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## **WHY UZBEKISTAN SHOULD ADOPT ESG IN CORPORATE GOVERNANCE**

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### **Abstract:**

In the context of global economic transformation and rising investor awareness, Environmental, Social, and Governance (ESG) standards are becoming critical benchmarks for corporate responsibility and performance. This thesis argues for the urgent need for Uzbekistan to adopt ESG principles in corporate governance to ensure sustainable development, attract foreign investment, and enhance market competitiveness. While Uzbekistan has committed to ambitious environmental and social targets — including a 40% renewable energy share and a 30% reduction in greenhouse gas emissions by 2030 — actual corporate alignment with these goals remains low. Integrating ESG into governance frameworks can bridge this gap by formalizing transparency, risk management, and accountability mechanisms in both public and private enterprises. The issuance of green bonds in 2023 signals progress, yet broader regulatory and institutional adoption is needed. ESG implementation not only strengthens corporate governance but also provides a pathway for Uzbek companies to integrate into responsible global supply chains and secure long-term growth. This paper explores how adopting ESG frameworks can catalyze systemic change across industries, support the country's green transition, and position Uzbekistan as a credible and resilient emerging market.

**Keywords:** ESG, corporate governance, Uzbekistan, sustainable development, environmental standards, social responsibility, green economy, renewable energy.

Over the past two decades, Environmental Social and Governance (commonly known by its abbreviation ESG) factors have become much more prominent as key determinants of corporate governance or when considering investment decisions.



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This paradigm shift reveals an increased awareness of the inherent interconnectedness between business, society and environment and understands that sustainable value creation only works if balancing all stakeholder interests simultaneously.

In the rapidly developing global economy, it is becoming increasingly important for investors that every company or organization complies with ESG standards — E for Environmental, S for Social, and G for Governance. ESG represents a set of non-financial indicators used to measure a company's impact on the environment and society, and to assess its adherence to sound management and corporate governance principles.

The environmental dimension evaluates factors such as energy consumption, emissions of air pollutants, waste generation, and the transition to renewable energy sources. The social dimension assesses aspects like product safety, customer satisfaction, labor relations, working conditions, gender balance, and corporate contributions to social projects and charities. The governance dimension focuses on the company's structure and governance mechanisms, including transparency of reporting, risk management, internal controls, anti-corruption measures, the accountability of boards of directors, and healthy shareholder relations.

In recent years, Uzbekistan has made a clear commitment to move towards a green economy and sustainable development. According to the Uzbekistan 2030 Strategy, the country aims to increase the share of renewable energy in total consumption to 40% (25 GW) and to reduce greenhouse gas emissions by 30% compared to 2010 levels. The concept of a circular economy, which promotes sustainable consumption and production cycles, is integrated into Uzbekistan's Green Growth Strategic Framework for 2019–2030 and the Solid Waste Management Strategy for 2019–2028. For example, Uzbekistan has set targets to recycle 60% of total solid waste generated and to separately collect at least 25%.

However, despite these ambitions, the World Bank has reported that only about 10% of companies in Uzbekistan take environmental factors into account when planning their business, and only 8% clearly define their role in solving these issues. This shows that Uzbekistan's business sector still has significant work to do to align with international sustainability standards. To encourage greater responsibility and



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innovation, the World Bank recommended gradually reducing the dominant role of the state in the economy to stimulate market-based sustainability solutions.

An important milestone in Uzbekistan's green finance policy was the country's first issuance of international sovereign green bonds in October 2023, raising 4.25 trillion UZS for three years — a move that signals growing government and investor commitment to sustainable projects.

A strong national ESG standard will directly strengthen corporate governance practices in Uzbekistan. Good governance is not only about compliance but about building clear, transparent, and accountable management systems. For many Uzbek companies — especially state-owned enterprises and rapidly growing private businesses — ESG adoption is an opportunity to formalize governance structures, improve board oversight, strengthen internal controls, ensure transparent reporting, protect shareholder rights, and embed anti-corruption practices.

This link is crucial for attracting international investors. For example, companies planning an IPO or aiming to access foreign capital markets will increasingly need to demonstrate robust ESG performance — with governance as the backbone that ensures environmental and social policies are credible and enforceable.

After 2016, Uzbekistan experienced rapid economic growth often described as “wild capitalism,” which led to significant environmental damage, air pollution, and poor ecological stewardship. Many experts agree that if ESG standards had been implemented earlier, some negative impacts could have been avoided. As Uzbekistan moves toward its target of carbon neutrality by 2060, clear ESG principles will prevent repeating these mistakes by defining key performance indicators (KPIs) for sustainability and requiring companies to report and improve against them.

Global practice shows that large international investors and trading partners — particularly in Europe — now expect suppliers to comply with ESG standards. Companies that fail to adapt may lose access to valuable export markets or be excluded from responsible supply chains. Conversely, Uzbek businesses that embed ESG will gain a competitive advantage, secure more stable and long-term investment, and build trust with foreign partners.



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Uzbekistan's sustainable development goals depend not only on policies but also on the active engagement of all economic sectors. The carbon-intensive industries — oil and gas, metallurgy, construction, and transport — will face increasing regulatory requirements for decarbonization. The financial sector is already becoming a driver for sustainability by developing green financial products such as green bonds, preferential loans, and sustainable mortgages.

To ensure broad participation, the government is also expected to combine stricter environmental regulation with incentives such as tax benefits, financial support for renewable energy projects, and programs that encourage investment in low-carbon technologies.

In conclusion, adopting a national ESG standard is a critical step for Uzbekistan to accelerate its transition to a green, resilient, and competitive economy. ESG will help systematize sustainability assessments and non-financial reporting, especially for small and medium-sized enterprises that make up a large part of the national economy. By promoting energy efficiency, responsible resource use, recycling, and green innovation, Uzbekistan can reach its renewable energy and decarbonization targets.

Crucially, strengthening the governance dimension will ensure that environmental and social goals are implemented effectively through transparent, accountable corporate structures. This will improve management quality, reduce risks, attract international investors, and build public trust — positioning Uzbekistan as a credible partner in the global market and securing economic and environmental well-being for future generations.

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