

THE IMPORTANCE OF GREEN FINANCE IN THE COUNTRY'S ECONOMIC DEVELOPMENT

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Annotation

This article discusses the role and importance of green finance in the country's economic development. Green finance is a financial system aimed at ensuring the development of the economy based on the principles of environmental sustainability. The article examines the main tools of green finance - financing renewable energy sources, the introduction of green bonds, and support for environmental projects. The experience of Uzbekistan is also analyzed and recommendations are made on ensuring sustainable economic development and ecological balance through green finance. This study provides scientific and practical foundations for expanding the use of green finance in the national economy.

Keywords

green finance, environmental sustainability, economic development, green bonds, renewable energy, sustainable development.

Introduction

Nowadays, the world economy is facing new problems and challenges. Climate change, rapid depletion of natural resources and environmental pollution are among the most important global issues. As a result of these processes, states and international organizations are forced to reconsider economic policy based on the principles of sustainable development. It is in such conditions that green finance has emerged as an important tool for ensuring economic and ecological balance.

Green finance means as a system of financial mechanisms aimed at organizing economic activity based on the principles of environmental sustainability. This

system is aimed at financing such areas as the development of renewable energy sources, ensuring environmental safety, waste recycling and the efficient use of natural resources. This type of finance is important not only in solving environmental problems, but also in ensuring the long-term stability of the economy.

According to the World Bank, climate change is costing the global economy more than \$1 trillion annually. In such circumstances, reconciling economic development and environmental protection is becoming a pressing issue. For example, under the Paris Climate Agreement, countries must significantly reduce their carbon emissions and achieve carbon neutrality by 2050. In this process, green finance is becoming increasingly important, as it can leverage the necessary investments to finance environmental projects and develop innovative technologies.

Currently, with the development of green finance, domestic and foreign scholars are conducting extensive research on this topic. In particular, Bhatnagar and Sharma²³ conducted a bibliometric analysis of the academic evolution of green finance and provided a clear overview of its development. Specifically, in their opinion, existing research on green finance can be divided into the following three categories:

Environmental sphere. Green finance plays an important role not only in improving environmental quality and reducing carbon dioxide emissions, but also in protecting the environment and mitigating climate change, and contributes to improving environmental integrity and achieving sustainable development goals.

Economic sphere. In addition to reducing foreign investment risks in countries, green finance mainly promotes green economic growth through technological innovation. In addition, in the process of addressing climate risks and realizing sustainable development goals, central banks of various countries should make full use of the role of green finance to maintain macro financial stability.

Corporate level. On the one hand, the effective use of green finance can optimize the investment strategies of enterprises and alleviate the financial constraints of green innovation. On the other hand, green lending policies can also limit the illiquid debt financing behavior of highly polluting firms. It is evident that scholars have conducted extensive research on the effectiveness of green finance implementation, have produced fruitful results, and have fully demonstrated the dual significance of green finance for economic development and environmental protection. However, in reality, it is difficult to find control and experimental

²³ Bhatnagar, S., Sharma, D., 2022. Evolution of green finance and its enablers: a bibliometric analysis. *Renew. Sust. Energ. Rev.* 162, 112405 <https://doi.org/10.1016/j.rser.2022.112405>.

groups with similar environmental conditions and the same trends, which may lead to biased conclusions in the study.

Literature review

Among modern studies in the field of “green” finance and economics, “green” growth and technological innovations, the works of several foreign scientists - P. Krugman, M. Mazzucato and K. Perez, K. Berensman - are leading. The work of N. Lindenberg and Russian scientists E.M. Zomonova, B.N. Porfireva, B.B. Rubtsova and co-authors ““Green” Finance in the World and Russia” is also of great importance²⁴. 2 Based on similar studies, it can be said that a single, agreed definition that would provide a complete understanding of “green” financing and “green” financial instruments has not yet been formulated. Currently, the areas of the economy to which the term “green” is added are becoming widespread, and green financial instruments are among them. However, green finance can be viewed from two perspectives. First, green finance can play a role in mitigating environmental damage, particularly the impact of climate change on the economic system and human society. Second, green finance can play a role as targeted finance to support green growth. Since green growth is a new paradigm for economic growth that combines environmental sustainability and economic growth, it is possible to conclude the discussion by emphasizing the need for financing from sectors of the economy to promote this idea.

Green finance involves attracting and effectively using financial resources to ensure environmental sustainability. The World Bank (World Bank, 2019) report considers green finance not only as an important tool for increasing economic efficiency, but also as a means to combat climate change. This concept encompasses the following areas:

- Financing environmental projects: renewable energy, waste recycling and natural resource management;
- Green bonds: a means of raising capital for the development of environmental infrastructure and technologies;
- Sustainable investments: directing capital to ensure long-term economic and environmental performance.

The Green Finance Study Group (2016) report²⁵, prepared by the G20 countries, presents green finance as a set of principles for reconciling economic sustainability and environmental responsibility. The report provides a detailed overview of international cooperation and the role of the financial sector in the transition to green finance.

²⁴ E.M. Zomonova (2015) Strategiya perekhoda k “zelenoj” ekonomike: opit i metodi izmereniya [The Strategy of Transition to Green Economy: Experience and Measuring Methods]. Novosibirsk, GPNTB SO RAN.

²⁵ https://g20sfwg.org/wp-content/uploads/2021/07/2016_Synthesis_Report_Full_EN.pdf

According to the University of California, Berkeley (2017), sustainable finance is the practice of creating economic and social value through financial models, products, and markets that are sustainable over time. It demonstrates the need to use a broad range of investments that take into account not only environmental aspects, but also social and governance issues.

Gilbert (2012): "Green finance is a broad term that can refer to financial investments in sustainable development projects and initiatives, environmental products, and policies that promote more sustainable economic development. Green finance includes, but is not limited to, climate finance, but also other environmental objectives, such as industrial pollution control, water sanitation, or biodiversity conservation, and financing for mitigation and adaptation, particularly those related to climate change: mitigation finance refers to investments in projects and programs that contribute to the reduction or avoidance of greenhouse gas (GHG) emissions.

Research methodology

The research methodology is based on a systematic and comparative approach to analyze the impact of green finance on the country's economic development and identify effective strategies in this direction. This methodology is aimed at studying economic, social and environmental indicators, analyzing existing problems and developing practical recommendations.

To develop the green economy, various financial instruments, including grants, loans and investments, are being attracted in cooperation with international financial institutions. The possibilities of financing green projects through the issuance of green bonds and other financial mechanisms are being explored. In addition, cooperation is being carried out with international organizations to study and apply international experience and knowledge in the introduction and development of green technologies. Special events and forums are also being organized to develop cooperation between the public and private sectors. In conclusion, the measures and tax incentives introduced in Uzbekistan to develop the green economy are being implemented to ensure environmental sustainability and support economic development.

In the modern economy, a number of green financial instruments have been introduced in Uzbekistan, and development trends are being implemented in the following areas: In particular, the government of Uzbekistan pays great attention to the development of renewable energy sources. In this regard, international investments are being attracted to implement solar and wind energy projects. For example, solar energy projects are being implemented in cooperation with companies from the United Arab Emirates and Saudi Arabia. In 2023, the "Green

Energy" strategy was adopted, which aims to obtain 25 percent of electricity from renewable sources by 2030, and this year several solar power plants with a total capacity of 1,000 MW were built and commissioned in Uzbekistan. As an example, as a result of projects implemented in cooperation with Masdar (UAE) and ACWA Power (Saudi Arabia), the volume of solar energy production in the country has significantly increased.

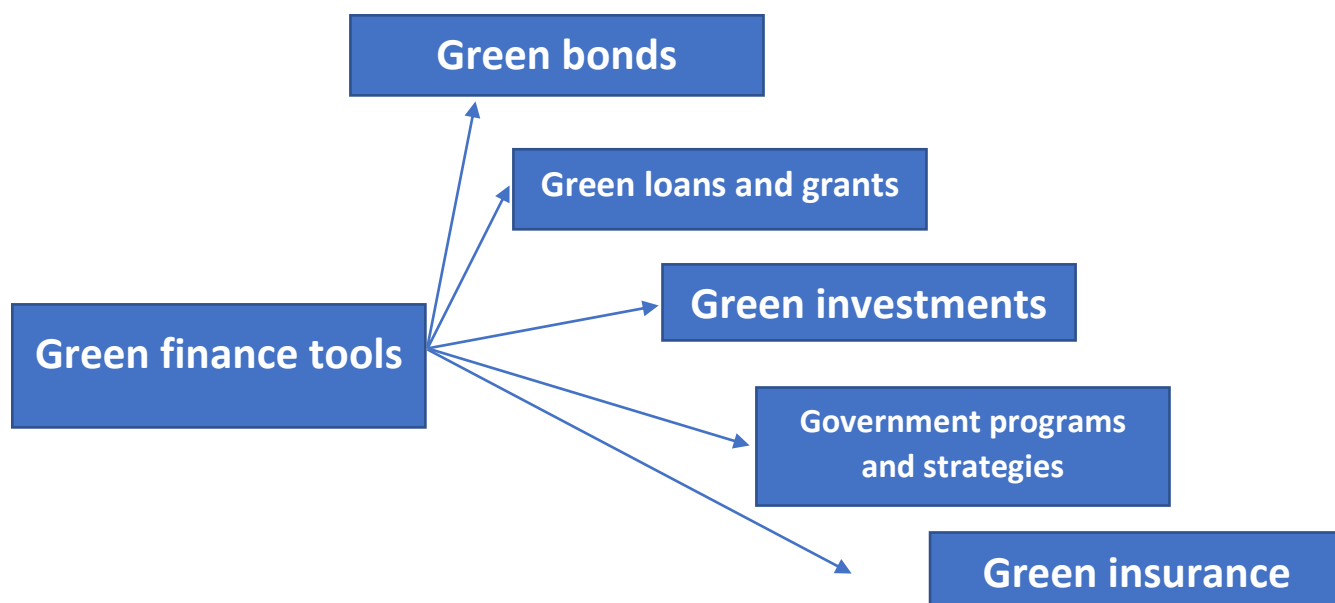


Figure 1. Green financial instruments currently available in Uzbekistan²⁶

Research outcomes

The current state of use of green finance in Uzbekistan reflects the country's efforts to achieve environmental sustainability and develop a green economy. In support of the green economy, the practice of issuing green bonds by the government of Uzbekistan and international financial institutions is expanding. In particular, in 2023, the amount of funds raised through green bonds in Uzbekistan reached 500 million USD. These funds were mainly directed to renewable energy, energy efficiency and waste recycling projects. We can cite as an example the funds raised through green bonds issued by the National Bank of Uzbekistan were directed to solar and wind energy projects. In addition, the number of green loans and grants provided by international financial institutions and the government to develop the green economy is increasing. In 2023, a total of more than 1 billion USD in green loans and grants were allocated. For example, 300 million USD was allocated for energy efficiency and renewable energy projects financed by the World Bank. In addition, the Asian Development Bank has mobilized \$200 million for waste management and water resources management projects. The

²⁶ <https://cedr.uz/2024/10/04/milliy-iqtisodiyotda-yashil-moliya-instrumentlaridan> foydalanishning-joriy-holati-tahlili/

opportunities for protection against environmental risks through green insurance are expanding, including the introduction of investment insurance services for renewable energy projects. The government of Uzbekistan is increasing its investment in green investments, namely renewable energy, energy efficiency, and waste management.

In 2023, the volume of green investments exceeded 2 billion USD. Solar and wind energy projects implemented in Uzbekistan by Masdar (UAE) and ACWA Power (Saudi Arabia) will involve a total investment of more than 1 billion USD. The use of green financial instruments is expanding through the Green Energy Strategy and other environmental programs adopted by the Government of Uzbekistan. The goal is to obtain 25% of electricity from renewable sources by 2030. A number of projects are being implemented within the framework of the Green Energy Strategy adopted by the Ministry of Energy of the Republic of Uzbekistan, including the construction of solar and wind power plants. The current state and prospects for the use of green financial instruments in Uzbekistan will help the country achieve its goals of environmental sustainability and development of a green economy. International cooperation and financial support will play a significant role in this process.

Conclusion

The current state of use of green financial instruments in Uzbekistan and their impact on the national economy make the use of green financial instruments in such areas as renewable energy, energy efficiency, waste recycling, and support for green vehicles relevant. Also, the banking sector and the government in Uzbekistan are increasingly paying attention to ESG (Environmental, Social and Corporate Governance) principles. In particular, Ipotekabank and Asakabank have introduced green loans, while the state is attracting financial resources for sustainable development through green bonds. Funds allocated by international financial institutions, including the World Bank and the Asian Development Bank, play an important role in this process. Green fiscal policy has been introduced in Uzbekistan in the form of tax incentives and subsidies for environmental projects. In particular, tax incentives for renewable energy sources and environmentally friendly technologies contribute to the ecological transformation of the economy. In conclusion, the expansion of green finance instruments and the green policies adopted by the government will create a foundation for the sustainable development of Uzbekistan. It will highlight the importance and potential of green finance in the country and set strategic directions for future growth.

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