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IMPACT OF LENDING IN GREEN ECONOMY DEVELOPMENT AND ROLE IN ENSURING SUSTAINABLE DEVELOPMENT

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Abstract:
This article examines the role of lending for environmentally sustainable projects in advancing the goals of sustainable development. It explores the economic, financial, environmental, and social benefits of green financing, as well as the associated risks that may undermine its effectiveness. The study highlights the importance of green finance instruments, including loans, bonds, and investment funds, in facilitating the transition to a green economy while maintaining financial stability and promoting long-term economic resilience.

Keywords: Green finance, green lending, sustainable development, financial security, renewable energy, climate change mitigation, environmental risks, green bonds, Uzbekistan green economy, risk management

Introduction:

Today, as the world's population grows rapidly, the negative impact of its economic and social activities on nature is increasing accordingly. In particular, in 2024 alone, the average annual global temperature rose by 1.55°C, recording the record for the hottest year in history,[1] resulting in an average of 41 days of dangerously hot days worldwide due to human activity in 2024, as well as a decrease in the Greenland ice cover by 400 gigatons. In addition, according to the 2024 Living Planet report, wildlife populations observed from 1970 to 2020 declined by an average of 73%, specifically with a potential threat to nearly 25% of today's marine life. [2] It adds that air pollution caused 8.1 million deaths globally in 2021, with children being the second leading risk factor.

Since natural resources form the basis of existing economic processes, most industries are affected by the detrimental effects on ecology and the environment. This will lead to a wide range of economic, financial, and environmental threats.

Globally, ensuring economic and financial security is one of the pressing issues, in which the role of environmental sustainability is increasing. The deterioration of the ecological situation can lead to the depletion of resources, climate change, and other undesirable consequences, which seriously threaten the robustness of existing economic and financial structures. Under such conditions, "green financing" instruments will play an essential role in strengthening economic and financial security.

In a green economy, financial security is understood to ensure the stability and efficiency of the economic system in the pursuit of environmental sustainability. This means that not only must the monetary system itself be sustainable, but it must also support the transition to a green economy.

Green finance refers to a set of , mechanisms, financial instruments, and strategies that provide financial resources for projects aimed at enhancing environmental sustainability. This approach aims to restore and maintain ecological potential, increase the use of renewable and alternative energy sources, mitigate the adverse effects of climate change, manage waste effectively, and protect water resources. Today, green financing instruments include green bonds, green loans, green funds, insurance, and grants.

According to the article titled "Principles, Priorities and Pathways for an Inclusive Green Economy" published at the UN Forum on Sustainable Development on July 16, 2019, the five main principles of the green economy are outlined: [3]

1. The principle of well-being. The primary objective of the green economy is to enhance people's living standards and well-being, promote economic growth, develop infrastructure, prioritize social concerns, and generate new employment opportunities.

2. The principle of fairness. At the same time, a green economy implies creating fair and equal opportunities for all, ensuring rational use of resources, protecting vulnerable segments, and taking into account the interests of future generations.

3. The principle of planetary boundaries. A green economy is not only about protecting the environment; it actively restores and invests in nature while recognizing its economic, social, and environmental value. It focuses on a circular economy approach and also recognizes the irreplaceable value of natural resources.
4. The principle of efficiency and sufficiency. A green economy must make efficient use of resources and ensure sufficiency in production and consumption processes. This includes conserving energy, reducing waste, adopting recycling technologies, and changing consumer culture. It also includes mechanisms such as "polluter pays" to align prices with the actual social costs of production.
5. The principle of effective management. A green economy must have a transparent, accountable, and participatory governance system. This means ensuring the participation of all stakeholders in decision-making processes, ensuring the rule of law, combating corruption, and ensuring the availability of environmental information.

Large-scale development of the green economy is also being done in the country. Thus, we can see the adoption of the Decree of the President of the Republic of Uzbekistan from April 21, 2017, No. UP-5024 "On improvement of the system of public administration in the field of ecology and environmental protection", the Resolution of the Cabinet of Ministers of January 15, 2019, No. 29 "On State Committee of Ecology and Environmental Protection of the Republic of Uzbekistan".

In addition, the Uzbekistan-2030 strategy, adopted on September 11, 2023, at the initiative of the head of the country, includes such areas as the development of renewable energy sources, increasing energy efficiency, adapting to climate change and reducing emissions, environmental modernization of industry, improving energy efficiency in the housing sector, and the development of green financing.

Every day, the volume of green financing instruments in our country is increasing. October 7, 2024 – Agrobank JSCB, with the technical support of the Global Green Growth Institute (GGGI), issued on the London Stock Exchange a 5-year green Eurobond with an internationally confirmed value of USD 400 million and a 2-year bond in the amount of 700 billion sums. The Global Green Growth Institute (GGGI) plans to attract USD 1 billion in green investment through green infrastructure and

sustainable projects in Uzbekistan from 2024 to 2028 [4]. The government plans to invest $ 1,3 billion in projects to generate energy from waste. These projects aim to convert 4.7 million tons of solid waste annually into 2.1 billion kilowatt-hours of electricity.

The total amount for financing green projects by banks and international financial institutions in Uzbekistan in 2024 is approximately $1.8 billion. Credit and investment funds were directed to the Kyrgyz Republic. In particular, the European Bank for Reconstruction and Development will contribute $528 million, including $20 million for Silk Road Bank, $10 million to Ipotekabank and Hamkorbank, and $250 million from the Asian Infrastructure Investment Bank.

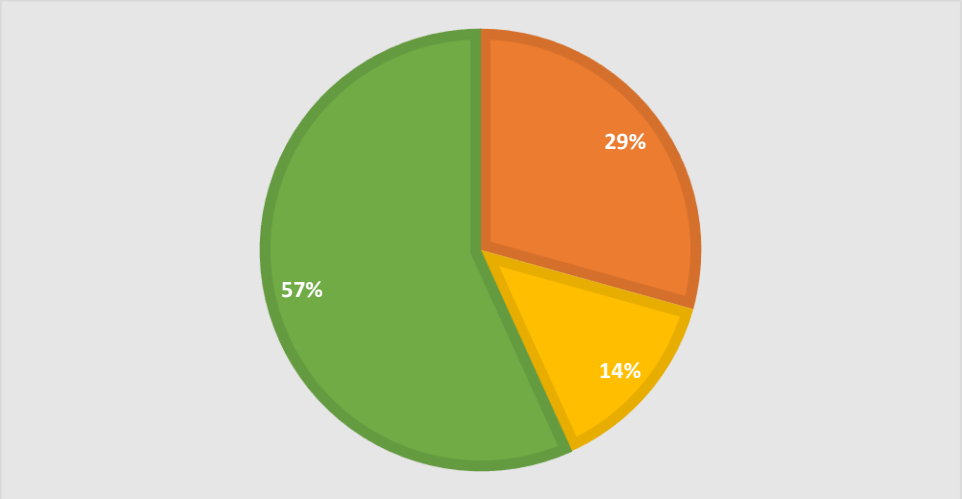

Figure 1. Sources of green financing

In addition, starting from July 1, 2025, loans will be allocated in Uzbekistan to finance projects of energy service companies (ESCOs) within the framework of the Green Repair Project at the expense of funds allocated to banks by the National Energy Efficiency Agency. The program aims to improve people's living conditions and comfort by supporting funding for energy-efficient renovations. Improving energy efficiency is expected to result in lower electricity and gas costs, as well as reduced carbon dioxide (CO2) emissions. Loans are provided for up to 10 years in amounts of up to 170 million.

However, we are aware that even when we lend and/or invest, we always face various risks. In a green economy, the level of risk may seem lower, but dangers still constitute a significant portion of any funds being directed, and for green loans, the following may be their mainstay.

Risk of not returning. One of the main factors contributing to the existence of this type of risk, as with the remaining types of loans, is that green loans are not sufficiently diversified. According to the World Bank's Climate and Development Report for Uzbekistan in 2023, Uzbekistan ranked first among four countries in terms of the number of enterprises investing in the green sector.

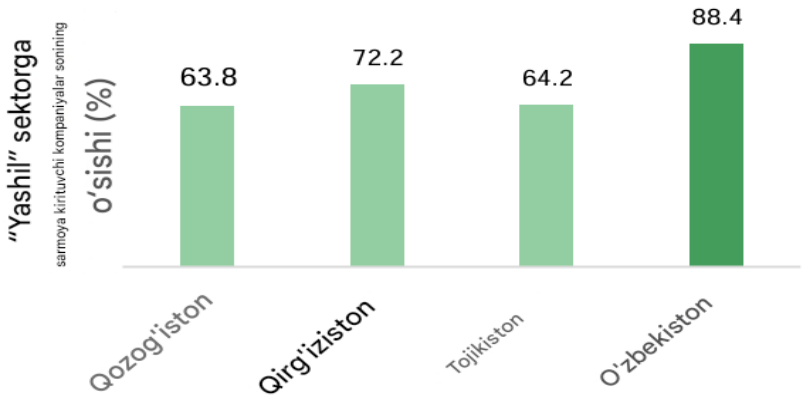

Figure 2. The enterprises that have invested in the green sector in Central Asia [5].

It is indeed gratifying that almost 90% of national enterprises are directing funds to the green sector. Still, so far, the energy-intensive industries that have received loans have not repaid the loans (almost 36%). Otherwise, many sectors of the green economy will be adapted to save costs rather than to generate revenues, and most projects may be deemed inefficient as a result of high inflation and low profitability.

Financial risk. Green loans are typically long-term, with a longer repayment period. This creates risks, including financial problems, insolvency, and debt accumulation. The liquidity problem poses a significant risk to banks. If the interest rate on the loan is high, it can exacerbate the situation.

Market Risks. Demand for green products and services is generally low, which reduces the return on investment. Changes in energy prices, carbon prices, or the

subsidy system can disrupt market stability. Competition in the market for green technology is not intense, which increases the risk for borrowers.

Project risk. Green projects are built on innovative and sometimes untested technologies. This makes their economic profitability uncertain. Technical errors, technology obsolescence, or infrastructure shortage can lead to project failure.

Climate risk. Additionally, some resources (such as solar and wind) only operate under specific conditions, which harms productivity. Due to the diversity of the country's landscape and the varying weather and climate of the regions, the creation of different gods for different regions results in existing projects not justifying themselves by almost 25%.

Conclusion: Green lending remains a vital tool for integrating economic growth and environmental sustainability. However, the risks associated with it — financial, market, project, and climate risks — can impede the sustainable development of this sector. To avoid them, it is necessary, first, to assess the financial stability of borrowers and pay attention to diversified portfolios. Second, it recommends introducing subsidies and preferential tax policies to support green projects. Thirdly, to mitigate technological risks, it is essential to implement adequate laws, regulations, and security measures to support the expansion of research and innovation activities, thereby preventing conflicts of interest and ensuring sustainable development.

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