



THE IMPACT OF GREEN LOANS ON BANK PROFITABILITY

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Abstract

This article examines the importance of green loans issued by banks as one of the important directions of the transition to a green economy in Uzbekistan, the assessment of projects based on indicators related to ecology, climate change, resource scarcity, energy efficiency and security, their importance in ensuring sustainable development, and the problems associated with the compatibility of greenness with the goals of maximizing business profits and leaps in economic growth.

Keywords: Green credit, ecological credit, environmentally friendly credit, low-carbon credit, sustainable development loans, green banking products, renewable energy loans, ESG financing.

Introduction

The 21st century is demanding a fundamental transformation in humanity's approach to the economy, business, and life itself. In particular, it calls for a departure from existing and traditionally applied classical approaches, as well as a profound reconsideration of attitudes toward the environment, ecology, and natural resources. In the sphere of business and entrepreneurship, this shift necessitates the development of a new system of principles, rules, and standards based on sustainable development, ESG criteria, social responsibility, and environmental safety.

In this process, banks undoubtedly have their own place and role. The widespread practice of embedding humanity and business within a credit framework and turning it into one of the most important instruments of economic behavior may seem justified to some extent. However, it can be observed that this mechanism does not always function as a mutually beneficial tool. At the same time, we must acknowledge the reality associated with the ultimate consequences of all credit and debt relations.

Today, more than 200 trillion US dollar in loans and credit funds are allocated in the global economy, and this figure continues to grow each year. The world economy is facing an unprecedented level of indebtedness, which, according to some sources, is estimated at 360 trillion.

It is also recognized that more than 40 trillion US dollar has been issued by over 30,000 banks worldwide, with clearly defined maturities, interest rates, collateral requirements, and insurance premiums. Taking Uzbekistan as an example, the volume of loans extended by commercial banks to enterprises, organizations, and individuals exceeds 600 trillion soums, accounting for more than 70 percent of total bank assets.

The current total assets of banks in Uzbekistan exceed 800 trillion soums. However, the level of own capital in the structure of funding sources amounts to only 130–140 trillion soums. This indicates that commercial banks are becoming increasingly dependent on borrowed funds and credit resources.



Today, across the world, environmental protection, the rational use of resources, and heightened attention to ecological issues have become not only priorities of state policy but also key responsibilities of financial institutions.

The environmental situation in Tashkent city and the surrounding region clearly demonstrates that unless we fundamentally transform economic approaches, as well as the rules governing business and entrepreneurship, the benefits we gain today will be insignificant compared to the losses we may incur. This realization alone highlights the severity and urgency of the problem.

Review of literature on the subject

This article analyzes scientific literature on the green economy, reports of international organizations and legislation of Uzbekistan.

The concept of green lending has entered science or practice either on the initiative of a person, or under the influence of certain factors of economic and social relations as a necessary direction of activity of various funds, public organizations, financial institutions [1].

In particular; the UN's idea of linking environmental criteria with financial decisions of banks, insurance and investment institutions led to the creation of the UNEP FI (UN Environment Programme – Finance Initiative) program [2].

The first studies that scientifically explained “green lending” appeared precisely in the field of environmental economics and sustainable finance (A. J. Heaton, J. Tobin, Pearce & Turner, Sachs, Zeng Wang, Liu Zhang) [3].

International organizations such as IFC, EBRD, and OECD are also considered creators of the concept of green finance and green economy, which deal with climate, natural resource use, waste, environment, and ecological problems [4].

Green lending is the process of financing by banks of projects that have a positive impact on the environment, ensure ecological balance, reduce waste, reduce carbon emissions, increase energy efficiency and focus on renewable energy, reduce resource consumption and reduce the level of environmental risk of the enterprise, and are aimed at economic sustainability [5].

The volume of research related to green lending is so large that they can be conditionally divided into three groups. Namely, research related to institutional factors of green lending, research related to organizational factors of green lending, and research related to methodological and practical aspects of green lending [6].

Research Methodology

Comparative method, theoretical analysis and conceptual modeling methods were used in this study. Systematic analysis (structural elements and interrelationships of financial reports), comparative analysis (comparison of reports based on national and international standards), logical analysis and conclusion (identification of existing problems and their causes) were widely used.



Analysis and conclusion

Green lending is a lending system that takes into account environmental sustainability and social responsibility. This type of lending gives priority to conditions for energy saving, waste reduction, carbon emissions reduction, and compliance with ESG (Environmental, Social, Governance) requirements. In this regard, priority is given to approaches to financing renewable sources, energy efficiency, water conservation, and environmentally friendly technologies.

Green lending differs from the usual lending mechanism in that it is based on the integration of environmental, social, and financial analyses. Its effective implementation ensures social and environmental sustainability while maintaining bank profitability.

Today, more than 700 billion green loans have been placed by world banks. Although there is not much information about its significant volume in Uzbekistan, many banks (Sanoat Qurilish Bank, Silk Road Bank, Mortgage Bank, Asia Alliance Bank, Xalq Bank, National Bank) operate green credit lines.

A prerequisite for green loans is that they are provided for a period not less than the payback period of the equipment used and at an interest rate not higher than the profitability of the project. The current classic lending mechanism, which is based on the principle of banks working more like pawnshops, is not considered very acceptable. The transfer of benefits and interests not to the first but to the second tier is not a process that everyone likes. That is, the economy and efficient use of ecology, the environment, energy and resources is considered a functional problem of social structures, rather than financial institutions.

Green credit is often understood as a privilege, that is, it is provided at lower interest rates than usual. Currently, the development of green projects in Uzbekistan is being addressed only through funds allocated in this direction by international organizations.

Despite the fact that certain measures have been clearly defined by the government in legal norms, the issues of forming green loans at preferential interest rates and their resource sources are unfortunately lagging behind. However, the complex of existing problems in the field of environment, ecology, waste, and hydrocarbon gases requires more serious and accelerated actions in Uzbekistan compared to the countries of the world.

The introduction of such types of loans as “Corporate Green Loan”, “SME Green Loan”, “Green Consumer Loan”, “Green Product”, “Green Product - Online” by Sanoat Qurilish Bank at preferential rates and within the established norms (through full or partial financing) for the population and business entities. It is certainly positive that a number of other banks (Ipoteka Bank, Silk Road Bank, Asia Alliance Bank, National Bank) have also begun to take steps to open green credit lines, and there are proposals. However, this aspect does not allow these changes to soften the growing demand for greenness.

Green loans, green projects, and green technologies are concepts that are closely related. Its purpose essentially involves taking actions in the economy without violating social and environmental sustainability.

Today, no sector of the economy can be left out of green financing. Whether it is the industrial sector, transport, construction, trade, in all of them one or another factor of the green economy is opposed to



activity. Therefore, it is natural that the requirements for credit resources will increase in solving problems related to financing the green economy. Because the existing requirements require it.

The energy sector is the most problematic sector in terms of environmental pollution and greenhouse gas emissions. Unfortunately, for this sector, which is making the most of its technical and technological potential, the green credit resources offered by banks are insufficient or unsuitable for banking activities. Our banks, which have been operating as pawnshops, albeit in a hidden form, are trying to avoid granting loans on preferential terms to international funds, public organizations, the population and entrepreneurs as much as possible.

There is no sector of the economy in which international standards for energy efficiency have been adopted or implemented. True, various actions in this regard have been reflected in legal norms. However, their implementation is being delayed by practical actions. The reason is the lack or absence of specific financial resources.

In particular, the problems are exacerbated by the fact that the equipment and technologies used in the industrial, energy, and agricultural sectors are not only morally but also physically obsolete. For example, one energy system uses thermal power plants built in the 1960s-1980s. They are physically obsolete. In recent years, huge investments have been made in solar and wind power plants (from domestic and external sources). However, this accounts for only 10-12 percent of the total electricity. The problems associated with hydroelectric power stations cannot be a promising direction due to water shortages.

It is impossible to establish cheap production or business with expensive electricity. Therefore, we have only one way out. That is, to use it economically and economically. This requires the establishment of modern equipment, technology, management, strong control and monitoring.

Due to the sharp decline in oil and gas production (and exports), the energy system is facing another problem, which is the increased use of coal and fuel oil. This is the number one factor that pollutes the environment.

Studies show that the industrial sector consumes almost a quarter of the country's total energy consumption and almost all of its natural gas. The sector needs to respond not only to reducing waste and environmental pollution, but also to rapidly changing global production systems that require cleaner production processes, innovations and human resources to remain competitive.

In urban planning, we are also violating the requirements of working with a clear plan, strategy. The situation in the formation of infrastructure is deplorable. Without the concept of a smart city, which is an integral part of economic well-being, we will end up with a graveyard of houses that no one will live in or use in the future.

Uzbekistan is one of the 25 countries in the world with the highest water shortages. More than 80 percent of the country's water resources are shared with neighboring countries. The future of agriculture, which is especially dependent on water, is at risk. The fact that food security, combined with other problems, can further complicate the problem requires serious action. It is impossible to imagine how scary it would be to imagine the future if we do not worry about soil salinization, serious degradation of our lands, toxic dust storms, etc. today.



The situation with greenhouse gases, as we all know, is our most painful point. It is difficult not only to alleviate the problem, but also to maintain the current situation.

Considering that only 70 percent of the population is provided with drinking water in a centralized manner, you will understand that serious attention needs to be paid to this area. The importance of a centralized sewage system in the modern world is another matter. The level of obsolescence of equipment in the utility sector is not observed in any other sector of the economy.

Based on the above, the following conclusions were reached.

1. Due to the need for greening in all sectors of the economy, it is necessary to seriously monitor the real situation and clearly determine the level and scope of the problems.
2. It is necessary to use all instruments to encourage greening, create infrastructure.
3. It is necessary to increase the number of cheap and preferential credit lines linked to financial institutions.
4. It is necessary to include greening requirements in the requirements for each project or type of loan.
5. It is necessary to give priority to projects that have long-term and systemic environmental goals based on the Green Economy and the National Climate Strategy.
6. It is necessary to strengthen the requirement to include energy-saving solutions in housing programs.
7. It is necessary to consider the feasibility of abandoning subsidies for fossil fuels with greenhouse gases and waste and introducing a system of social protection measures, including CO₂ payments.
8. It is necessary to develop reliable and transparent definitions, standards and classifications of green finance.
9. It is also necessary to expand and improve the ability to assess, manage and publicly disclose information on financial risks related to climate change, and apply such approaches to private investments.
10. Provide incentives for producers, importers and exporters of environmentally friendly products and services, which may include preferential taxes, interest rate subsidies on loans or reduced VAT.
11. It is necessary to gradually eliminate large subsidies on fuels used by the country's energy and other industrial sectors.
12. It is necessary to introduce mandatory environmental criteria into agricultural support programs.
13. Control and improve the efficiency of procurement related to infrastructure projects and environmental permits.
14. It is necessary to ensure the regularity of environmental assessment of projects in environmental protection, more active public participation in decision-making and a thorough analysis of the distributional impact of policies.
15. It is necessary to increase inter-agency coordination on greening and improve supervision and monitoring. Accountability for achieving results should be increased.



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