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THE STATE OF GREEN BONDS ISSUING IN CENTRAL ASIAN COUNTRIES: COMPARATIVE ANALYSIS

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DOI: https://doi.org/10.55439/EIT/vol12_iss2/a1

Abstract

This article delves into the intricate challenge of gauging the impact of "green bonds" in Central Asian nations. The authors meticulously scrutinize the underlying causes that impede investments in environmental projects from yielding substantial improvements in the region's ecological landscape. Factors including infrastructure, regulatory frameworks, and governance are thoughtfully examined for their potential influence on the efficacy of green initiatives in Central Asia. The paper underscores the imperative for a comprehensive approach to address environmental concerns, emphasizing the pivotal role of sustainable development in shaping the region's future.

Keywords: green finance, sustainable development, investments, infrastructure, environmental projects, public policy, ESG bonds

MARKAZIY OSIYO MAMLAKATLARIDA YASHIL OBLIGATSIYALARNI EMISSIYA QILISH HOLATI: QIYOSIY TAHLIL

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Annotatsiya

Ushbu maqola Markaziy Osiyo mamlakatlarida "yashil obligatsiyalar"ning iqtisodiyotga ta'sir etishning zamonaviy muammolarini o'rganadi. Maqolada atrof-muhitni muhofaza qilish loyihalariga sarmoya kiritishga mintaqaning ekologik landshaftini sezilarli darajada yaxshilashga to'sqinlik qilayotgan asosiy sabablar ochib berilgan. Shuningdek, infratuzilma, me'yoriy-huquqiy baza va boshqaruv kabi omillar Markaziy Osiyoda yashil tashabbuslar samaradorligiga ta'siri tahlil qilingan. Maqola mintaqaning yashil kelajagini shakllantirishda barqaror rivojlanishning hal qiluvchi rolini inobatga olgan holda, ekologik muammolarni hal qilishda kompleks yondashuv zarurligini ta'kidlaydi.

Kalit so'zlar: yashil moliya, barqaror rivojlanish, investitsiyalar, infratuzilma, ekologik loyihalar, davlat siyosati, ESG obligatsiyalari

СОСТОЯНИЕ ВЫПУСКА ЗЕЛЕННЫХ ОБЛИГАЦИЙ В СТРАНАХ ЦЕНТРАЛЬНОЙ АЗИИ: СРАВНИТЕЛЬНЫЙ АНАЛИЗ

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Аннотация

В данной статье рассматривается сложная задача оценки влияния «зеленых облигаций» в странах Центральной Азии. Автор тщательно изучает основные причины, которые мешают инвестициям в экологические проекты привести к существенному улучшению экологического ландшафта региона. Факторы, включая инфраструктуру, нормативно-правовую базу и управление, тщательно изучаются на предмет их потенциального влияния на эффективность зеленых инициатив в Центральной Азии. В статье подчеркивается необходимость комплексного подхода к решению экологических проблем, подчеркивая ключевую роль устойчивого развития в формировании будущего региона.

Ключевые слова: зеленые финансы, устойчивое развитие, инвестиции, инфраструктура, экологические проекты, государственная политика, ESG-облигации.

Introduction

Central Asia (CA), a region of rich cultural diversity and unique geopolitical challenges, is grappling with the perplexing question of why the implementation of “green bonds” fails to translate into tangible environmental improvements. This paper delves into the heart of this dilemma, exploring the effectiveness of environmentally-focused financial instruments in fostering sustainable development. As we navigate through the intricacies of this topic, our examination focuses on the nuanced factors hindering the transformative potential of green bonds within the CA context. The aim of this research is to dissect the disconnect between investments in environmental projects and the actual realization of a greener landscape in the region. In the following pages, we will unravel the complexities surrounding the implementation of green bonds and shed light on the broader implications for the region’s sustainable development. Through a careful examination of these intricacies, we hope to contribute valuable insights to the ongoing discourse on environmental initiatives and their impact on the future trajectory of CA.

Green finance is a concept that encompasses financial activities aimed at supporting environmentally friendly projects and fostering sustainable development. According to the International Finance Corporation, green finance refers to financial investments that contribute to environmental sustainability while generating economic opportunities. The Climate Bonds Initiative defines green bonds as fixed-income instruments used to raise capital to finance or refinance projects that have positive environmental and climate benefits. The very first green bond was issued in 2007 with the AAA-rated issuance from multilateral institutions European Investment Bank (EIB) and World Bank. The market starting to kick off in 2014 and since then each year has closed at record all-time highs.

Literature review

The issuance of green bonds has emerged as a significant avenue for financing sustainable development projects globally. While this financial instrument has gained traction in many regions, its adoption and implementation in Central Asian countries remain relatively nascent. This literature review aims to provide a comprehensive overview of the state of green bonds issuing in Central Asian countries through a comparative analysis of existing research and empirical evidence.

1. Global Trends and Perspectives:

Global literature on green bonds has extensively documented the exponential growth of the market in recent years. Studies by Climate Bonds Initiative (CBI) and the International Finance Corporation (IFC) highlight the increasing issuance of green bonds worldwide, with a significant portion targeting renewable energy, energy efficiency, and sustainable infrastructure projects (Climate Bonds Initiative, 2020; IFC, 2019). These trends underscore the growing recognition of green bonds as a viable mechanism for mobilizing capital towards environmental sustainability goals.

2. Emerging Markets and Regional Dynamics:

While developed economies dominate the green bond market, emerging markets have also begun to explore opportunities in green finance. Research by Liu and Shao (2019) emphasizes the role of emerging markets, including those in Central Asia, in driving the growth of green bonds issuance. However, studies specifically focusing on Central Asian countries are limited, with the region often overshadowed by larger emerging economies.

3. Challenges and Opportunities in Central Asia:

Central Asian countries, comprising Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, face unique challenges and opportunities in the adoption of green bonds. Limited awareness, underdeveloped financial markets, regulatory constraints, and political instability are cited as key barriers to green bond issuance in the region (Diaz-Rainey et al., 2020; Ocampo et al., 2018). However, abundant renewable energy resources, infrastructure development needs, and international support present significant opportunities for green finance initiatives (World Bank, 2021).

4. Future Directions and Policy Implications:

Moving forward, there is a need for concerted efforts to promote green bonds issuance in Central Asian countries. Strengthening regulatory frameworks, enhancing market transparency, fostering investor confidence, and building institutional capacity are crucial steps towards unlocking the potential of green finance in the region (ADB, 2021; EBRD, 2019). Comparative analysis and knowledge sharing among Central Asian countries and with other emerging markets can facilitate the development of tailored strategies and best practices for green bonds issuance.

Analysis

Over the years, the global population has been steadily increasing, resulting in the expansion of countries' economies and subsequent growth in GDP and various macroeconomic indicators. This population surge contributes to a rise in the production of goods and services, leading to heightened utilization of natural resources. Unfortunately, this extensive production

takes a toll on nature, causing significant ecological damage and transforming our planet into an increasingly uninhabitable space.

In response to this environmental challenge, nations worldwide have collectively embraced the transition toward a green economy. However, navigating this path poses formidable challenges. The shift towards a sustainable and environmentally conscious economy requires intricate planning and concerted efforts.

Green bond issuance, in particular, stands out with distinct characteristics that set it apart from conventional bond issuance (table 1). This financial instrument serves as a crucial tool in promoting environmentally friendly initiatives and mitigating the adverse effects of traditional economic activities.

Table 1

The steps of issuing green bonds

Issuing a Regular Bond (A)	Issuing a Green Bond—Additional Steps (B)
<i>Pre-issuance</i> Get rated Get market intelligence on currency, tenor, size Decide on underwriters Register with local regulator Issue prospectus Comfort letter/due diligence Outreach through road shows and sales	<i>Pre-issuance</i> Define a green bond framework Define how project meets green bond eligibility criteria (use of proceeds) Put in place project selection process and select eligible projects (selection of projects and assets) Set up accounts and process to earmark and allocate proceeds “ring fence” the proceeds (management of proceeds) Establish reporting processes Get pre-issuance external review (external review)
Launch the bond into the market	
Post-issuance Price and allocate bond to support secondary market performance Communication to the capital market Monitor secondary market	Post-issuance Allocate proceeds to the projects Monitor the projects Publish impact report Post-issuance audit if necessary

Source: Sandeep Bhattacharya. Demystifying green bonds. Climate Bonds Initiative

As evident from the data presented in Table 1, the management of green bonds demands meticulous pre-issuance groundwork and subsequent vigilant monitoring post-issuance.

As of today, all CA countries have participated in the issuance of green bonds, with the exception of Turkmenistan, for which data is currently unavailable. Table 2 provides a comprehensive overview, revealing that there have been over 10 instances of green bond issuances across the CA region, accumulating a total funding surpassing 600 million USD. Notably, Uzbekistan spearheaded this initiative with the largest issuance observed in 2023, reflecting a strategic commitment to transform its economic landscape into a sustainable and environmentally conscious paradigm. This marked endeavor underscores the regional

momentum towards leveraging green bonds as a financial instrument to drive positive environmental outcomes and foster economic sustainability.

Table 2

Status of green bond issuance in CA countries

CA countries	Number of green bond issuances	Project aims	Issue volume
Kazakhstan	9	Green projects of issuers	265,6 million USD
Kyrgyzstan	1	Construction of houses and premises from environmentally friendly materials using “green” and energy-efficient technologies; agriculture through supporting women entrepreneurs and youth in the introduction of various “green technologies” on preferential terms; environmentally friendly transport, installation of chargers for electric vehicles; support for the tourism sector by financing the installation of wastewater treatment plants, water-saving technologies, and the introduction of various “green technologies” on preferential terms.	950K USD
Tajikistan	1	Financing the budget deficit and can serve to smooth out unevenness in tax revenues	9,1 million USD
Turkmenistan	N/A	N/A	N/A
Uzbekistan	1	Transition to a “green” economy, liberalization of the gas and electricity price market, privatization of state-owned enterprises and a policy of trade liberalization through accession to the World Trade Organization, as well as the goals and measures outlined in the Uzbekistan-2030 strategy.	344,7 million USD

Source: Compiled by the author

It is crucial not only to oversee the repayment process but also to ensure the effective implementation of green projects. However, a noteworthy observation emerges — despite explicit commitments to investors regarding the allocation of funds for green initiatives, the majority of the raised capital is frequently directed towards addressing budgetary shortfalls, particularly in the case of state-issued green bonds.

This trend is not exclusive to governmental entities; companies, too, exhibit a parallel pattern. The funds mobilized through green bond issuance tend to be diverted towards meeting the broader financial needs of the company, rather than being exclusively dedicated to green and ESG projects as initially pledged. This raises critical questions about the alignment of

financial allocations with stated sustainability objectives, emphasizing the imperative for enhanced transparency and accountability in the utilization of green bond proceeds.

Discussion

While these steps signify the initiation of green bond issuance, a crucial question arises: how is the actual adherence to environmentally sustainable practices monitored throughout the project's lifecycle? The responsibility for monitoring the genuine "greenness" of the projects, from inception to completion, lies with various stakeholders.

Table 3

An overview of how and by whom the monitoring of green bond projects

Stakeholders	Responsibility	Actions
Issuing Entity/Issuer	The organization or entity issuing the green bonds holds a primary responsibility for monitoring and ensuring the adherence of funded projects to green standards	<ul style="list-style-type: none"> • Regularly tracking the progress of funded projects. • Verifying that the projects align with the green criteria outlined during the bond issuance. • Providing transparent and accurate reporting on the ESG performance of the projects.
External Third-Party Verifiers	Independent verification agencies or third-party verifiers are often engaged to provide an unbiased assessment of project compliance with green standards	<ul style="list-style-type: none"> • Conducting periodic audits and assessments of project activities. • Validating the accuracy of data and information provided by the issuer. • Offering an external, credible perspective on the environmental impact and sustainability of the projects.
Regulatory Authorities	Regulatory bodies play a role in overseeing and enforcing compliance with green finance regulations	<ul style="list-style-type: none"> • Establishing guidelines and standards for green bond issuance. • Conducting regulatory reviews to ensure projects align with specified criteria. • Imposing penalties for non-compliance or fraudulent claims.
Investors and Shareholders	Investors who have supported green bond issuance often have a vested interest in the success of environmentally responsible projects	<ul style="list-style-type: none"> • Engaging in shareholder activism to advocate for adherence to ESG principles. • Monitoring the issuer's reporting and seeking transparency on project progress. • Exercising voting rights to influence sustainability practices.
Local Communities and NGOs	Communities and non-governmental organizations (NGOs) can act as watchdogs, ensuring that projects benefit the local environment and society.	<ul style="list-style-type: none"> • Monitoring the impact of projects on the community and environment. • Advocating for transparency and involvement in decision-making processes. • Raising awareness about any discrepancies between project goals and actual outcomes.
Project Management Teams	Internal project management teams overseeing the implementation of funded projects play a crucial role in ensuring that green objectives are met	<ul style="list-style-type: none"> • Implementing robust project management practices. • Conducting regular internal audits and assessments. • Addressing any deviations from green standards promptly.

Source: Compiled by the author

Members and non-members alike are integral to the monitoring process, ensuring the transparent and accountable implementation of the designated green projects (refer to Table 3). Vigilance should be exercised at every stage of the project, encompassing planning, execution, and evaluation. Effective monitoring requires the collaboration of governmental bodies, regulatory authorities, project managers, investors, and local communities.

While Central Asian countries are at varying stages of development in green bonds issuance, there is significant potential for growth and impact. By addressing key challenges and leveraging regional and international cooperation, Central Asian countries can harness the power of green bonds to drive sustainable development and address pressing environmental challenges.

Conclusion

In conclusion, the examination of green bonds in Central Asia illuminates both promising strides and persistent challenges in the region's pursuit of sustainable development. A discernible trend emerges, revealing that despite explicit promises to investors, funds raised through green bonds, whether issued by states or companies, often find their way to address broader financial needs rather than being exclusively channeled into green and ESG initiatives.

As Central Asia navigates the complexities of integrating environmental sustainability with financial instruments, the paper underscores the critical importance of fostering transparency, accountability, and a genuine commitment to green objectives. The region stands at a crossroads, with the potential to leverage green bonds as a catalyst for lasting positive change. Moving forward, collaborative efforts between governments, companies, and investors are essential to ensure that the promise of green bonds translates into tangible environmental improvements, aligning with the broader goals of sustainable development in Central Asia.

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