

## Principles of Green Economy Financing

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**Abstract:** This article describes the creation of an investment and innovation environment for the green economy in our country and the development of ways to attract foreign institutions and domestic investments, increase the importance of the state in financing the green economy and have a positive effect on the country's economy.

**Key words:** Green energy, green bond, finance, financing, financing instruments, green economy financing mechanism (GEFF), green finance (GF), investment, innovation, sources of financing, state budget.



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### Introduction.

At a time when production and entrepreneurship are flourishing in the new Uzbekistan, sufficient attention is also being paid to the green economy. In particular, in order to reduce environmental damage and improve the well-being of the population, the Resolution of the President of the Republic of Uzbekistan “On measures to increase the effectiveness of reforms aimed at the transition of the Republic of Uzbekistan to a “green” economy by 2030” [1] places great emphasis on accelerating measures to transition to a “green” economy and promoting a “green” and inclusive economic growth model.

In addition, it is worth noting that the Resolution of the President of the Republic of Uzbekistan “On Approval of the Strategy of the Transition of the Republic of Uzbekistan to a “Green” Economy for 2019-2030” [2] sets out the goals of supporting “green” investments, introducing a “green” lending and venture financing system, creating “green” funds, special energy efficiency funds and other similar mechanisms, activating the private sector in financing projects for the transition to a “green” economy, as well as encouraging the banking system to “green” investments, and supporting the sustainable growth of the “green” economy through fiscal policy. This, in turn, indicates that financing the green economy is currently the main link in the economy and we can see that it is one of the topical issues of today.

## Literature review.

In the course of research on this topic, the works of many scientists have been studied. In particular, in his study entitled “Empirical Evidence on the Effectiveness of Environmental Taxes” [3], written by B. Morley, covering the years 1995-2006, he does not observe a significant relationship between taxes and energy consumption. However, he identifies a significant negative relationship between environmental taxes and pollution. He concludes that environmental taxes clearly determine the target level of pollution. However, in his article entitled “Channels of Transmission of Environmental Policy to Economic Growth: A Survey of the Theory” [4], F. Ricci expresses the following opinion about environmental taxes. “...pollution taxes increase the price of polluting goods and firms prioritize R&D investments and the development of new technologies to reduce polluting emissions.” [4].

In the article “Green finance in circular economy: a literature review”[5] by B. Kumar, “Green finance is more related to financial instruments, mechanisms, technological innovations, and policy and regulatory frameworks. Green finance also has a positive impact on improving the industrial structure, environmental control, and higher economic growth components.”[5] According to scholars, the future of green finance is determined by its investment potential.

In their article “Green bond as a new determinant of sustainable green financing, energy efficiency investment, and economic growth: a global perspective”[6], Y. Ning and J. Cherian argue that the key principles for setting promising goals for the implementation of green financing and achieving the goal are “...green financing policies, green investments and green financing instruments (e.g. green bonds), paying special attention to the energy sector transition process, as well as identifying the best options for policymakers through theoretical and empirical discussions of current obstacles and opportunities, and expanding the green climate fund,”[6]. With this, scientists explain that the main principle of financing the green economy is the green bond.

In their study of how environmental tax reform affects pollution, scholars such as A. Bovenberg and R. Mooij, in their article “Environmental Tax Reform and Endogenous Growth,” discuss two principles that can enhance tax reform: “...first, environmental taxes should be introduced without reducing the overall efficiency of the economy and that taxes should be designed to ensure an efficient allocation of resources in the economy. Second, when environmental taxes are introduced, it is important to maintain the international competitiveness of the national economy. If the tax burden is high, companies may move abroad or investment may decrease.”[7] Scholars consider tax reform in financing a green economy and explain the importance of determining the optimal level of taxes.

## Research methodology.

In the course of this article, a number of methods were used in research on the development of the green economy in order to eliminate the financing problems of the green economy. In particular, economic methods such as analysis and synthesis, systematic analysis, as well as comparison and scientific abstraction methods were used, based on a monographic analysis of foreign experience and literature on the subject.

## Analysis and results.

If the need to transition to a green economy arose in Uzbekistan due to the increase in the population and the number of production enterprises, then financial problems are now arising in the implementation of “green” technologies in the green economy. Practical, promising measures are being taken to eliminate these problems. In particular, the Green Economy Financing Mechanism (GEFF) established in our country provides financial assistance to private sector enterprises to increase their competitiveness using highly efficient technologies and practices. It provides instructions on how to use it. It offers financial support for green economy initiatives in

the residential sector and enterprises that propose the use of energy-efficient household appliances and renewable energies in homes.

GEFF facilitates this transition process in Uzbekistan by supporting green technologies, namely:

- ✓ minimizes energy use;
- ✓ generates energy from renewable sources;
- ✓ protects water resources

GEFF is supported by a dedicated team of consultants in Uzbekistan, consisting of engineers, environmental, financial and marketing specialists. They provide partner banks and their clients with direct support and advice throughout the life of a green project using the best technologies. The technical assistance package for clients is free of charge.

Technical assistance is provided by the local GEFF team, which assists companies at various stages of project development, investment appraisal and implementation. This helps to identify the best solutions and successfully finance quality green economy projects.

In addition, our government is implementing tax relief, preferential loans, subsidies and subventions for the activities of institutions financing the “Green” technological process. In particular,

- ✓ “Green” loans;
- ✓ “Green” bonds;
- ✓ “Green” investment funds;
- ✓ Carbon exchanges;
- ✓ Asset-backed securities;
- ✓ Green companies;
- ✓ “Green” banks are among them.

For information, it can be said that sufficient budgetary and extra-budgetary resources have been allocated to finance environmental and economic development. In particular, the Silk Road Bank opened a \$ 5 million credit line from the EBRD to finance private companies in the green economy [8].

The question is how can we improve the practice of financing the “Green” economy in Uzbekistan? In our opinion, this can be achieved by improving the following processes:

- The review of the regulatory framework should include financial regulation for environmental protection. This includes developing clear definitions of green investments or optimizing the permitting processes for renewable energy projects.
- State incentives can play an important role in offering tax breaks, subsidies and loan guarantees for “green” enterprises. By phasing out fossil fuel subsidies, funds can be directed to sustainable alternatives.
- Financial innovations are needed to attract private capital to “green” projects. This includes developing “green” bonds that attract capital for environmentally friendly projects or creating insurance schemes that reduce the risks associated with “green” investments.
- Public-private partnerships, collaboration are important. Public funds can be used to reduce the risk of green projects, making them more attractive to private investors. This will undoubtedly free up significant private capital and accelerate the transition to a green economy.

- A common “analysis” is needed for green finance through standardization and transparency. That is, the creation of standardized systems for assessing the environmental impact of investments will allow investors to compare green projects more effectively. In addition, increasing transparency in the use of funds will increase trust and attract additional investment.
- To increase capacity, it is crucial to accumulate experience in assessing and managing green investments. This includes helping financial institutions and enterprises identify and finance green projects.
- Public green investments. The government plays a crucial role in increasing public investment and mobilizing innovative financial instruments for the green transition. In 2021, Uzbekistan issued bonds worth US\$870 million to finance activities to achieve the Sustainable Development Goals (SDGs). These goals include, among others, land restoration, development of “green” transport, launching the “Green Sukuk” mechanism, financing energy efficiency projects and other innovations (Ministry of Finance). However, according to the new development strategy for 2022–2026, these activities, which require additional funds, are not enough for the “green” transition. International experience shows that countries should be able to mobilize financial resources in the amount of 6 percent of gross domestic product (GDP) to achieve the goals of the Paris Agreement. It is important to attract both public and private investment and reduce the risk of climate change for previously planned investments [9].

Green finance can be viewed from two perspectives. First, green finance can play a role in mitigating environmental damage, especially 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 of economic growth that combines environmental sustainability and economic growth, it is necessary to finance it from sectors of the economy to promote this idea [10].

### **Conclusions and suggestions.**

In conclusion, the main focus of the discussion of the principles of financing the Green Economy is on solving environmental problems. In this process, the introduction of green technologies, the development of the investment climate, the optimization of financial resources and the role of the state are important. The results of the study show that increasing the participation of the private sector through the development of green bonds and funds, expanding state benefits and introducing financial innovations will increase the efficiency of the transition to a green economy. Also, programs aimed at harmonizing environmental sustainability and economic growth will yield positive results for the national economy.

Based on the conducted research and analysis, we believe that in order to fully implement the priority areas identified in the process of transition to a green economy and to finance green projects in each sector, we should pay attention to the following:

Firstly, in order to solve the problems arising in the process of transition to a green economy in the country, it is necessary to radically change the methods of economic development processes, achieve a low-carbon level in all sectors, introduce efficient and environmentally friendly technologies, rationally use natural and energy resources to achieve resource conservation, and accelerate energy reform.

Secondly, in order to achieve the goals of socio-economic development, it is necessary to enrich the financial market with a range of green instruments and develop it on the basis of free, healthy competition.

Thirdly, through the projects planned for financing, it is possible to increase competitiveness and improve performance in the most important sectors, achieve the creation of green jobs in the process of transition to a green economy, reduce poverty, create jobs and train skilled personnel, and achieve macroeconomic goals.

Fourthly, it is possible to ensure investment attractiveness by introducing and effectively using green instruments.

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