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GLOBAL TRENDS IN GREEN INVESTMENTS AND OPPORTUNITIES FOR GREEN FINANCING IN UZBEKISTAN

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Green finance constitutes financial investments to improve the environment. Such investments may include the facilitation and purchase of eco-friendly goods and services, the setup of green infrastructure, financing of carbon-neutral manufacturing, etc. Given the catastrophic state of the global ecology, such investments are gaining momentum and becoming mainstream, reflecting humankind's desire to contribute to environmentally positive activities that help mitigate climate change.

Why has green finance become so popular?

Green finance is getting to the mainstream of global finance and investment. Here are the causes of this sector's steady growth:

- **Understanding of global environmental problems that lead to climate change.** Humankind has exploited the planet's resources on the basis on an infinitely resource abundant world. The pace of extraction and exploitation has only grown since, leaving behind a fragile planet.
- **Desire to improve the environmental situation in the world**. Green finance initiatives align modern businesses around the motto of People, Planet and Purpose. They specifically support investment opportunities with a positive social and environmental impact. Business should ende up being both profitable, sustainable and societally-conscious.
- **Regulatory pressures.** European countries and the modern EU legislations are making the alignment to environmental protection central to the financing of businesses. Therefore, businesses of all scales are increasingly incentivised to transition to cleaner energy sources, adopt greater accountability practices for carbon footprint measurement and reduction, and make their operations sustainable.
- **Active UN policy on environmental issues**. The UN SDGs endorsed by its member states are also driving new behavior. Sustainability, which is a key SDG,

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is focused on reducing pollution, adopting clean energy technologies, and abandoning hazardous chemicals from industrial practices. Sustainable finance is compliant with SDGs and finds broad technical and financial support at the private and governmental levels.

- **Massive adoption of green finance.** While the US, UK and Europe are leading the drive towards sustainable finance, the developing countries are also gradually joining the movement.

Environmental or Green Finance began to gather roots in 2007, and has since witnessed an average annual growth of 230%. Official statistics suggest that in 2019 the green finance market worldwide totaled 528.9 billion dollars. Much of the demand originates in the US, UK and Europe. Both the governments in many countries and some of the largest companies, both in the public and private sector, are embracing green finance.

Investment opportunities in Green Finance

Green investments have helped launch a large variety of projects, distinguished by environmental safety and energy efficiency. Some investment sectors are shown below.

- **Development of a low carbon economy.** This sector covers investing money in the development of environmentally friendly transport (for example, electric cars). It may also include eco-friendlier manufacturing practices and energetics. The focus is to facilitate the transition to a low-carbon economy through sustainable land use and public transportation.
- **Development of renewable energy sources**. The focus is to provide financial support and technical guidance for projects using solar, wind, hydro, and geothermal power sources.
- **Green mortgages**. Green mortgages are issued to borrowers on more beneficial terms (with lower interest rates and with government subsidies), provided that the mortgage covers energy-efficient homes built in compliance with carbon-neutral requirements
- **Green banking.** Financial institutions also go green to raise their rating and customer trust, by managing fossil fuel-free portfolios for socially responsible investors. Such banks also provide carbon-neutral accounts with fixed monthly contributions to carbon footprint offsetting.
- **Pollution prevention and control**. Pollution poses an immense burden on humanity's efforts to offset climate change and protect the environment. The focus here is air and water pollution control projects, waste management initiatives, and hazardous chemicals' responsible disposal in developing countries,
- **Circular economy projects**. The principle of wise recycling and reuse is behind the circular economy concept, and many green finance actors have embarked on the task of creating truly circular economies to avoid natural resource overuse and curb pollution. The focus is supporting projects on renewable energy installation, recycling facilities' construction, and sustainable transportation.

- **Biodiversity and environment conservation.** Following the EU Biodiversity Strategy for 2030, investments in green and blue infrastructure are given national and international priority, with all kinds of solutions for agriculture and forestry, climate change mitigation, and disaster prevention supported through green finance channels.

Variety of Green Investment Vehicles

There are several green fund types to consider.

- **Green bonds**. These bonds are designed to finance environmental or climate-related projects, such as renewable energy, energy efficiency, biodiversity, carbon-neutral transportation, water management, etc. Classic examples are the EIB’s Climate Awareness Bond (2007) and World Bank’s green bond (2008).
- **Sustainability bonds**. These bonds finance mixed green and social projects. In most cases, these bonds finance SDG-compliant projects (UN’s sustainable development goals). This bond type includes corporate and financial SDG bonds, asset-backed SDG bonds, sovereign SDG bonds, and municipal SDG bonds.
- **Sustainability-linked bonds**. This innovative bond category has a fluctuating coupon rate depending on the issuer’s attainment of sustainability goals. The first bond of this type was issued by an Italy-based energy company ENEL in 2019; the ECB issued another SDG-linked bond in 2021, making it eligible for asset purchase programs and use as collateral.
- **Green loans**. These loans are disbursed to projects specializing in green issues, such as climate change, natural resource protection, biodiversity protection, etc. The loan is provided on privileged terms, and the borrower has to report their progress on a regular basis.
- **Sustainability-linked loans**. This loan type is a regular loan (it is given to companies not related to green projects). However, the premium a borrower pays to the lender is not fixed and depends upon the borrower’s attainment of ESG targets. In other words, if the borrower successfully progresses toward ESG fulfillment, they pay a lower or zero interest rate. The interest rate rises respectively if the borrower fails on the ESG pathway.
- **Blue bonds.** Governments and development banks typically finance such marine and ocean-related environmental projects and initiatives. An example of this instrument is the 2018 Seychelles Blue Bond, used to support businesses working on marine area protection and responsible fishery governance. .
- **Social bonds.** These bonds are designed for social impact, such as supporting social projects targeting food security, natural disaster relief, unemployment, and vulnerable populations. This bond type is still in a new variant in the world of sustainable finance, since the impact measures are long-term and hard to measure.

Implications for Uzbekistan

The Government of Uzbekistan has boldly and remarkably begun the journey toward a green economy transition, inspiring other countries faced with similar challenges. In the last five years, it has recalibrated its investment policies, realigned subsidies, and introduced incentives to spur climate investment, green standards and regulations. The Ministry of Economy and Finance (MEF and its investee companies, both the state-owned financial institutions (SOFIs) and state-owned enterprises (SOEs) and state investment funds such as the Uzbekistan Fund for Reconstruction and Development (UFRD) could play a significant strategic leadership role in the climate change arena, given the size of assets and access to finance. Uzbekistan’s SOEs dominate the energy, industry, agriculture, and transportation sectors. The MEF could set up a green strategy at the level of individual SOFIs or SOEs, including investment targets and ensuring disclosure of green portfolios and their outcomes. They could get the wheels moving, eventually transferring the responsibility and commitment to the private sector. They can also help coordinate and synergize efforts, incentives and capital across many participants in the green economy. Eventually, Green SOFIs and SOEs should have a multiplier effect, enabling green supply chains that are both agile and environmentally efficient. Entities such as the Entrepreneurship Development Company (EDC), Biznesni rivojlantirish banki JSC (Business Development Bank, BDB), and Uzbekistan Mortgage Refinancing Company (UzMRC) have already established themselves as green investment champions and can lead the way. SOEs in traditionally polluting sectors such as Uzkimyosanoat, a dominant player in the Uzbekistan chemical industry, and Issiqlik elektr stansiyalari, which operates aging fossil fuel power plants, could set examples for other industrial companies. On the financing side, the Uzbekistan Direct Investment Fund (UzDIF), the Uzbekistan Fund for Reconstruction and Development (UFRD) and the State Asset Management Agency (SAMA) could pave the way.

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