



Green Financing and Development Opportunities

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ABSTRACT

This article describes green financing and its development opportunities. That is, green bonds, as a new financial instrument in the stock market, differ from other instruments in that they are aimed at financing environmentally beneficial projects, renewable energy projects, energy efficiency improvement, and the use of environmentally friendly transport.

Keywords:

Green economy, green financing, green bond, financial instrument, renewable energy, green project

The world's gross domestic product is increasing by 3-4% per year on average, despite a series of crises, wars and other unexpected fluctuations. This, in turn, leads to a doubling of the gross domestic product every generation. However, not enough is being done for the world to remain economically stable. A report published by the UN in 2019 adopted the Sustainable Development Goals 2030, which emphasized that global economic growth must take into account climate change. However, according to the work done by various countries, many countries will not be able to achieve the goals set for 2030. As one of the most important lagging directions, it can be mentioned that the transformation of the capital market in a way that fully meets the requirements of the green economy is delayed. Of course, although a number of positive things are being done in this area, capital market products and corporate financing mechanisms are still not "green" in many countries.

Green bonds, or climate bonds, made their way onto the global capital market after being introduced by the World Bank in 2009. The main purpose of the introduction of this

bond into the global capital market by the World Bank is to maintain the ecological and social balance in the global ecosystem. Green bonds have been met with great interest not only by institutional investors in the USA, Europe and China, but also by private investors, and their attractiveness for investors remains at a high level, despite a number of fluctuations.

Green bonds are a type of bond that are used to fully or partially finance or refinance existing or new green projects. Green projects are projects that are not harmful to the environment and ecology, i.e. projects such as renewable energy, environmentally friendly vehicles, construction of green structures, sustainable waste management, sustainable use of land resources, biodiversity and clean drinking water. With green bonds, the issuer will be able to finance its green projects. Investors receive a fixed return on their investment in the form of interest. Green bonds work like all corporate bonds, but the issuer is responsible for using the green bond proceeds only for green projects.

As a new financial instrument in the stock market, green bonds differ from other

instruments in that they are aimed at financing environmentally beneficial projects, renewable energy projects, improving energy efficiency and using environmentally friendly transport.

Green bonds are beneficial for both issuers and investors. By investing in environmentally beneficial projects, the issuing enterprise creates a positive image for itself as an enterprise focused on long-term sustainable growth. The influence of this factor for business is increasing year by year. Another advantage of green bonds is that they allow attracting capital through relatively low payments due to high demand by investors. As the environmental situation worsens year by year, the number of institutional investors who want to add green assets to their portfolios is increasing.

The development of green economy is one of the most important priorities in all countries of the world. Green bonds are fixed-income instruments specifically designed to raise funds for climate and environmental projects.

"Green" bonds are ordinary bonds, the peculiarity of which is that the proceeds from the sale of such bonds are used for the implementation of environmentally friendly projects, primarily related to mitigating climate change.

In global practice, "green" bonds must meet the requirements of the International Association of Capital Markets and the Climate Bonds Initiative to be issued on the international capital market and included in the international register.

In order to be recognized as "green" bonds, the issued bonds must comply with the basic principles recognized by the above-mentioned organizations. Core principles are a set of voluntary rules that embody a defined direction and vision and are the same for all participants. The guiding principles serve to achieve environmental and social sustainability by enhancing the role of global debt capital markets in financing development.

The principles of "green" bonds guide issuers towards the goal of supporting the financing of environmentally safe and sustainable development projects, thereby protecting the environment and creating an economy with zero emissions of harmful waste.

The Green Bond Principles are voluntary recommendations. Such recommendations include provisions on information transparency and disclosure, and ensure a clear approach to the issuance of such bonds by ensuring integrity in the development of the "green" bond market. The Green Bond Principles recommend that issuers fully comply with their disclosure processes. The reason is that such information is very important for investors, commercial banks, deal organizers, insurance companies and other market participants to determine the characteristics of newly issued "green" bonds.

Issuance of "green" bonds must comply with the following 4 main principles:

- Use of funds;
- Project evaluation and selection process;
- Management of funds;
- Reporting.

1. Use of funds.

The most important component of the principles of "green" bonds is the issue of the use of proceeds from the sale of bonds, such that the proceeds from the sale of securities must be used only for the implementation of "green" projects, and in the documents prepared for the issuance of securities, " spending on green" projects should be clearly reflected. Also, all planned "green" projects must bring environmental benefits that are evaluated by the issuer and can be quantitatively recorded.

The principles of the "Green" bond are to mitigate the effects of climate change, adapt to climate change, preserve natural resources, ensure biodiversity, and prevent and control environmental pollution through the implementation of "green" projects. contributes to achieving environmental goals.

The categories and types of "green" projects supported on the "green" bond market include:

- Renewable energy sources;
- Energy efficiency;
- Pollution prevention and control;
- Environmentally sustainable management of living natural resources and land use;
- Conservation of biological diversity on land and water;
- Environmentally clean transport;

- Sustainable management of water and wastewater;
- Adaptation to climate changes;
- Products, production technologies and processes adapted to ecologically efficient and waste-free economy;
- Green buildings that meet nationally, regionally or internationally recognized standards or certifications.

2. Project evaluation and selection process.

The issuer of "green" bonds will have to clearly and comprehensibly convey the following to the attention of investors:

- Goals related to ecological stability;
- Justification of compliance with project categories and requirements set by the issuer for "green" projects;
- Appropriate qualification criteria, including exclusion criteria where applicable, and processes to identify and manage significant environmental and social risks associated with the project;
- Green bond issuers will be required to include the above project information as their priority goals, strategies, policies and processes related to environmental sustainability.

3. Management of funds.

Funds from the sale of "green" bonds must be deposited into a separate account and the issuer must keep track of these funds. The issuer must establish a separate internal procedure for accounting operations related to lending and investing funds from the sale of bonds in "green" projects.

During the period when "green" bonds are in circulation, it is necessary to periodically monitor the investment of the proceeds from the sale of bonds by the issuer in accordance with the goals of the implementation of "green" projects. In this regard, the issuer must provide information on the means by which the unused part of the proceeds from the sale of bonds will be temporarily placed.

Green bonds encourage a high level of transparency. Therefore, it is advisable to engage an external auditor or other third party

to manage the proceeds from the sale of "green" bonds and monitor their intended use.

4. Reporting.

Issuers must constantly collect information on the use of funds from the sale of "green" bonds and publish important information annually in a prescribed manner. The annual report should contain the list of projects financed by the proceeds from the sale of bonds, a brief description of these projects, the amount of funds allocated to the projects, and the changes expected from the implementation of the projects.

When the analysis of economic sectors to which green bonds are directed is studied based on the data of 2021, it can be seen that these investments are placed in several areas that can reduce the negative impact on the environment and bring ecological benefits. However, the main part of investments, about 83%, is divided between three sectors. These are energy 35%, construction 30% and transport sector 18%, as well as 17% of bonds directed to the reconstruction of the activities of other sectors in order to bring environmental benefits.

1023 "green" bonds were issued to finance projects related to the creation of renewable energy sources. 718 for the purpose of establishing an ecologically clean transport system, 236 for waste processing, 182 for the purpose of environmentally sustainable management of land use, 37 for the purpose of producing environmentally sustainable products on an industrial scale, 30 in the field of ICT and 152 "green" bonds were issued in other sectors and sectors of the economy.

In this article, we have analyzed the changes in recent years of corporate green bonds, which have both financial and environmental goals, and their prospects. According to our analysis, the volume of green bonds is increasing worldwide. Also, companies are changing their views on climate change and are taking great steps to protect mother nature.

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