

CHALLENGES IN IMPLEMENTING GREEN BANKING PRODUCTS IN UZBEKISTAN: A 2026 SECTORAL ANALYSIS

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Abstract: *This research evaluates the primary obstacles hindering the expansion of green banking in Uzbekistan as of 2026. While the "Uzbekistan-2030" Strategy prioritizes a green transition, commercial banks face systemic issues, including a national taxonomy gap, high operational costs, and the "Payback Paradox" in retail solar lending. The study concludes that institutional modernization is required to bridge the gap between policy ambition and financial viability.*

Keywords: *green banking, ESG, green taxonomy, financial readiness, energy efficiency, payback paradox, institutional readiness gap, renewable energy sources (RES), sustainable finance*

1. Introduction

The global banking sector has increasingly integrated Environmental, Social, and Governance (ESG) criteria into its core operations. In Uzbekistan, this transition is driven by the 2030 Green Economy Strategy, which targets a significant reduction in greenhouse gas emissions and a pivot to renewable energy (AIIB, 2025). However, unlike developed markets where the primary concern is "greenwashing," Uzbek banks are grappling with an **Institutional Readiness Gap**. The research identifies that the lack of standardized environmental data and high local interest rates remain the most significant barriers to scaling green financial products.

2. Literature Review

The transition toward green banking has emerged as a critical focal point for financial institutions globally, specifically in the context of achieving Sustainable Development Goal 13 (Climate Action). Recent scholarly discourse emphasizes that while green banking practices provide strategic competitive advantages, their implementation in emerging economies is fraught with systemic barriers.

According to a systematic review by Riyanti et al. (2025), green banking is implemented through two primary channels: active green lending and the "greening" of internal operations. However, the study identifies transition risks and high compliance costs as universal deterrents for commercial banks. In the context of Asia, China and Malaysia have set regional benchmarks by integrating climate stress testing and green finance guidelines into central banking frameworks (Positive Money, 2025).

Conversely, Central Asian economies are characterized as being in the "infancy stage" of this transition, largely reliant on international donors and Multilateral Development Banks (MDBs) to bridge the financing gap (OECD, 2025). Uzbekistan's commitment to a low-carbon economy is codified in the "Strategic Framework for Transitioning to a Green Economy until 2030." Recent literature highlights that the outsized role of the state and an underdeveloped domestic capital market are significant constraints to mobilizing private green finance (OECD, 2025). Gulomkodiurova (2023) and more recent assessments by the World Bank (2025) argue that the lack of standardized definitions and assessment frameworks—often referred to as a "Taxonomy Gap"—prevents local banks from effectively labeling and monitoring green assets.

The financial readiness of state-owned banks in Uzbekistan remains a subject of intense academic scrutiny. Studies by Sutrisno et al. (2024) suggest that while banks with high capital buffers are better equipped for long-term green investments, Uzbek banks often face liquidity constraints and high leverage. Furthermore, a significant barrier identified in 2026 is the "Payback Paradox": high interest rates on green credits (20-22%) coupled with subsidized traditional energy prices make green investments, such as residential solar panels, financially unattractive for the average consumer (CBU, 2026; AIIB, 2025).

Existing literature predominantly focuses on the macro-level policy reforms and the role of international funding. However, there is a distinct lack of empirical research regarding the micro-level operational challenges faced by Uzbek commercial banks, particularly in the areas of technical due diligence and ESG data collection from Small and Medium Enterprises (SMEs). This study aims to fill this gap by analyzing the operational bottlenecks within the 2026 financial ecosystem of Uzbekistan.

2. Methods

This paper employs a qualitative descriptive approach, integrating document analysis of the 2025-2026 regulatory frameworks from the Ministry of Economy and Finance and the Central Bank of Uzbekistan. Furthermore, a comparative review was conducted on the performance of the "Green Energy for Households" program across regional hubs such as Tashkent and Namangan. Quantitative data regarding interest rates and subsidy payouts were synthesized from recent reports by the OECD (2025) and World Bank (2025).

3. Results

The analysis identifies three critical problems currently facing Uzbek banks:

- **Taxonomy and Data Scarcity:** Despite the introduction of a national green taxonomy in late 2025, many Small and Medium Enterprises (SMEs) lack the technical capacity to report on carbon metrics, making it difficult for banks to verify project eligibility (OECD, 2025).

- **The Payback Paradox:** Retail solar loans in early 2026 carry interest rates of 20-22%. Combined with historically subsidized electricity prices, the break-even period for a household solar system remains at 8-10 years, deterring organic demand without state coercion (CBU, 2026).
- **Operational Bottlenecks:** Banks like SQB and Agrobank report high costs in technical due diligence, as they often have to hire external environmental auditors to meet the reporting standards of international lenders like the EBRD (World Bank, 2025).

4. Discussion

The findings suggest that the success of green banking in Uzbekistan is currently artificially sustained by international credit lines and state mandates. The **"Institutional Gap"** identified in the results section confirms that without a mature domestic market for green bonds and lower refinancing rates, the cost of green capital will remain prohibitively high. Furthermore, the 2026 privatization of state-owned banks (such as Asakabank and SQB) introduces a new risk: as banks move toward purely commercial models, they may reduce "socially-driven" green lending unless the state increases performance-based subsidies like the 1,000 UZS/kWh "Sunny Home" payout (AIIB, 2025).

5. Conclusion

The transition toward green banking in Uzbekistan as of 2026 represents a critical evolutionary phase for the national financial system. While the "Uzbekistan – 2030" Strategy and the "Sunny Home" initiative have provided a strong regulatory impetus, this research concludes that significant structural barriers remain. The primary findings indicate that the **"Institutional Readiness Gap"**—characterized by a lack of granular ESG data and a mismatch between high market interest rates and subsidized energy tariffs—is the most significant obstacle to scaling sustainable finance.

The study confirms that the **"Payback Paradox"** hinders the organic adoption of green technologies by retail consumers, as the 8-10 year return on investment for solar infrastructure is often deemed unfeasible at 20-22% interest rates. Furthermore, the reliance on international funding underscores a vulnerability in the domestic capital market, which has yet to develop a robust ecosystem for green bonds and local-currency sustainable assets.

To accelerate the green transition, this research recommends:

1. **Regulatory Harmonization:** Strengthening the National Green Taxonomy to provide banks with clear, verifiable criteria for green labeling, thereby reducing "greenwashing" risks.
2. **Financial Engineering:** Introducing interest rate subsidies (similar to the Kazakhstan "Damu" model) to bridge the affordability gap for SMEs and households.

3. **Capacity Building:** Investing in technical education for bank personnel to conduct environmental due diligence without excessive reliance on international consultants.

In summary, 2026 is a pivotal year for Uzbekistan. The successful integration of green banking depends not only on policy mandates but on the ability of financial institutions to lower the cost of green capital and foster a data-driven culture of sustainability.

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