

FEATURES OF ESG MANAGEMENT DEVELOPMENT IN UZBEKISTAN

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ABSTRACT

In recent years, the trend towards responsibility and environmental friendliness has spread to the area of investment. As a result, the new concept of ESG has emerged. The article examines in detail aspects of the implementation of ESG principles in the field of business and finance, foreign and domestic experience of this phenomenon.

Keywords: ESG direction, ESG regulation, investor, social development, corporate governance, green finance, investment, enterprises, organizational policy, financial stability.

In recent years, foreign companies have been actively financing in the ESG direction and developing new products that allow the integration of ESG solutions into the overall policy of the organization. In 2020, not only institutional investors, but also policymakers in developed markets expressed their intention to follow ESG principles. In 2020, total investments in ESG funds exceeded US\$50 billion, a figure that has doubled since 2019. ¹According to experts, the volume of investment in this direction will continue to grow over the next 15 years. Companies around the world are integrating the Sustainable Development Goals into their strategies and business processes. One of the global principles of responsible investment is checking the company for compliance with ESG principles (environmental - ecology, social - social development, governance - corporate governance).

Around the world, there has been a noticeable increase in the number of studies documenting the superior performance of ESG-informed investing. A meta-study from the NYU Stern Center for Sustainable Business and Rockefeller Asset Management published in 2021 found that 58% of the papers reviewed provided evidence of a

¹ International Institute for Sustainable Development, 2020 (Sustainable Investing: Shaping the future of finance)

positive correlation between ESG criteria disclosure and company financial performance.¹

According to the British auditing and consulting company EY, 97% of investors today focus on the ESG index when making decisions about where to invest money. Thus, in its popularity, ESG can be compared to credit rating assessment, one of the key indicators for investors.²

Companies with high ESG ratings today include many well-known brands. For example, the fashion houses Gucci, Michael Kors, Jimmy Choo and Armani received it for refusing to use natural fur and switching to synthetic materials. And shoe manufacturer Nike – for reducing the use of natural leather and switching to recycled Fly Leather.

Uzbek companies lag behind the world's leading companies in this regard. For the Uzbek business community, at least for companies operating in the domestic market, ESG is an exclusively new direction, the full development of which may take more than one year.

However, there is no consensus among domestic experts regarding how economically justified the efforts of companies related to the disclosure of ESG indicators are. On the one hand, this measure is designed to help investors better calculate the risks and long-term financial stability of the company. On the other hand, there are arguments that following the principles of sustainable development leads to increased costs, and the economic benefits of disclosing ESG indicators are exaggerated.

The term ESG has become widespread, including thanks to the Principles of Responsible Investment (PRI) initiative, which is approved by the UN. Investors who accept the PRI initiative, when investing in various assets, undertake to take into account the companies' adherence to the principles of sustainable development. In doing so, they recognize that greater consideration of environmental, social and governance factors contributes to stronger and more resilient financial markets. This approach also allows us to significantly increase our contribution to achieving the UN SDGs 2030. Uzbekistan at the country level also confirmed its commitment to sustainable development goals. Of the 17 global goals, the republic focused on eight areas. They are related to the fight against climate change, ensuring the health and well-being of citizens, achieving economic growth and providing quality education.

¹ New Meta-Analysis from NYU Stern Center for Sustainable Business and Rockefeller Asset Management Finds ESG Drives Better Financial Performance. <https://www.stern.nyu.edu/experiencestern/faculty-research/new-meta-analysis-nyu-stern-center-sustainable-business-and-rockefeller-asset-management-finds-esg>.

² Data from the British auditing and consulting company EY

Uzbekistan is experiencing a gradual increase in activity in the field of green finance. If initially this segment was represented mainly in the form of grants from international financial institutions, then in recent years other instruments have been introduced, such as green loans and bonds.

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 was \$635 million (first tranche) and \$235 million (second tranche), both issues were 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.¹ 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), natural resource management (SDG-13 and SDG-15), green energy (SDG-7). Uzbekistan's SDG bond program was implemented with the support of UNDP and developed in accordance with ICMA standards: Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainable Bond Guidelines (SBG). For reporting purposes, disclosure to investors of information on the use of funds and an impact report is provided, which will be available on the website of the Ministry of Finance of Uzbekistan.²

In June 2022, the Intersectoral Energy Saving Fund under the Ministry of Energy of the Republic of Uzbekistan and JSCIB Mortgage Bank signed a general agreement, according to which the bank will issue preferential loans at the base rate of the Central Bank. As part of the cooperation, it is planned to allocate a total of about \$5 million (UZS 54 billion) of green consumer loans for the purchase of energy-saving technologies and equipment by households.³

The development of ESG regulation in Uzbekistan is at an initial level. The main focus is to improve the quality of life in the country and simplify business procedures. By decree of February 7, 2017, the President of Uzbekistan approved the Action Strategy for five priority areas of the country's development in 2017–2021. They included improving state and social construction, ensuring the rule of law and reforming the judicial and legal system, developing and liberalizing the economy, developing the social sphere and ensuring security, interethnic harmony and religious tolerance, and implementing a balanced, mutually beneficial and constructive foreign policy.⁴

¹ <https://www.bloomberg.com/news/articles/2022-01-25/qatar-eyes-debut-green-bond-in-latest-gulf-move-to-tap-esg-funds>

² <https://www.qnb.com/sites/qnb/qnbglobal/en/ennews15sep2020news>

³ http://energo-cis.ru/news/v_uzbekistane_vydelyayutsya/

⁴ <https://www.gazeta.uz/ru/2017/02/07/strategy/>

In conclusion, it can be noted that the interest of public and private companies in Uzbekistan in the EGS agenda continues to grow and the following key conclusions can be drawn:

□ In 2021, Uzbekistan published a report on ESG aspects for the first time to measure and evaluate the country's progress in implementing sustainable development goals.

□ The financial sector already offers “green” loan products and investments for projects related to sustainable development. 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 fiscal reform to support the transition to a green economy. Green budgeting methodology, green tax reform and other measures are being developed.

□ Uzbekistan is in fifth place in the world in terms of greenhouse gas emissions. The country intends to reduce specific emissions per unit of GDP by 35% by 2030 and achieve carbon neutrality by 2050. Issues of the carbon exchange and green taxonomy are discussed at the ministerial level. By 2030, about 30% of the country's electricity should come from renewable sources. By 2026, Uzbekistan has set a goal to increase the total capacity of solar and wind power plants in the country to 8 thousand MW.

□ The electric transport industry in the country is gradually developing: by 2030 it is planned to increase the share of electric vehicles in total sales to at least 15%. There are national manufacturers of electric vehicles in Uzbekistan.

□ The Development Strategy of Uzbekistan for 2022–2026 pays special attention to the intensive development of hydrogen energy in the country. The government has approved a research program to develop technologies for the production, storage and transportation of hydrogen.

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