



GREEN BANKING: DRIVING SUSTAINABLE DEVELOPMENT IN UZBEKISTAN'S BANKING SECTOR

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Abstract: In recent years, many scientific papers have paid more attention to the concept of green banking due to its significant impact on environmental management in the banking context. This article discusses the concepts of green banking by different scientists. The article also reveals the activities of the banking sector of Uzbekistan with an emphasis on the analysis of digital transformation and green banking. The author offers recommendations for the further development of green banking in the Republic of Uzbekistan.

Keywords: green banking, green finance, green economy, banking sector

Introduction

Addressing climate change and its effects are crucial concerns and risks to global sustainable development and the well-being of the world's population. In order to attain environmentally-friendly and sustainable economic growth, the international community is actively undertaking strategies and actions to combat climate change and mitigate its adverse impacts.

The banking sector plays a vital role in driving economic growth and development, both in terms of quality and quantity, during the transition to a green economy. As a significant source of financing for commercial projects, the banking sector holds considerable influence over investment activities, which are key drivers of economic growth. Given this influence, banks have the opportunity to promote environmentally sustainable and socially responsible investment, thereby contributing to the development of a green and sustainable economy. Therefore, the imperative for the rapid advancement of digitalization within the banking sector and the adoption of green banking practices in Uzbekistan is intensifying with each passing day. The cultivation of a green economy not only facilitates sustainable development but also offers a viable solution to the numerous structural contradictions associated with economic, social, and environmental progress.

Green banking concept

The concept of green banking, initially introduced by Triodos Bank in 1980, integrates environmental management into banking activities to foster sustainable business models.¹ Triodos Bank established a "Green Fund" in 1990 to support eco-friendly projects, inspiring other banks to adopt similar initiatives. Today, green banking has gained popularity in response to growing interest and external pressure for sustainable practices in the banking sector. This concept emerged as a solution to address the environmental impacts of economic

¹ Wendt, K. (Ed.) Responsible Investment Banking: Risk Management Frameworks, Sustainable Financial Innovation and Softlaw Standards; Springer: Berlin, Germany, 2015.

development and the global financial crisis.² Terms such as "green economy," "green growth," and "low-carbon economy" have evolved³ to promote a reconfiguration of businesses and infrastructure for better returns on natural, human, and economic investments while reducing greenhouse gas emissions and resource consumption. According to the United Nations Environment Programme (UNEP), the green economy aims to minimize waste, social disparities, and the extraction of natural resources.

Green banking in Uzbekistan

In recent decades, Uzbekistan's strong economic growth has been driven by resource extraction, mining, and manufacturing. However, this growth has resulted in significant environmental costs. Uzbekistan now ranks fifth globally in terms of greenhouse gas emissions intensity⁴, and it has the highest intensity in Europe and Central Asia. These emissions are primarily caused by a reliance on fossil fuels, energy-intensive industries, and low energy efficiency across sectors, with inefficient housing contributing significantly to emissions.

Uzbekistan, similar to other Central Asian countries, faces significant vulnerability to climate change. The impacts include risks to natural resources, agriculture, land, water productivity, and increased exposure to natural disasters. In terms of climate vulnerability, Uzbekistan ranks 96th out of 191 countries (ND-GAIN 2019)⁵.

Taking into account all the environmental issues the country is facing and going to face, there is no doubt that the efforts of the government should be more active and effective in order to achieve the goals of "green development". Specifically, it includes the implementation of green banking practices and the development of green banking which increases the capital flow to the environmentally friendly projects.

Uzbekistan is in the early stages of developing green banking practices. The country is also implementing comprehensive measures to establish a green economy, focusing on modernizing and diversifying key sectors while ensuring balanced socio-economic development. These efforts began in early 2020 following the approval of the "Strategy for the transition of the Republic of Uzbekistan to a green economy for the period 2019-2030" in October 2019.⁶

The document outlines several tasks, including supporting "green" investments through initiatives like green lending and venture financing systems. It also involves creating "green" funds, energy-saving funds, and similar mechanisms. The private sector is encouraged to finance projects for transitioning to a "green" economy, while the banking system is urged to prioritize "green" investments. The state plays a role in promoting sustainable growth in the "green" economy through fiscal policies.

² Volz, U. Fostering Green Finance for Sustainable Development in Asia; Asian Development Bank Institute: Tokyo, Japan, 2018.

³ Durbin, A.; Steve, H.; Hunter, D.; Peck, J. Sustainable Finance—Moving from Paper Promises to Performance: Bank Track; World-Wide Fund for Nature (WWF): Godalming Surrey, UK, 2006.

⁴ The energy sector accounts for c.a. 9/10 of total GHG emissions of the country (data for 2014), Greenhouse Gas Emissions Factsheet: Uzbekistan. <https://www.climatelinks.org/resources/greenhouse-gas-emissions-factsheet-uzbekistan>, based on the World Resources Institute Climate Analysis Indicators Tool (WRI CAIT) data.

⁵ <https://gain.nd.edu/our-work/country-index/>

⁶ Постановление Президента Республики Узбекистан, № ПП-4477 «Об утверждении Стратегии по переходу Республики Узбекистан на «Зеленую» экономику на период 2019 — 2030 годов» от 4 октября 2019 г. [Электронный ресурс]. URL: <https://lex.uz/ru/docs/4539506>

Uzbekistan's banks have implemented various environmental initiatives as part of government programs. The banking sector is actively embracing "green banking" to enhance customer retention and competitiveness in the financial market. The Central Bank reports the presence of three digital banks and 34 non-bank payment organizations, with 10 included in the electronic money system register. Commercial banks play a vital role in the green transformation by offering remote financial services through mobile and online banking systems. They also introduce innovative products like QR payment, contactless card payment, and Tap-based payment technology.⁷

Uzbekistan, known for its natural gas production and exports, has one of the most energy-intensive economies globally. With rapid urbanization, industrialization, and population growth, the country's energy demand is expected to rise, especially post-COVID-19 recovery. To improve energy efficiency, the Uzbekistan government aims to reduce energy consumption per unit of GDP by 50% by 2030⁸. The World Bank, in collaboration with several banks, has financed 81 pilot subprojects for 32 strategic enterprises through the Energy Efficiency Project for Industrial Enterprises. These initiatives will save over 539 million kWh of electricity and 252 million m³ of gas annually, enough to power 850,000 families for a year. "Green" lending practices enable banks to further support energy and chemical sectors by offering tailored products and services to companies adopting energy-efficient and innovative technologies.⁹

Uzbekistan is actively developing the infrastructure of retail payment systems, including Uzcard and Humo, to facilitate bank card transactions and payment services. As of July 1, 2021, the country had issued a total of 23.7 million bank cards due to efforts to expand the card infrastructure. Notably, the number of customers for digital banks TBC Bank and ANOR Bank has surpassed 300,000 in a short span of time. Moreover, over 75,000 businesses now possess QR codes through the QR-online information system. This system enables businesses, including delivery services, passenger transportation, and freelancers, to reduce costs by accepting payments through QR codes instead of traditional payment terminals. The implementation of QR codes enhances customer service and provides a convenient payment method.¹⁰

Figure 1

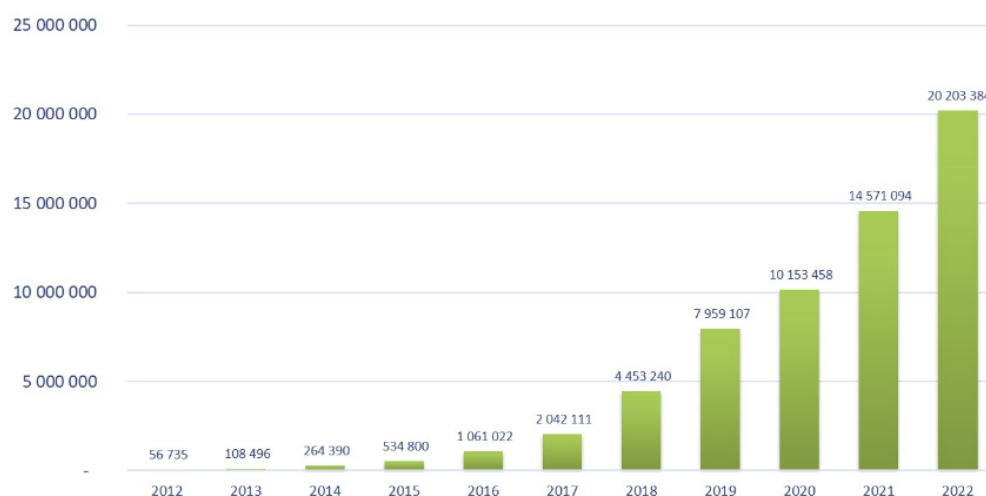
⁷ Mirzaev. D.M., Gulomova N.F.; ЦИФРОВАЯ ТРАНСФОРМАЦИЯ БАНКОВСКОГО СЕКТОРА: СОСТОЯНИЕ И ПЕРСПЕКТИВЫ РАЗВИТИЯ ЗЕЛЕННОГО БАНКИНГА В РЕСПУБЛИКЕ УЗБЕКИСТАН; Scientific J. of "International Finance & Accounting"

⁸ A.Umarov, For Uzbekistan, Energy Efficiency is Smart Economics, November 10, 2016 [Электронный ресурс]. URL: <https://www.worldbank.org/en/news/feature/2016/11/10/for-uzbekistan-energy-efficiency-is-smart-economics>

⁹ A.Umarov, For Uzbekistan, Energy Efficiency is Smart Economics, November 10, 2016 [Электронный ресурс]. URL: <https://www.worldbank.org/en/news/feature/2016/11/10/for-uzbekistan-energy-efficiency-is-smart-economics>

¹⁰ У.Махмудов, Digital financial services in the banking system: progress and solution of the challenges/Экономический вестник Узбекистана» Аналитический журнал (3) 2021 с 119-122

Number of users of remote banking services
January 1,



The demand for remote banking services is on the rise as they offer transparency and save time and money for users. In the past year, the use of remote banking services has increased significantly, growing fivefold compared to 2017, reaching 20,203,384 users (Figure 1). Commercial banks are actively introducing online card processing and providing free delivery services to their customers. Currently, Uzbekistan boasts 10 prominent payment platforms and systems with registered electronic wallets, including OSON, E-Card, CLICK, WOOPAY, alif.mobi, Interpay, A-pay, QIWI Uzbekistan, 1HLSW, and GlobalPay. These platforms have over a million active users and offer access to both local and international services, catering to the diverse needs of the population.

Digital banking services, such as online banking, internet banking, mobile banking, and ATMs, play a vital role in promoting green banking in Uzbekistan. These paperless options help save trees, reduce costs, minimize carbon footprint, and enhance profitability. Table 1 presents data on bank plastic cards, terminals, ATMs, and information kiosks from 2018 to 2023. In 2018, there were only 6,201 ATMs, but by 2023, the number of installed ATMs and information kiosks had increased to 16,281 units (Table 1).

Table 1. Information about issued banking cards, POS-terminals, ATM's and Self-Service Kiosks as of May 1, 2023, also transactions carried out through POS-terminals in January-April of 2023

(as of May 1, 2023)

	2023	2022	2021	2019	2018
Number of bank cards issued into circulation	37,491,457	30,293,251	23 725 483	19 276 615	17,880,075
Number of installed POS-terminals	428,160	433,178	438 909	291 455	242,196
Number of installed	16,281	18,450	12 298	7 914	6,201

ATMs and Self-Service Kiosks					
The amount of transactions carried out through POS-terminals in January-April of 2023 (in million. sum)	70,938,067	88,543,763	58 210 514	39 113 128	33,663,294

Source: <https://cbu.uz/ru/statistics/>

Moreover, there has been a gradual rise in the adoption of "green" financing. While it was previously primarily comprised of individual projects and grants from international financial institutions, recent years have witnessed the introduction of other financing instruments like "green" loans and bonds.

During the visit of the European Bank for Reconstruction and Development (EBRD) delegation led by first vice-president Jürgen Rigterink on June 9, 2021, an agreement was signed between Uzpromstroybank and the EBRD for Uzpromstroybank's participation in the Green Economy Financing Facility program. This agreement allows Uzpromstroybank to access an EBRD credit line of up to \$25 million.¹¹

On June 20, 2022, the Intersectoral Energy Saving Fund and JSCIB "Ipoteka Bank" signed a General Agreement to facilitate the issuance of green consumer loans. Under this agreement, the bank will provide 54 billion soums of green consumer loans over a 5-year period for the purchase of energy-saving technologies and equipment, including renewable energy sources, at the base rate of the Central Bank.¹² A similar agreement was also signed between the Intersectoral Energy Saving Fund and Asakabank JSC on December 22, 2022, with a credit line of 65.0 billion soums to expand the availability of "green" consumer loans for the population to purchase energy-efficient equipment and renewable energy installations.¹³

The government of Uzbekistan is actively exploring new avenues for development financing, including the introduction of innovative and unconventional financial instruments. In July 2021, the government became the first in the CIS region and among the pioneers globally to issue Sovereign SDG Bonds, which are government bonds specifically targeted at financing the Sustainable Development Goals (SDGs). The bond issue amounted to 2.5 trillion soums (approximately 235 million US dollars) with a 3-year maturity and an interest rate of 14%. The funds raised will be dedicated to implementing projects and initiatives aligned with the country's specific SDGs, including those related to "green" development.¹⁴

Conclusion

In conclusion, it can be said that the variety of green instruments mentioned above demonstrates their ability to attract investments in non-governmental enterprises, generate financial benefits from sustainable activities, and mitigate environmental pollution.

¹¹ Fattakhova M.A.; Green finance instruments and green finance in Uzbekistan. The Peerian Journal. 2022

¹² <https://minenergy.uz/ru/news/view/1987>

¹³ <https://yuz.uz/ru/news/v-uzbekistane-dlya-priobreteniya-ustanovok-na-osnove-vie-otkrvayutsya-zelene-kredit>

¹⁴ <https://jointsdgfund.org/publication/uzbekistans-first-sdg-bond-allocation-and-impact-report>

Moreover, some specific actions are highlighted on which the banking sector of the Republic of Uzbekistan with its regulatory authorities (central banks and banking institutions) can focus in order to bring their practices in line with specific standards of green banking:

Banking institutions of the Republic of Uzbekistan should consider green banking as strategies, not tactics (more attention should be paid to long-term benefits than short-term financial benefits);

It is necessary to move from voluntary codes to a regulatory approach, that is, to develop and implement regulatory documents containing rules and conditions for working with green financing tools, which include green accounts, green investments, green project financing and green loans;

Strengthen the green focus of projects and increase bank investments in clean technologies with low emissions and electric costs, make the provision of loans to green sectors a priority;

Use innovative financial instruments in partnership with the private sector to finance digital products and environmentally transformative projects in the banking sector;

Expand international cooperation and join international initiatives in the field of environmentally sustainable financing;

Conduct training events and programs on green banking and improve the skills of personnel in the banking sector.

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