

## Some problems in lending to energy efficient projects and solutions

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**Abstract:** *Social and environmental development of the country is impossible without the active participation of commercial banks, credit support for both large businesses and small businesses, and private entrepreneurship. The process of developing the system of lending to energy-efficient projects affects the environmental interests of all entities operating in various market segments without exception. The banking system acts as an important market component and is a flexible tool for implementing macroeconomic goals. At the same time, the banking system is one of the main parts of the market infrastructure that connects all sectors of the economy and serves its sustainable social and environmental development.*

**Keywords:** *commercial bank, energy efficiency project, international financial institutions, green development, energy efficiency, investments, environmental investments.*

Despite all the diversity of countries and their multi-variant economies, environmental degradation has a common component and is associated with the development of an industrial society with its inherent value orientations to increase growth rates. Solving environmental problems is important not only for ensuring environmental sustainability, but also for maintaining long-term economic growth. This raises the question of the need for developing countries to move to a new model of “green development”, which is defined as an eco-industrial revolution.

Credit lines of international financial institutions (IFIs) are the main source of long-term financing for green investments, especially in the field of energy efficiency. Commercial banks can become an important source of financing for environmental investments, but the role of commercial banks in this process remains limited.

Energy efficiency projects can be financed from various sources. The main sources of funds for implementing energy-saving measures are:

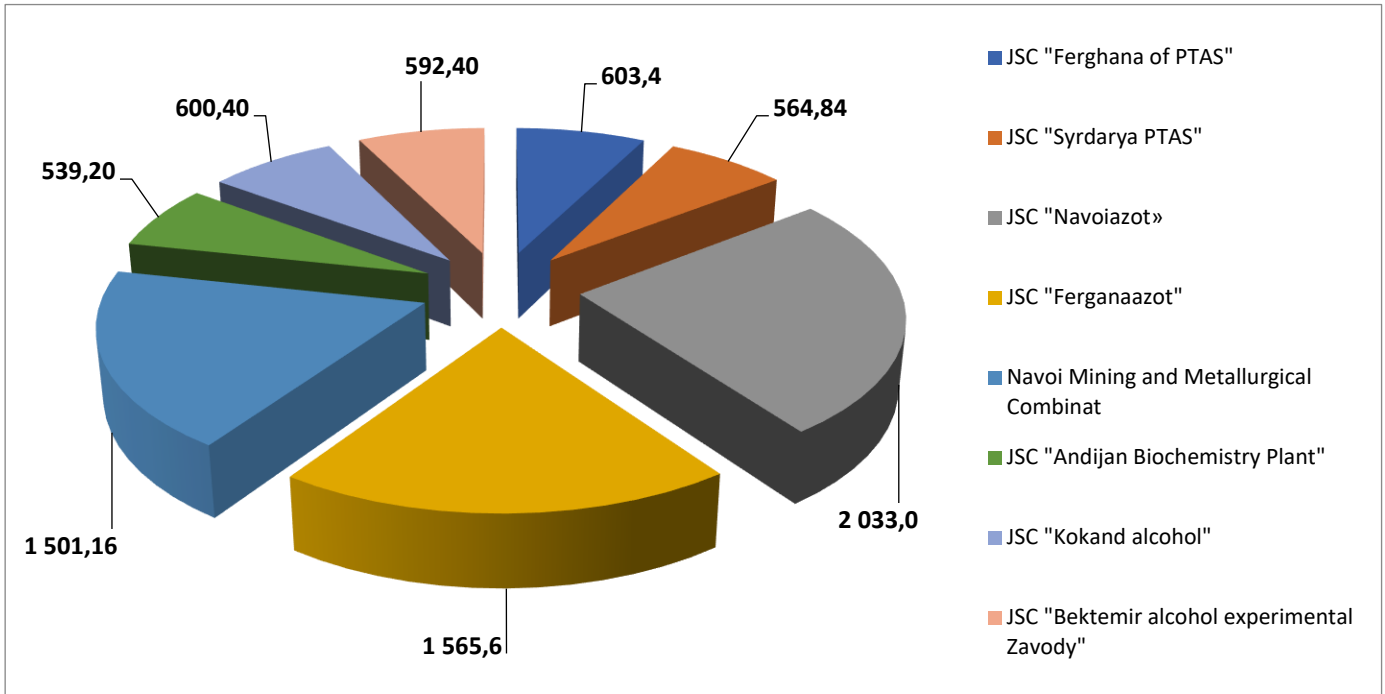
- own funds of organizations and enterprises involved in the implementation of energy saving programs;
- funds received from the cost of energy resources saved as a result of investment energy-saving projects;
- credit facilities of commercial banks;
- obtaining capital through the market of credit resources (funds of IFIs) and funds of leasing companies in the implementation of program investment energy-saving measures;
- funds raised in the implementation of international and interregional energy and environmental programs and projects related to improving energy efficiency;

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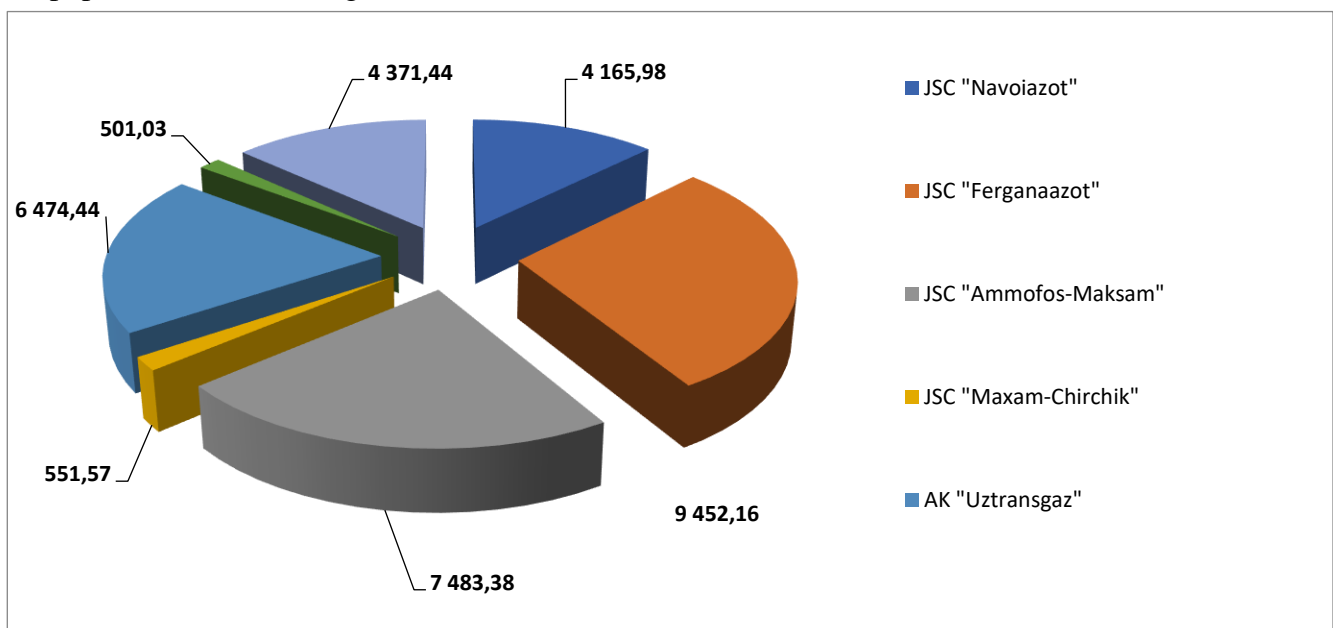
- external investment.

With the example of Uzpromstroybank, you can view and analyze energy-efficient projects funded by the World Bank.

**Placement of raised funds in the amount of 8.0 million USD dollars  
(I-stage of raising funds by the Bank)**



The diagram shows that the funds raised by the World Bank were mainly used for the modernization of large state-owned enterprises. Initially, the World Bank's financing program itself was focused on modernizing state-owned enterprises, thereby providing employment for the population and reducing environmental, social and environmental risks.



**Placement of raised funds in the amount of 33.0 million USD dollars  
(II-stage of raising funds by the Bank)**

Also in this chart, you can see that the funds raised by the World Bank were mainly used for the modernization of large state-owned enterprises.

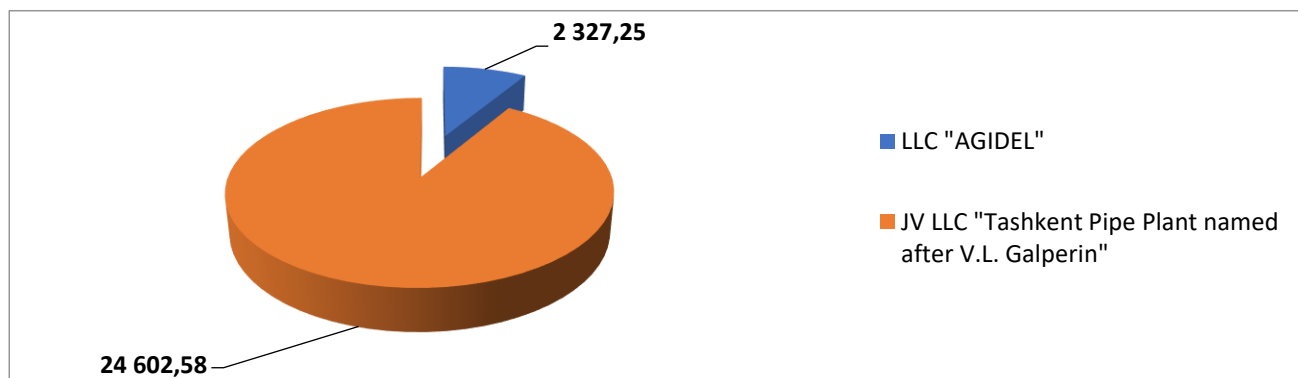
**Placement of raised funds in the amount of 50.0 million USD dollars  
(III-stage of raising funds by the Bank)**

In this diagram, you can see that the funds raised by the World Bank were mainly directed to the modernization of the private sector of the economy, LLC "AGIDEL" whose activity is the production of cardboard products, JV LLC "Tashkent Pipe Plant named after V.L. Galperin" activity is the production of metal products.

After analyzing the charts, we can conclude that the World Bank's policy is gradually shifting from financing large state-owned enterprises to financing the private sector of the economy. This is evidence of the increased confidence of the World Bank in commercial banks for their funds in the joint implementation of social and environmental projects.

This is where some problems arise in financing energy efficiency issues, these are mainly related to the main activities of borrowers, the availability of own funds in the implementation of a new project, etc. Also, the main problems in the organization of Bank lending to energy-efficient projects are insufficient or limited cheap resources from commercial banks, the complexity and significant complexity of the process of analyzing economic activity and the implementation of comprehensive measures in accordance with the requirements of the social and environmental standards of the IFI and the relevant guidelines for environmental protection, a certain system of environmental and social risk management of the Bank. Using the example of Uzpromstroybank, the system of which is currently being transformed with the help of the IFC, we can look at some ways to solve the problems of financing energy-efficient projects. Together with IFC, the Bank is creating an independent Green banking Department whose main task is to become one of the first green banks, to develop green Finance steadily, improving together with clients and partners, reducing the impact on the environment. In order to further improve the management activities, IFC have developed a policy and procedure for the management of ENVIRONMENTAL and social risks in the Bank's credit and investment activities. They are aimed at ensuring the long-term sustainable development of the Bank and its clients through the management of environmental and social impacts and risks, and establish mandatory environmental and social requirements of the Bank for funded projects.

In our opinion, the main problems of lending can be solved by such measures as:



- development of separate regulations in the Bank for consideration and assessment of environmental and social risks associated with the activities of borrowers;

- improve and expand the credit risk insurance system by offering various options to the borrower;
- ensure transparency of information, in particular, the commercial Bank's internal and external sources of small business lending, the cost of the proposed resources, and the procedure for calculating the interest rate, so that the potential borrower clearly understands how much the loan will cost him;
- encouraging clients to conduct business in accordance with the requirements of national legislation in the field of environmental protection, labor relations, occupational health and safety, and social aspects, as well as the application of best international practices in the field of environmental and social impact and risk management;
- compliance with legislation, State standards and regulations in the field of environmental protection, health, safety, occupational health, labor relations, protection of human rights and freedoms and other social aspects;
- ongoing measures to minimize environmental risks, reduce the negative impact on the environment, prevent possible accidents, as well as increase energy efficiency and resource conservation of enterprises, including through the introduction of modern technologies, equipment and materials that reduce the negative impact of activities on people and the environment;
- implementation of work aimed at preventing and reducing social risks and increasing social responsibility;
- implementation and application of best environmental and social practices in the implementation of activities and projects on the recommendation of the Bank.

We believe that the solution to the problems discussed above and the measures proposed by us will contribute to the effective organization of the credit process in commercial banks in the future.

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