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Reorienting financing towards the energies of the future. How to adapt in Uzbek banks

Abdishukurov Jasurbek and Eshmurodov Mirjalol

Corporate Governance, Tashkent State University of Economics

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Dr. Muradova Ludmila

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a. Introduction

The transition to renewable energy sources is becoming increasingly critical in the face of climate change. However, the shift to sustainable energy requires significant investments and long-term financing. We have conducted a research about sustainable energies of European Union and Uzbekistan and transition to RES is time consuming and a bit costly for some countries. Financial institutions play a crucial role in this transition by redirecting their funding towards the energies of the future.

Relevance:

Reorienting financing towards the energies of the future is a crucial topic in today's world as we face the growing challenge of climate change. The transition to renewable energy sources is necessary to reduce our dependence on fossil fuels and mitigate the impacts of global warming. It requires significant investments and long-term financing from banks and financial institutions. The relevance of this topic is paramount as we strive towards a more sustainable future with clean and affordable energy sources.

Aim and Objectives:

The aim of this essay is to learn and implement EU experience in reorienting financing towards the future energies and to provide recommendations that can assist Uzbek banks in adapting to the changing energy landscape. To achieve this aim, the following objectives will be pursued:

1. To investigate the challenges faced by Uzbek banks in shifting their financing towards renewable energy sources.
2. To evaluate the potential benefits for banks in Uzbekistan that successfully reorient their financing towards renewable energy.
3. To explore the best practices and solutions from other countries in transitioning towards renewable energy financing that could be applicable in the Uzbek context.
4. To propose strategies and recommendations that Uzbek financial institutions can adopt to facilitate the transition towards sustainable financing.

Scientific Novelty:

The scientific novelty of reorienting financing towards the energies of the future lies in the development of methods and strategies for financing sustainable energy projects that promote the transition to a low-carbon economy. With the increasing demand for renewable energy and climate change mitigation measures, there is a need to explore innovative financing mechanisms that align with the objectives of sustainable energy development. This includes exploring the use of blockchain technology, green bonds, crowdfunding, and other emerging financing options that are sustainable, cost-effective, and inclusive. Additionally, there is a need for developing policies and frameworks that encourage private investments in renewable energy projects and incentivize energy-efficient practices. The integration of innovative financing methods, efficient policies, and supportive frameworks can foster the growth of sustainable energy projects, thereby contributing to the achievement of global climate targets.

b. Experience of EU in Reorienting financing towards the energies of the future

The European Union (EU) has been at the forefront of reorienting financing towards the energies of the future with a goal to transition towards a low-carbon economy. The EU's experience in this area provides valuable insights into successful strategies and frameworks.

One of the notable initiatives in the EU is the European Investment Bank (EIB)'s Climate Awareness Bonds (CABs). The CABs were introduced in 2007 and aimed to provide financing for climate-friendly projects. This initiative has allowed the EIB to raise funds from international investors to support various renewable energy projects in the EU. For instance, CABs have supported wind energy projects in Germany, solar power projects in Spain, and biogas projects in Austria.

Furthermore, the EU's European Fund for Strategic Investment (EFSI), commonly known as the "Juncker Plan," has been successful in mobilizing private investments towards sustainable projects. EFSI is a flagship initiative of the EU, which aims to promote sustainable economic growth through strategic investments. The plan is expected to leverage at least €500 billion of investment up to 2020. This initiative has supported major renewable energy projects, including investments in offshore wind parks, energy-efficient building renovations, and smart grid technologies.

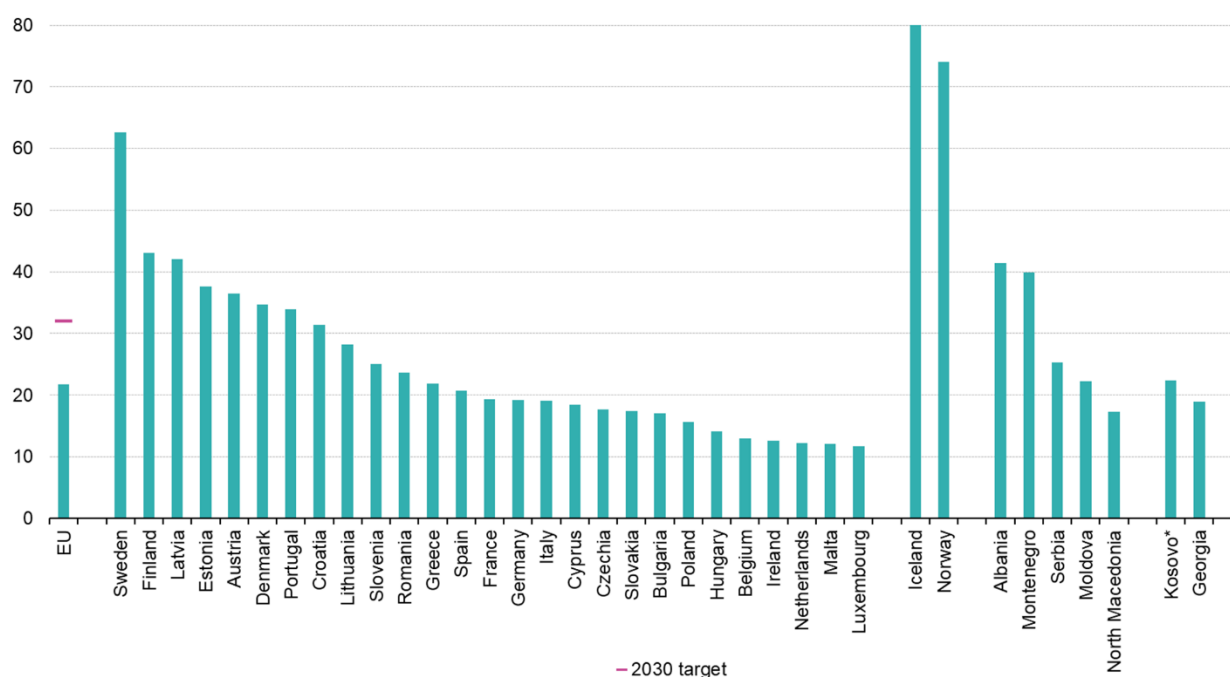
Moreover, the EU has committed to the implementation of the Paris Agreement, and it has set ambitious targets for its Member States to reduce greenhouse gas emissions by at least 40% by 2030. To facilitate the transition towards a low-carbon economy, the EU's Investment Plan for Europe proposed the creation of a new advisory platform on sustainable finance, aiming to support investments in sustainable projects. The initiative is expected to provide guidance on how to account for environmental risks and opportunities when making investment decisions.

Another noteworthy initiative is the European Commission's (EC) Action Plan on Financing Sustainable Growth, which aims to reorient private capital towards sustainable investments. The plan seeks to integrate sustainability into the EU's financial system by creating standardization frameworks, building capacity, and enhancing transparency. One of the significant components of the plan is the creation of a new classification system, commonly known as the "taxonomy," which aims to provide clarity on what constitutes a "sustainable" investment. This system can also help to identify potential opportunities for investment and facilitate better, informed decision-making.

Finally, the EU's Horizon 2020 program, which is the biggest EU research and innovation program, has also supported research and innovation in the field of renewable energy technologies. This initiative has facilitated the development of innovative renewable energy systems like wind, solar, and geothermal.

Share of energy from renewable sources, 2021

(% of gross final energy consumption)



— 2030 target

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

Source: Eurostat (online data code: nrg_ind_ren)

eurostat 

Example

The European Union has demonstrated a strong commitment to reorienting financing towards the energies of the future, in line with its ambitious sustainability goals. One example of this is the European Investment Bank's (EIB) Energy Lending Criteria, which were revised in 2013 to include a greater focus on renewable energy and energy efficiency projects. According to the European Investment Bank (EIB), it has provided more than €42 billion in financing for renewable energy projects between 2013 and 2020. In 2020, renewable energy sources accounted for 43% of the EU's electricity generation, surpassing the share of fossil fuels for the first time.

Under the new criteria, the EIB has increased its lending to renewable energy projects, as well as energy-efficient buildings and transport. Specifically, the bank aims to provide at least 25% of its annual lending volume to climate change mitigation and adaptation projects.

c. Experience of Uzbekistan in Reorienting financing towards the energies of the future, comparative analysis

Uzbekistan, as a developing country, has also been exploring ways to reorient financing towards the energies of the future. Given the country's vast

potential for renewable energy, Uzbekistan has initiated significant efforts to leverage this potential and maximize its benefits. In recent years, the Uzbek government has implemented several initiatives towards sustainable energy investment.

One of the most significant investments in the country is the construction of the 100MW wind farm in Zarafshon in Navoi region. This project was financed by the Asian Development Bank (ADB) and Uzbekistan's renewable energy program, and it is expected to increase the country's domestic renewable energy base by approximately 600,000 MWh per year. The project will also attract foreign direct investment, create employment opportunities, and reduce fossil fuel imports.

Another initiative is the establishment of the Uzbekistan Agency for Development of Renewable Energy under the Ministry of Energy. The agency has been instrumental in developing regulatory and policy frameworks that incentivize private investments towards renewable energy projects. It also facilitates the integration of renewable energy into the country's energy mix, enhances energy security and reduces carbon emissions.

Furthermore, Uzbekistan has prioritized energy efficiency measures and technologies within its industrial sector. The National Energy Efficiency Program for 2019-2020 aims to reduce energy consumption in industrial facilities by improving energy management practices and implementing energy-efficient technologies. The program is expected to create more than 80,000 jobs in the energy sector, reduce energy consumption by more than 500 million kWh, and decrease CO₂ emissions by over 232 million tons per year.

Moreover, Uzbekistan has taken a leading role in the development of solar energy projects. The country launched a pilot 100MW solar project in Samarkand region in 2019, and it is expected to be connected to the national grid by 2020. The government also launched a project to develop the largest solar plant in the region, which will generate 1 GW of electricity. According to the International Energy Agency (IEA), Uzbekistan's solar power capacity has grown from just 10 Megawatts (MW) in 2019 to 440 MW in 2020, a remarkable increase in just one year. Additionally, Uzbekistan's wind power capacity has increased from 18 MW to 200 MW during the same period.

Finally, Uzbekistan has shown significant interest in exploring Energy Performance Contracting (EPC) as a financing mechanism for energy-efficient projects. The EPC model provides investors with a guarantee on returns on energy-saving investments, thereby promoting sustainable energy projects and incentivizing private sector investment.

In conclusion, Uzbekistan's efforts towards reorienting financing towards the energies of the future show promising results in transitioning towards sustainable

energy systems, increasing energy security, and mitigating climate change. Nonetheless, there remains a need to enhance collaboration with international stakeholders and explore additional financing options to increase the potential of sustainable energy in the country.

Uzbekistan's RES potential

Renewable energy source	Gross potential	Technical potential
Hydropower	9.2 Mtoe	2 Mtoe
Wind power	2.2 Mtoe	0.4 Mtoe
Solar power	50 973 Mtoe	177 Mtoe
Geothermal energy	67 000 Mtoe	0.3 Mtoe
Total alternative energy sources	117 984 Mtoe	179.3 Mtoe

Comparison

Both Uzbekistan and the European Union (EU) are making efforts to reorient financing towards the energies of the future, but their experiences differ in several ways.

Renewable Energy Goals

The EU has set a target of achieving a 32% share of renewable energy by 2030, while Uzbekistan aims to achieve 25% of its electricity generation from renewable sources by 2030. However, Uzbekistan has done exceptionally well in achieving this goal, with over 5,000 MW of renewable energy projects already under construction or commissioned.

Financial Support

In terms of financial support, the EU has several initiatives devoted to financing renewable energy projects. These include the European Investment Bank's (EIB) financing support for renewable energy projects, the European Fund for Strategic Investments (EFSI), and the Energy Union Investment Plan. In contrast, Uzbekistan is a developing country and therefore lacks the same level of financial resources for renewable energy development. However, the country has taken some initiatives to attract private investments in renewable energy through

guidelines established by the Agency for Development of Renewable Energy and the adoption of supportive policies and legislative frameworks.

Types of Renewable Energy

While both Uzbekistan and the EU are pursuing renewable energy, they are prioritizing different types of renewable energy sources. The EU has diversified its portfolio to include technologies like offshore wind, geothermal power, and bioenergy, while Uzbekistan is mainly embracing solar and wind energy. The EU has also invested in breakthrough sustainable energy technologies such as battery storage systems and green hydrogen, while Uzbekistan is yet to invest in research and development of these new technologies.

Sustainability Criteria

The EU has integrated sustainability criteria into its financing and investment decisions, which ensures that renewable energy projects not only achieve their energy production targets, but also environmental and social goals. Similarly, Uzbek banks should incorporate sustainability criteria in their investments and improve access to sustainable financial services. This is consistent with current efforts of other Central Asian countries, like the Kyrgyz Republic, which recently issued a new green bond framework in line with International Capital Market Association (ICMA) sustainability standards.

Capacity Building

The EU has invested in building the capacity of financial and non-financial actors by providing them support and guidance necessary for mainstreaming green finance. This includes providing technical support to small and medium-sized enterprises to enable them to pursue sustainable business models. Uzbekistan should also invest in building the capacity of its banking sector and other relevant stakeholders to enable them to transition to sustainable business models.

In conclusion, while Uzbekistan and the EU share a common goal of transitioning to a sustainable energy future, there are differences in their approaches. The EU has established more extensive frameworks to support sustainable finance, while Uzbekistan, a developing country, has taken necessary steps to develop its renewable sector, and encourage private investors. Nevertheless, both Uzbekistan and the EU should continue their efforts to promote sustainable finance and address the climate crisis.

d. Which methods of EU can be adapted in Uzbekistan in Reorienting financing towards the energies of the future

Uzbek banks can learn from the European Union's (EU) experience in reorienting financing towards the energies of the future by implementing several approaches. The following three methods used by the EU can be adapted by Uzbek banks.

1. Supporting Green Projects

One of the most effective ways for banks to reorient financing towards the energies of the future is by supporting green projects. In the EU, several banks have come together to form the Green Investment Group, which invests in renewable energy projects globally. This initiative has enabled banks to lend to more green projects, particularly in countries outside of the EU. Uzbek banks can partner and collaborate to form similar initiatives for lending to renewable energy projects in Uzbekistan.

2. Offering Green Finance Products

Another way banks can reorient financing towards the energies of the future is by offering green finance products, such as green loans and green mortgages. These are loans given to customers who want to purchase, construct, or improve their environment-friendly investments, such as energy-efficient homes and commercial buildings, hybrid or electric vehicles, and renewable energy installations. In the EU, green bonds and green loans are becoming increasingly popular, and countries like Germany have introduced incentives to attract green bond investments. Uzbek banks can adopt similar green finance product strategies to attract more customers interested in sustainable investing.

3. Engaging in Capacity Building

Capacity building is an important aspect of reorienting financing towards the energies of the future. The EU has implemented several capacity-building programs, such as the Sustainable Energy Investment Forums (SEI Forums), to introduce financial institutions and stakeholders to sustainable finance. SEI discussions provide the platform to exchange ideas and share experiences on sustainable finance, and several capacity-building programs enable stakeholders to learn the technicalities and opportunities to finance sustainable energy projects. Uzbek banks could adopt a similar approach by collaborating with the Agency for Development of Renewable Energy in Uzbekistan and European technical assistance initiatives to provide capacity-building programs enhancing green finance knowledge among involved stakeholders.

As Uzbek banks implement these methods, there is a need for both government and financial institutions to develop skills for sustainable energy investing. Financial institutions should prioritize renewable energy education and provide adequate training for employees to navigate renewable energy opportunities. It is essential to note that these methods' success is reliant on the development of supportive regulations for financial institutions, which may include tax incentives, environmental regulations and incentives, and mechanisms that ensure sustainability is integrated into banking activities. The effort should also involve policymakers, financial regulators, and the civil society to achieve a more comprehensive and integrated approach to promoting sustainable finance.

e. Conclusion

In conclusion, Uzbek banks can learn from the European Union's experience in reorienting financing towards the energies of the future. To achieve this, Uzbek banks should implement sustainable finance strategies, such as supporting green projects, offering green finance products, and engaging in capacity-building programs. These actions will require the development of supportive regulations and incentives from policymakers and financial regulators. The country's banks should invest in building the capacity of relevant stakeholders, including employees, customers and small- and medium-sized businesses, to prioritize sustainable financial practices. As Uzbekistan continues to work towards achieving its renewable energy goals, implementing these strategies will create a more efficient, sustainable, and successful future for the country.

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