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ESG DEVELOPMENT IN UZBEKISTAN (Part Two)

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Abstract. The article discusses the issues of ESG development in Uzbekistan. Currently, Uzbekistan is witnessing a gradual increase in activity in the field of "green" finance. If initially this segment was presented mainly in the form of grants from international financial institutions, then in recent years other instruments such as "green" loans and bonds have appeared.

Keywords ESG, Carbon Exchange, ESG funds,

Introduction

The Government of the Republic was the first in the CIS region and one of the first in the world to place government bonds aimed at financing sustainable development goals - Sovereign SDG Bonds [5]. The volume of the issue amounted to \$ 635 million (the first tranche) and \$ 235 million (the second tranche), both issues are denominated in Uzbek soums. The first tranche with an annual coupon of 3.9% is designed for 10 years, the second with a coupon of 14% is for three years[6]. The funds received will be used to implement activities and projects to achieve nine priority national SDGs: education (SDG-4), water resources management (SDG-6), health (SDG-3), environmental transport (SDG-9 and SDG-11), pollution control (SDG-11), management natural resources (SDG-13 and SDG-15), green energy (SDG-7). The SDG bond issuance program of Uzbekistan was implemented with the support of UNDP and developed in accordance with ICMA standards: Principles of Green Bonds (GBP), Principles of Social Bonds (SBP) and Guidelines on Sustainable Development Bonds (SBG). For reporting purposes, information on the use of funds and an impact report is provided to investors, which will be available on the website of the Ministry of Finance of Uzbekistan[7].

There is no information available on the total volume of ESG loans in Uzbekistan, but several green loans have been provided by Uzbek banks. In November 2021, the European Bank for Reconstruction and Development (EBRD) provided a loan of \$10 million to JSCB Hamkorbank, which will help national small and medium-sized enterprises increase investments in green technologies, accounting for more than 50% of Uzbekistan's gross domestic product (GDP). The funds were made available through the EBRD's Green Economy Financing Facility (GEFF), which was launched in Uzbekistan in 2019 to support green finance. In 2021, JSCB Uzpromstroybank joined the EBRD financial program, with financing of projects planned as part of a credit line up to \$25 million.

In July 2022, the EBRD signed several agreements to provide Uzpromstroybank with a \$50 million loan with the possibility of converting it into bank shares. The funds will also be used to lend to SMEs and support green investments. In total, the EBRD has invested almost \$690 million in 22 projects in Uzbekistan over the past year. These projects have contributed to the development of renewable energy, green lending, and the modernization of key infrastructure and small businesses.

In June 2022, an intersectoral energy savings fund under the Ministry of Energy and AKIB Mortgage Bank signed an agreement, according to which the bank will provide preferential loans to households for the purchase of energy-efficient technologies and equipment at the base interest rate of the central bank. A total of around \$5 million (\$54 billion in Uzbekistani currency) is planned to be allocated for this purpose.

Currently, ESG is not a key issue on the banking industry's agenda. The main focus is the overall transformation of the banking sector. As of January 2022, there were 33 banks operating in Uzbekistan, 10 of which are state-owned, seven banks have foreign capital, and five are private. State-owned banks own 81.5% of the capital and 84% of the assets of the banking sector, while private banks remain relatively small niche players[13].

In May 2020, the President of Uzbekistan approved a five-year strategy for reforming the banking sector to address its main problems: excessive government participation, insufficient competition, poor quality of corporate governance and banking services provided. The aim of the strategy was to reduce the state's share in the sector from 84% to 40% and increase the market share of the non-banking sector from 0.35% to 4%. By 2025, the government plans to privatize its shares in six banks and promote the modernization of banking services in the remaining state-owned banks. In May 2022, the Board of Executive Directors of the World Bank approved the provision of a concessional five-year loan to Uzbekistan in the amount of \$15 million to support the government's efforts to reform the financial sector[14]. For the purposes of ESG transformation and the implementation of green projects, large banks in Uzbekistan are also actively cooperating with multilateral financial institutions. Experts of the international financial publication Asiamoney recognized Uzpromstroybank as the winner in the nominations "Best Bank of Uzbekistan" and "Best ESG Bank in Uzbekistan" according to the results of the annual selection in the Best Bank Awards 2022 category. The work of the bank together with the International Finance Corporation (IFC) and the EBRD on the transformation, development of green banking and implementation of ESG principles was particularly noted. In 2020, Sanoat qurilish bank (SQB), in collaboration with the EBRD, IFC and other leading development institutions, launched a green finance platform and created the necessary internal ESG ecosystem, including marketing, branding, development of new green products, development of sales channels and staff training. SQB is the largest Uzbek lender of key industrial sectors, oil, gas, chemical and other energy industries. The Bank does not limit the support of any projects in these industries[15].

There are no ESG funds in Uzbekistan. In September 2021, the Ministry of Finance of Uzbekistan announced plans to launch exchange-traded investment funds (ETFs), as well as the issue of mortgage bonds, sukuk and other instruments[16]. The roadmap for the implementation of the Capital Market Development Program in 2021-2022 includes, among other things, the item "expansion of a number of funds of the stock exchange", which includes "creation of a legal framework for trading ETFs on exchanges, including stock trading linked to gold (Gold ETF)"[17].

The main exchanges of the country are the Republican Stock Exchange "Toshkent", the Uzbek Republican Currency Exchange, the Uzbek Republican Commodity Exchange. The volume of transactions with securities or goods in Uzbekistan has doubled over the past three years and reached \$8.2 billion (UZS 90 trillion)[18]. There are no ESG indices on exchanges, but it is worth noting that the presidential decree adopted in April 2022 marked the beginning of a serious reform of capital markets. Uzbekistan has

become an active participant in international debt markets, where the Government and state-owned banks have issued ordinary Eurobonds in US dollars and Eurobonds in Uzbek soums. The decree provides not only for an increase in the number of issuers and new financial products, but also for improving corporate governance, developing corporate bond issuance, and securities market infrastructure by improving market access, simplifying the settlement process, creating associations, and strengthening the capabilities of local rating agencies.

There is no carbon exchange in Uzbekistan, but the possibility of introducing this regulatory instrument is being discussed. In 2020, the Institute for Forecasting and Macroeconomic Research under the Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan published an article "Carbon Credit Market: concept, principle of operation and foreign regulatory experience". During the session of Mobilizing Green Finance and Innovative and Effective Green Public Investment[19], which was held in early 2022 by the Ministry of Economic Development and Poverty Reduction of Uzbekistan, the World Bank and the Regional Environmental Center for Central Asia, it was clarified that economic modeling of carbon and fuel taxes can help the government better identify incentives for wider adoption of environmentally friendly types of energy.

ESG rating is not developed in Uzbekistan. There are few rating agencies in the country as a whole. ESG ratings are not published by national agencies. For example, Ahbor-Reyting provides credit ratings, engages in financial, management and strategic consulting, publishes research on macroeconomics and financial market segments, and performs information and analytical work. Standard and sensitive ratings conducts quarterly monitoring of the rating for institutions of the banking and financial sector, insurance market enterprises, and association members.

SAIPRO information and rating agency conducts marketing research and forms an independent reliability rating of financial organizations and enterprises, provides consulting services in the financial sector, advises on job search, recruitment and effective organization of its management.

The Association of Banks of Uzbekistan is beginning to get involved in the development of the ESG agenda in the country, but currently its activities are mostly related to information support for companies. In May 2022, the initiative of the Uztextilprom Association and the United Nations Economic Commission for Europe (UNECE) in the development of an ESG strategy for traceability and transparency in the textile industry of Uzbekistan was published on the UN website[20]. It provides for the establishment of an independent testing laboratory for testing sustainable and safe textile materials.

The development of ESG regulation in Uzbekistan is at an early stage. The focus is on improving the quality of life and simplifying business procedures. On February 7th, 2017, President of Uzbekistan approved the Action Strategy for 5 priority areas for development in 2017-21, including improving state and social infrastructure, ensuring rule of law, reforming judicial and legal systems, developing economy, social sphere, security, inter-ethnic harmony, and religious tolerance. In October 2018, Cabinet of Ministers approved Resolution No 841: "Agenda for Sustainable Development until 2030." Within the framework of this agenda, 16 nationally significant SDGs have been identified, as well as 125 relevant tasks and 206 indicators. A structure for monitoring the achievement of the SDGs has also been adopted.

With the support of the United Nations, the priority SDGs and targets are gradually being integrated into national strategies and programmes. The roadmap for the implementation of the national SDGs was approved, for the purposes of which six expert groups were formed in the areas of "Economic well-being", "Social protection", "Health", "Education", "Environment" and "Effective management". An interdepartmental working group has been established, headed by the State Statistics Committee, whose goal is to develop national SDG indicators[22]. In 2019, a presidential decree approved the strategy for the transition of the Republic of Uzbekistan to a green economy for the period 2019-2030[23]. It is aimed at improving the energy efficiency of basic sectors; diversifying energy consumption through the introduction of renewable energy sources; mitigating and adapting to climate change; improving the efficiency of natural resources and preserving natural ecosystems. In 2021, a portal was launched, which published the results of reforms in Uzbekistan for 2017-2021[24]. The Ministry of Finance, with the support of UNDP and the French Development Agency (AFD), is reforming the fiscal system to support the transition to a green economy. A methodology for green budgeting is being developed, the introduction of the principles of green and sustainable procurement, and the reform of green taxes and subsidies are being considered. Work is underway to link government spending to the SDGs, and to implement a monitoring system to track expenditures aimed at meeting the SDGs. In parallel, the Ministry of Investment and Foreign Trade is focusing on creating a favorable climate for green investments in Uzbekistan through the Green Investment Council. In 2020, the open ESG report "Progress in Uzbekistan" was released to measure and evaluate the country's progress in achieving the Sustainable Development Goals[25]. In January 2022, the document "Strategy for the development of New Uzbekistan for 2022-2026" was published. The strategy consists of seven priority areas and 100 goals that Uzbekistan intends to achieve within five years. Among these goals, there are also separate directions in the field of ESG. For example, the introduction of green principles in all spheres, an increase in energy efficiency of the economy by 20%, reform of the water management system, and others[26]. In April 2022, the President of Uzbekistan issued a decree, one of the directions of which is to "accelerate the transformation and privatization of enterprises and commercial banks with the participation of the state, stimulating the increase of qualitatively new, in particular, investments based on the principles of environmental, social and corporate governance (ESG) and highly efficient production technologies by reducing the share of inefficiently functioning enterprises in the economy"[27]

Conclusions:

- In 2021, Uzbekistan for the first time published a report on ESG aspects to measure and assess the country's progress in achieving the Sustainable Development Goals.
 - The Government of Uzbekistan was the first in the CIS to place government bonds for targeted financing of the SDGs - Sovereign SDG Bonds.
 - The Ministry of Finance is leading the reform of the fiscal system to support the transition to a green economy. The methodology of green budgeting, green tax reform and other measures are being developed.
 - Uzbekistan does not have legislation on responsible business conduct, but many companies participate in charity and adhere to the principles of corporate social responsibility either on their own initiative or on the instructions of local authorities.
- There is no carbon exchange in Uzbekistan, no green taxonomy has been developed,

but all these issues are being discussed at the ministerial level.

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