



The Peerian Journal

Open Access | Peer Reviewed

Volume 12, November, 2022.

Website: www.peerianjournal.com

ISSN (E): 2788-0303

Email: editor@peerianjournal.com

Green finance instruments and green finance in Uzbekistan

Fattakhova M.A. - Senior Lecturer of the Department of «Banking» Tashkent Financial Institute

Abstract: The article examines the green instruments, problems and prospects of the green factor of economic growth in Uzbekistan, analyzes the international experience of transition to a green economy, and describes the main directions of development of the green economy in the Republic of Uzbekistan.

Keywords: green instrument, green factor, green economy, green investments, green technologies

Climate change and its impacts are priority challenges and threats to the global sustainable development of the world economy and welfare world population. This problem affects important sectors of the economy, such as agriculture, energy, infrastructure and health, which in turn turn negatively affects the growth rate of GDP production, modernization economy and, ultimately, environmental and national security countries. Global economy could contract according to Swiss Re Institute report by 18% over the next 30 years. In particular, under the worst-case increase scenario temperature by 3.2 °C, China could lose almost a quarter of its GDP (24%) by middle of the century. In the US, Canada and the UK, losses will be about 10%.

Europe will suffer a little more (11%), while countries like Finland or Switzerland are less at risk (6%) than, for example, France or Greece (13%)

To achieve green and sustainable economic growth, the global community actively implements strategies and measures to combat climate change and its negative consequences.

Uzbekistan is included in the category of countries most vulnerable to climate change. In the near future, the rate of growth is expected to accelerate temperature and the onset of drought throughout the country, and mainly in its western parts. Comprehensive measures are also being implemented in our country to develop the “green economy”, which are aimed at modernizing and diversifying the basic sectors of the economy, as well as a balanced socio-economic development of territories. Work in this direction was started at the beginning of 2020, after the approval of the "Strategy for the transition of the Republic of Uzbekistan to a green economy for the period 2019-2030" in October 2019. During the development of the Strategy, identified the following problems hindering the achievement of goals and objectives in areas of sustainable development of the country:

1. Accelerated industrialization and population growth significantly increase the economy's need for resources, as well as reinforce the negative anthropogenic impact on the environment and the growth of greenhouse gas emissions;
2. Low level of energy efficiency of the economy;
3. Irrational consumption of natural resources;



The Peerian Journal

Open Access | Peer Reviewed

Volume 12, November, 2022.

Website: www.peerianjournal.com

ISSN (E): 2788-0303

Email: editor@peerianjournal.com

4. Slow technology update;
5. Weak participation of small businesses in the implementation of innovative solutions for development of the "green" economy.

New problems and directions of development require the use of new tools, including those related to the distribution and use of financial resources. Over the past 15 years, the world has developed new mechanisms and investment tools aimed at solving or taking into account the problems of the ecological state of the planet.

"Green finance" is a term that emerged at the beginning of the 21st century in an attempt to link business projects and the environmentally responsible behavior of economic entities. However, in the beginning, the development of a new direction of financing was rather slow, given the traditional skepticism of most of society: the history of mankind does not give much reason to expect that an entrepreneur will voluntarily limit himself to environmental rules or sacrifice income for the sake of some sustainable development goals.

However, today the situation has changed. According to the latest published Global Landscape of Climate Finance report, total climate finance in 2019-2020 was \$632 billion, of which \$321 billion was funded from public sources and \$310 billion from private sources. At the same time, grants accounted for 6%, borrowed funds accounted for 61%, and direct investments - 33% of total funding.¹ It should be noted that concessionary and "cheap" loans account for only 12%, and the rest of the borrowed funds are commercial loans.

All "green" projects require a large amount of financing, while, in most cases, "green" business models and projects are high-risk and non-traditional. Accordingly, traditional methods of financing may turn out to be commercially unattractive or inapplicable.² To solve this problem, world practice has new financing instruments designed for the green economy: green loans, green bonds, green investment funds, carbon exchanges, asset-backed securities (ABS), income-generating companies (Yieldco), green banks .

Verenko N. and Kamenkov A. in their article³ give a classification of "green" bonds depending on the type of project:

- climate bonds (Climate Bonds) - bonds aimed at projects in the field of adaptation and mitigation of climate change;
- "Blue" bonds (Blue Bonds) - bonds aimed at projects in the field of water use and conservation of aquatic ecosystems;
- Ecosystem Green Bonds - bonds aimed at projects within the framework of the implementation of sustainable "green" initiatives aimed at preserving the ecosystem;
- Forest Bonds – bonds aimed at forestry projects with a low level of impact on the ecosystem;
- socially oriented bonds (Social Impact Bonds) - bonds aimed at projects, the main purpose of which is to obtain a social effect;

¹ <https://www.climatepolicyinitiative.org/wp-content/uploads/2021/10/Full-report-Global-Landscape-of-Climate-Finance-2021.pdf>

² "Green finance" in the world and Russia: monograph / B.B. Rubtsov, I.A. Guseva, A.I. Ilyinsky, I.V. Lukashenko, S.A. Panova, A.F. Sadretdinova, S.M. Alykov; under. ed. B.B. Rubtsov. - M.: RUSAYNS, 2016. - 170 p. Page 13-14.

³ Verenko N., Kamenkov A. "Green" investments and prospects for their use in the Republic of Belarus.



The Peerian Journal

Open Access | Peer Reviewed

Volume 12, November, 2022.

Website: www.peerianjournal.com

ISSN (E): 2788-0303

Email: editor@peerianjournal.com

- Conservation impact Bonds - bonds aimed at projects whose main goal is to achieve results in the conservation of nature;
- Development Impact Bonds - bonds aimed at projects under the development program;
- bonds for projects related to the conservation of biodiversity and the improvement of the protection of flora and fauna (Wildlife impact Bonds).

As noted in the studies of the Organization for Economic Cooperation and Development⁴, green banks use the formation of reserves to cover losses on loans, the provision of guarantees, insurance, debt subordination as risk reduction tools. As a result, the creation of "green" banks helps to reduce the risks of investing in climate projects and the implementation of "green" investment projects.

Green finance in Uzbekistan

In Uzbekistan, the GEF (Green Economy Financing Facility) pilot project provides funding, advice and grants to private companies to improve their competitiveness through high-impact technologies and practices.

A green economy is an economy that minimizes the use of energy and water in production and consumption, thereby minimizing negative impacts on the environment and climate.

The GEF mechanism supports this transition by providing funding for investments in Green Technologies, i.e.:

- Technologies that minimize energy use
- Technologies that generate energy from renewable sources
- Technologies that protect water resources

Under the GEF agreement, the EBRD provides loans to participating local financial institutions (partner banks) for the refinancing of private borrowers. These funds are invested in projects that minimize their impact on the climate, in line with the EBRD's global strategy to move towards a green economy, reduce greenhouse gas emissions and improve energy efficiency.

GEFF in Uzbekistan will be supported by a dedicated team of consultants made up of engineers, environmental, financial and marketing experts who will offer partner banks and their clients direct support and advice throughout the life cycle of a green project using best-in-class technologies. The technical assistance package for customers is free of charge.

Technical assistance is provided by a local GEF team that assists companies at various stages of project development, investment appraisal and project implementation. This helps to identify the best solutions and ensure successful financing of quality green economy projects.

In Uzbekistan, there is currently a gradual increase in the activity of "green" financing, and if earlier it was presented more in the form of individual projects and grants from international financial institutions, then in recent years other financing instruments have been introduced, such as "green" loans and bonds.

So, on June 9, 2021, as part of the visit of the delegation of the European Bank for Reconstruction and Development (EBRD) to Uzbekistan, headed by the first vice-president of the bank, Jürgen Rigterink, a ceremony was held to sign agreements on the participation of

⁴ Green investment banks: Leveraging innovative public finance to scale up low-carbon investment. // OECD Policy Perspectives. December 2015. Available at: <http://www.oecd.org/environment/cc/Green-Investment-Banks-policy-perspectives-web.pdf>



The Peerian Journal

Open Access | Peer Reviewed

Volume 12, November, 2022.

Website: www.peerianjournal.com

ISSN (E): 2788-0303

Email: editor@peerianjournal.com

Uzpromstroybank in the EBRD program on the Green Economy Financing Facility. Facility) with an EBRD credit line of up to \$25 million.⁵

The Green Economy Financing Facility (GEFF) is an EBRD credit facility for partner banks to refinance climate-friendly projects in line with the EBRD's global strategy to move towards a green economy, reduce greenhouse gas emissions and improve energy efficiency. In September 2021, Uzpromstroybank signed an agreement with the International Finance Corporation on a \$75 million credit line aimed at climate finance and increasing lending to small and medium enterprises (SMEs) in Uzbekistan in the proportion of 50/50.⁶

On June 20, 2022, the Intersectoral Energy Saving Fund under the Ministry of Energy of the Republic of Uzbekistan and JSCIB "Ipoteka Bank", cooperating in the direction of issuing green consumer loans, signed a General Agreement, according to which the Bank will issue a total of 54 billion soums of green consumer loans for the purchase of energy-saving technologies and equipment, including renewable energy sources, at the base rate of the Central Bank for a period of 5 years.⁷

In turn, the government is also actively seeking new sources of development finance, including through the introduction of innovative and non-traditional financial instruments. Thus, in July 2021, the Government of the Republic was the first in the CIS region and one of the first in the world to place government bonds aimed at targeted financing of the SDGs - Sovereign SDG Bonds. The volume of issue amounted to 2.5 trillion soums (about 235 million US dollars) at 14% for a period of 3 years²⁶. The funds received will be earmarked for the implementation of activities and projects aimed at achieving specific national SDGs, including the goals of "green" development.

As can be seen from the above overview, green instruments are very diverse, allowing to increase the opportunities for attracting investment in non-government enterprises, to receive financial benefits from green activities and to reduce/prevent pollution of our environment.

List of used literature

1. Decree of the President of the Republic of Uzbekistan "On approval strategy for the transition of the Republic of Uzbekistan to a "green" economy for the period 2019 - 2030" dated 04.10.2019 No. PP-4477
2. Porfiryev Boris Nikolaevich "green" factor of economic growth in world and in Russia // Problems of Forecasting. 2018. No. 5 (170). URL: <https://cyberleninka.ru/article/n/zelenyy-faktor-ekonomicheskogo-rosta-v-mire-i-v-rossii>
3. The Swiss Re Institute (2021). World economy set to lose up to 18% GDP from climate change if no action taken, reveals Swiss Re Institute's stress-test analysis
4. Transforming our World: The 2030 Agenda for Sustainable Development. United Nations, 2015.
5. Policy Brief: Green recovery and transition to Green economy in Uzbekistan. 2021.
6. "European Union - Central Asia: cooperation in the field of water resources, environment and climate change" (WECCOOP). <https://wecoop.eu/en/glossary/green-deal/>

⁵ <https://www.gazeta.uz/ru/2021/06/11/uzsqb/>

⁶ <https://mineconomy.uz/ru/info/3932>

⁷ <https://minenergy.uz/ru/news/view/1987>



The Peerian Journal

Open Access | Peer Reviewed

Volume 12, November, 2022.

Website: www.peerianjournal.com

ISSN (E): 2788-0303

Email: editor@peerianjournal.com

7. Press Office of the State Council of the People's Republic of China. White Paper China's Response to climate change: policy and action". 2021.
8. Shermukhamedov, A. T. Development of green economy in Uzbekistan / A. T. Shermukhamedov, B. M. Kholboev // Progressive technologies and processes: collection scientific articles of the 7th All-Russian Scientific and Technical Conference with international participation, Kursk, September 24–25, 2020. – Kursk: Southwestern State University, 2020. - P. 177.
9. Communication from the Commission. Action Plan: Financing Sustainable Growth. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097>