Background Note // URL: https://wedocs.unep.org/bitstream/handle/20.500.11822/10603/definitions_concept.pdf?sequence=1&isAllowed=y (дата обращения: 10.10.2021).

[2] European Commission (October 2017). Defining «green» in the context of green finance : Final report // URL: https://ec.europa.eu/environment/enveco/sustainable_finance/pdf/studies/Defining%20Green%20 in%20green%20finance%20-%20final%20report%20published%20on%20eu%20website.pdf (дата обращения: 10.10.2021).

[3] European Commission (October 2017). Defining «green» in the context of green finance. P. 25–26.

[4] Green Finance and Investment // URL: https://www.oecd-ilibrary.org/environment/green-finance-andinvestment_24090344 (дата обращения: 10.10.2021).

land pollution, reduced greenhouse gas emissions, increased energy efficiency in the use of existing natural resources, climate change mitigation and adaptation, and related benefits[5].

This group argues that "green" finance includes efforts to internalize environmental externalities and change risk perceptions to increase environmentally friendly investments and reduce environmentally harmful investments[6].

They also consider that Green Finance encompasses a wide range of financial institutions and asset classes, and includes both public and private finance[7]. Based on the definitions of this group, "green" finance can be viewed as a process aimed at effectively financing projects in order to effectively manage environmental risks in the financial system.

Table 1. **Classification of "green" financial instruments**

No.	Classification of "green" instruments	Types of "green" financial instruments
1.	Retail Finance:	– "Green" mortgage; – "Green" loan secured by housing; – "Green" loan for commercial construction; – "Green" loan; – "Green" credit cards.
2.	Investment financing:	– "Green" project financing; – "Green" asset securitization; – "Green" venture capital and private equity funds; – Technology leasing; – Carbon finance
3.	Asset Management:	– Carbon and environmental funds; – Hedge funds; – Catastrophic bonds; – Environmental ETFs.
4.	Environmental insurance:	– Car insurance; – Carbon insurance; – Emergency insurance; – Green insurance

Green bonds are fixed-income financial instruments issued to finance and develop green projects in various sectors such as renewable energy, clean transportation, waste and water management.

MATERIALS AND METHODS

The article uses scientific abstraction, descriptive statistics, expert assessment, grouping, dynamic analysis, and comparison methods. The article analyzes official data and statistical information and

[5] G20 Green Finance Synthesis Report (July 2016). P. 3 // URL: http://www.g20.utoronto.ca/2016/green-financesynthesis.pdf (дата обращения: 10.10.2021).
[6] G20 Green Finance Synthesis Report (July 2016). P. 3 // URL: http://www.g20.utoronto.ca/2016/green-financesynthesis.pdf (дата обращения: 10.10.2021).
[7] G20 Green Finance Synthesis Report (July 2016). P. 3 // URL: http://www.g20.utoronto.ca/2016/green-financesynthesis.pdf (дата обращения: 10.10.2021).

research results from international companies such as Statista, McKinsey, GlobalData, Forbes, Microsoft, IBM, and Techopedia.

RESULTS

In recent years, increased awareness of the risks and challenges associated with climate change has changed the way we think about investing. New investment standards, such as ESG investing, have led to an increase in financial instruments and transparency mechanisms in the financial sector to attract more investment in sustainable and green projects.

The green finance movement has been gaining popularity in recent years, with investors interested in making their portfolios more sustainable. Green bond issuance has grown exponentially over the past decade.

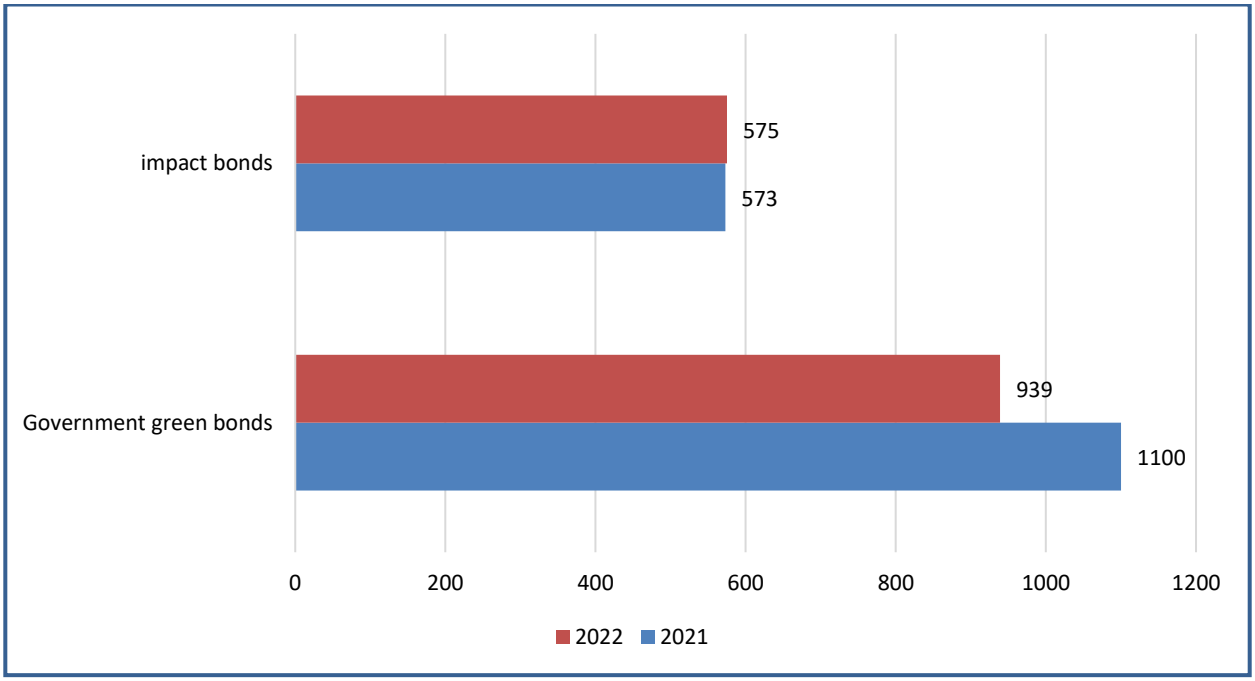

Figure 1. Green bond issuance volume in 2021 and 2023, billion US dollars.

According to data provided by Bloomberg, green bond issuance is expected to exceed one trillion dollars in 2023. This increase is due to record sales of green bonds. The issuance of Impact bonds (i.e. green, social, sustainable and related to sustainability) amounted to $939 billion in 2023, which is 3% more than the previous year in Figure 1. This is not a record, as issuance in 2021 reached $1.1 trillion. One of the areas that set a record in 2023 was the sale of green bonds by corporations and governments, which rose to $575 billion, slightly more than the $573 billion in 2021. The largest green bond sale of the year was carried out by the Italian government in April, for a total value of €10 billion. The largest issuers selling Impact bonds were governments. Other European government issuers of green bonds include France, Germany, Ireland, the Netherlands and the United Kingdom. Through 2023, governments issued green bonds worth a total of $190 billion.

Table 2 Ranking of green bond issuers in developed markets by the end of 2023

No	Issuer	volume, million USD	Emission volume	share, %
1	Great Britain	24 500,63	2,00	6,65
2	German	18 231,26	3,00	4,95
3	KFW	13 858,65	14,00	3,76
4	European Investment Bank (EIB)	13 683,79	12,00	3,71
5	France	10 696,43	3,00	2,90
6	Netherlands	10 538,23	1,00	2,86
7	Austria	6 584,25	1,00	1,79
8	Engie	6 061,90	6,00	1,64
9	Intesa Sanpaolo	5 639,40	5,00	1,53
10	DNB Bank ASA	4 192,91	5,00	1,14

Table 2 shows that social bond sales in 2023 amounted to $135 billion last year. This is slightly down from the record $220 billion in social bonds issued during the pandemic in 2021. The largest issue was green bonds issued by the UK government, accounting for nearly 7 percent of the total (USD 24,500.63 million). The largest green bond issue of the year was issued by the German government, accounting for nearly 5 percent (USD 18,231.26 million), and the largest social bond of the year was issued by the French government's La Caisse d'amortissement de la dette sociale (CADES) for €5 billion.

CONCLUSION

The following recommendations can be made for the development of green finance in Uzbekistan:

1. Creation of specialized financial institutions specializing in the provision of green financial services and products.
2. Conducting campaigns to inform the public about the benefits of green finance and stimulate demand for such products.
3. Development and implementation of tax incentives for enterprises investing in environmental modernization projects.
4. Support and encourage innovative green projects through state subsidies or grants.
5. Development of standards and rules for assessing green projects and their sustainability.
6. Creation of mechanisms for financing energy-efficient technologies and sustainable development.
7. Involvement of international financial institutions and organizations in the development of green finance in Uzbekistan.

These recommendations can contribute to the development of green finance and help the country use resources more efficiently.

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1. European Commission (October 2017). Defining «green» in the context of green finance: Final report//URL:https://ec.europa.eu/environment/enveco/sustainable_finance/pdf/studies/Defining%20Green%20in%20green%20finance%20%20final%20report%20published%20on%20eu%20website.pdf

2. G20 Green Finance Synthesis Report (July 2016). P.3//URL: http://www.g20.utoronto.ca/2016/green-financesynthesis.pdf
3. Green Finance and Investment//URL: https://www.oecd-ilibrary.org/environment/green-finance-andinvestment_24090344
4. United Nations Environment Programme (September 2016). Inquiry: Design of a Sustainable Financial System. Definitions and Concepts: Background Note//URL: https://wedocs.unep.org/bitstream/handle/20.500.11822/10603/definitions_concept.pdf?sequence=1&isAllowed=y
5. www.bloomberg.com - Official website of Bloomberg.