WAYS TO FINANCE INVESTMENT PROJECTS BASED ON THE GREEN ECONOMY

Isokulova Muniskhon Abdurasulovna
Doctoral student of the Academy of Public Administration under the President of the Republic of Uzbekistan

Abstract. This article indicates an assessment of the level of development and structure of green financing, as well as the identification of factors determining its development, taking into account the latest trends in the global economy. Furthermore, it analyzes the state and trends of the green financing market, identifies obstacles to the development of green financial instruments and suggests directions for solving emerging problems. The article highlights the need to stimulate the use of green financing instruments, the development of a legal framework in the field of sustainable development, which will ensure the harmonization of policies and standards for green financing not only at the national but also at the global level.

Keywords: green financing, sustainable development, green bonds, green loans, green investments.

As the severity of global warming caused by climate change has emerged as a key issue in world politics and economy, many developed countries have made efforts to respond actively to climate change. As part of these response efforts many advanced countries have established and implemented mid-to-long-term greenhouse gas reduction policies through the international gas reduction agreement and the establishment of national energy reduction goals. In addition, the green life practice movement, which seeks to promote economic development by utilizing green technology as a new growth engine and achieve low-carbon and eco-friendly environments in the daily lives of economic entities, is also actively developing.

While it is virtually difficult to achieve the goals of economic growth and environmental conservation simultaneously under traditional economic growth theory, it is possible to promote eco-friendly economic growth through the introduction of a new growth paradigm called green growth, a low-carbon focused growth strategy through the development of green technology.

The increase in social welfare through low carbonization and green industrialization can be explained economically. Specifically, it is possible to increase the welfare of society as a whole by protecting the environment and emphasizing green growth through factors such as improving the quality of life through environmental conservation, economic incentives and social environmental protection motivation. For example, let us look at the case where you want to use solar power at home. Despite the considerable installation and maintenance costs pointed out, the first reason to use renewable energy is the desire to live in a healthy environment beyond economic benefits and losses due to individual environmental preferences. It means that personal desires exist inherently. The second reason is the pursuit of economic benefits by economic entities with renewable energy.

In other words, as recourses become scarce due to the depletion of natural resources, the price of energy such as oil is rising rapidly, so there is a strong economic incentive to reduce energy-related costs, including electricity bills, with renewable energy at home. In reality, installing these energy consumption reduction facilities and establishing a system for efficient use has a significant impact on housing prices. The last reason is social environmental protection motivation (social influence). The importance of environmental conservation is emerging as an international topic through the Kyoto Protocol in 1997 and the Copenhagen Conference in 2009. Therefore, in addition to the environmental protection efforts, individual economic entities can also make green growth efforts, thereby improving national prestige through improving the national image and seeking to increase the welfare of the entire nation.

Among of them, green financing especially plays an important role in the global financial system for achieving the UN Sustainable Development Goals, adopted in 2015 in the interests of future generations to ensure sustainable development of humanity based on the implementation of three key components: economic growth, social integration of society and environmental protection.

The American economist Richard Sandor first used the term “green financing” in 1992 in a course given at Columbia University. In his opinion, green financing, which primarily provides for the financing of projects that prevent climate change, could become the main driving mechanism for reducing greenhouse gas emissions into the atmosphere and the transition to more sustainable and environmentally friendly economic growth.

Various instruments are used to finance green projects, among which are green bonds, green funds, green loans, green investment programs, green accounts and green insurance products. Each of them has its own advantages and disadvantages and are usable for finance different types of green projects.

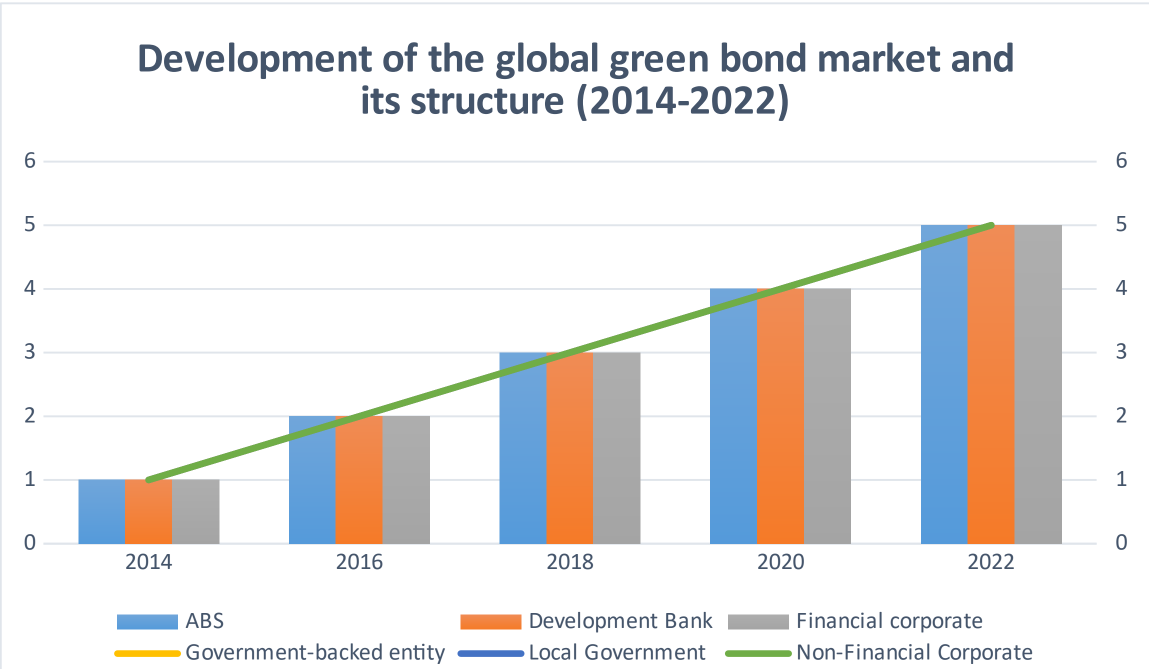
However, despite the fact that green financing is a promising and important tool for achieving sustainable development, it has its limitations. They are high costs, limiting its availability for small and medium-sized enterprises; the lack of transparent standards for green investments, causing problems with assessing the effectiveness of green projects; difficulties in taking into account all the environmental and social consequences of projects.

A significant event in the field of green financing was the launch of the Finance Initiative of the United Nations Environment Programme (UNEP) at the UN Conference on Environment and Development, held in 1992. However, during the 1990s, there was no significant greening of financial markets.

The concept of “green financing” was formed in the West at the beginning of the 21st century due to the realization by scientists and politicians that business should not only make a profit, but also be responsible to society for the state of the environment. In the modern world, much attention is paid to the concept of low-carbon development, aimed at reducing greenhouse gas emissions and overcoming the consequences of climate change while simultaneously achieving the Sustainable Development Goals.

In 2017, the European Commission defined green finance as “investments that promote environmental sustainability and generate economic growth. It includes investments in projects that reduce greenhouse gas emissions and combat climate change, as well as projects to preserve biodiversity and ensure sustainable resource management”. According to the EC, green finance should be a tool to achieve the goals of the Paris Agreement on climate change and to promote sustainable development and the transition to a low-carbon economy. It can also contribute to the development of new technologies, increase the competitiveness of companies and create jobs.

Over the past decade, global finance for green projects has increased more than 100 in the world. The share of green finance in total financing has been steadily increasing: in 2012 it was about 0.1%, in 2021 it was more than 4%. According to research conducted by The City UK and BNP Paribas, global loans through green bonds, loans, and equity financing through initial public offerings (IPOs) focused on green projects were valued at US$540.6 billion.



In 2021, green finance volumes continued to grow despite the adverse economic conditions associated with the COVID-19 pandemic.

In order to make green finance more accessible and effective, unified standards for green investments must be developed, stricter requirements for companies and projects must be established, and greater transparency and accountability must be ensured.

One of the main instruments that is used to finance green projects is green bonds. Green bond are a type of debt instrument specifically designed to finance projects that have a positive environmental or social impact. They are similar to traditional bonds in terms of structure and risk-return profile, but differ in how they allocate proceeds to support environmental goals. By issuing green bonds, issuers can demonstrate their commitment to environmental responsibility while reaching a growing pool of investors interested in sustainable finance. Investors benefit from green bonds by diversifying their portfolios, enhancing their reputation, and making investments that align with their values. The environment benefits from green bonds by providing more funding for projects that mitigate climate change, conserve natural resources, or improve social welfare.

The Green Bond Principles are intended to support bond issuers in their efforts to finance environmentally sound and sustainable projects that promote the transition to a carbon-neutral economy and contribute to environmental protection. Bonds issued under the Green Bond Principles must transparently communicate that the project qualifies as green in addition to providing an investment opportunity. The Green Bond Principles significantly improve the transparency of bonds by requiring bond issuers to report on the use of green bond proceeds, thereby enabling issuers to determine whether the proceeds are being used for environmental projects, while also raising awareness of the expected impact of environmental projects.

The scale of the green transition in Uzbekistan requires a significant increase in private financing to fill the existing financing gap. The disproportionately large role of the state in Uzbekistan's economy and the underdevelopment of the domestic capital market are significant constraints and require diversification of sources of financing for the green transition. Since 2021, Uzbekistan has made green bonds a central part of its strategy to fill the financing gap and mobilize new sources of capital for its green infrastructure projects.

In order to make green finance more accessible and effective, unified standards for green investments must be developed, stricter requirements for companies and projects must be established, and greater transparency and accountability must be ensured.

References:

1. Sandor R.Good derivatives: a story of financial and environmental innovation. Hoboken: John Wiley & Sons; 2012, 640 p.
2. David Gilchrist, Jing Yu and Rui Zhong. The limits of green finance: a survey of literature in the context of green bonds and green loans. Sustainability. 2021;13:478.
3. Rovinskaya T. L. The European green movement in times of crisis: New approaches. Analiz i prognoz. Zhurnal IMEMO RAN = Analysis and Forecasting. IMEMO Journal. 2021;(4):24–33. (In Russ.).
4. Krylova L.V., Prudnikova A.A., Sergeeva N.V. New uses of green finance tools as a factor of market development. Ekonomika. Nalogi. Pravo = Economics, taxes & law. 2022;15(5):90–100. (In Russ.).
5. Better Growth. Better climate: the new climate economy synthesis report. the global commission on the economy and climate. Washington DC: World Resources Institute; 2022, 71 p.