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Green Economy Financing Instruments and Their Application Features

Pardayeva Dildora
Student of Karshi state university

Abstract: Green growth means fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies.

Keywords: Green economy, country, sustainability, environment, service.

Introduction. Green growth is not a replacement for sustainable development. Rather, it provides a practical and flexible approach for achieving concrete, measurable progress across its economic and environmental pillars, while taking full account of the social consequences of greening the growth dynamic of economies. The focus of green growth strategies is ensuring that natural assets can deliver their full economic potential on a sustainable basis. That potential includes the provision of critical life support services – clean air and water, and the resilient biodiversity needed to support food production and human health. Natural assets are not infinitely substitutable and green growth policies take account of that.

Green growth policies are an integral part of the structural reforms needed to foster strong, more sustainable and inclusive growth. They can unlock new growth engines by:

- Enhancing productivity by creating incentives for greater efficiency in the use of natural resources, reducing waste and energy consumption, unlocking opportunities for innovation and value creation, and allocating resources to the highest value use.
- Boosting investor confidence through greater predictability in how governments deal with major environmental issues.
- Opening up new markets by stimulating demand for green goods, services and technologies.
- Contributing to fiscal consolidation by mobilising revenues through green taxes and through the elimination of environmentally harmful subsidies. These measures can also help to generate or free up resources for anti-poverty programmes in such areas as water supply and sanitation, or other pro-poor investments
- Reducing risks of negative shocks to growth due to resource bottlenecks, as well as damaging and potentially irreversible environmental impacts.

Strategies for greener growth need to be tailored to fit specific country circumstances. They will need to carefully consider how to manage any potential trade-offs and best exploit the synergies between green growth and poverty reduction. The latter include, for example, bringing more efficient infrastructure to people (e.g. in energy, water and transport), tackling poor health associated with environmental degradation and introducing efficient technologies that can reduce costs and increase productivity, while easing environmental pressure. Given the centrality of natural assets in low-income countries, green growth policies can reduce vulnerability to environmental risks and increase the livelihood security of the poor. Green growth strategies also recognise that focusing on GDP as the main measure of economic progress generally overlooks the contribution of natural assets to wealth, health and well-being. They therefore need to rely on a broader range of measures of progress, encompassing the quality and composition of growth, and how this affects people's wealth and welfare. The OECD is working to identify the policy mixes and measurement tools that countries in different situations can adopt to implement green growth in a way that contributes to poverty eradication, employment opportunities, and a strong and sustainable economy.

With the contribution of developing and emerging countries to global greenhouse gas emissions continuing to rise, policymakers need to find ways to mobilise financing for the development of low-carbon energy technology and industrial infrastructure. Current investment in climate finance falls significantly short of the estimated annual investment that is needed to put greenhouse gas emissions on a trajectory that will ultimately keep the global average temperature increase within manageable limits. This report addresses the question of how developing and emerging countries can create coherent policy frameworks that will spark investment in low-carbon infrastructure and technology and improve access to energy in remote areas. It assesses the framework in ten countries with regard to policy consistency, policy coherence and their ability to mobilise financing for green investments.

The 'Financing Green Growth' report draws the following main conclusions on the current situation as regards green finance in the ten countries surveyed:

• Environmental policies are not providing sufficiently strong and stable signals to encourage financial institutions to provide the capital required to achieve their sustainability objectives

• Financial sector policies almost never take green financing into account. Instead, it is promoted mainly through environmental policies as well as schemes devised by multilateral actors. Bangladesh is the only country to have adopted explicit green banking guidelines

• The majority of green financing is provided via international public and private financial institutions. Local private financial institutions contribute to green financing only to a minor extent. Typical financial instruments are subsidy schemes for specific renewable energy technologies, concessionary refinancing schemes or specific funds (mostly grants) that can be utilised for green investment

• A lack of market transparency in the energy efficiency and small-scale renewable energy sectors, often a result of complex technologies and engineering service packages, are keeping financial institutions from deploying funds

• Domestic financial institutions have been successfully involved in cases where intensive, long-term capacity building was being carried out, often coupled with financing mechanisms such as concessional financing schemes or credit guarantee schemes offered by governments or multilateral stakeholders.

The global threat posed by climate change and environmental degradation has placed green growth and the transition towards a green economy at the top of the international political agenda. Achieving such a transition requires a considerable scale-up of investments in low-carbon technologies and environmental preservation (Hamilton, 2009). This is particularly true for developing and emerging economies, since they are home to vital ecosystems and account for a rapidly rising share of global greenhouse gas emissions, yet the financial and political environments in these countries are often not conducive to the financing of such technologies. With the contribution of developing and emerging countries to global greenhouse gas emissions continuing to rise, policymakers need to find ways to mobilise financing for the development of low-carbon energy and industrial infrastructure and technology. This report addresses the issue by examining how energy, industrial and finance policies in developing and emerging countries can create coherent frameworks that will stimulate investment in low-carbon infrastructure and technology. It also assesses the political consistency of such frameworks, along with their coherence and the potential they offer for mobilising finance.

Understanding the various factors that influence policy success requires, on the one hand, an individual analysis of each policy area to determine appropriate strategies, institutions and instruments for a given set of objectives. On the other hand, policy analysis should assess the overall ability of an entire set of policies to address major barriers to specified objectives. Thus, policy analysis must consider:

• Consistency in the implementation of a single policy: degree to which policy goals are translated into tangible policy instruments, enforced by institutions;

• Coherence among a set of policies: ability of the entire spectrum of policies to address all relevant barriers to mobilising green financing;

• Effectiveness of the policy framework in mobilising financing for green investment opportunities.

Environmental policy has the objective of preventing, reducing or mitigating harmful impacts on nature and natural resources. In most developing countries, environmental policy is designed and implemented within the other three policy areas of energy, economy, and, to a limited extent, financial sector policy. Energy policy addresses issues of energy production, transmission, distribution, and, in part, consumption. Energy policies are driven by diverse and often contradictory motivations such as establishing national energy self-sufficiency, enabling reliable universal access to electricity, reducing the cost of electricity production, transmission and distribution, reducing environmental externalities of electricity production and lowering energy consumption. In order to effectively promote green financing, energy policy needs to create a political framework that promotes stable, long-term demand for investments in renewable energy. Economic policy covers a wide range of government interventions, such as the drawing up of the government budget, laws on national ownership and industrial policy, and elements of trade and fiscal policy.

Economic policies aim to stabilise and grow the economy, redistribute income and property, improve the competitiveness of domestic firms and maintain market competition. To promote green finance effectively, economic policy needs to incentivise and regulate the domestic economy in the industrial, transportation, infrastructure and service sectors in order to create financing demands for investments in increasing efficiency and reducing waste. The financial sector policy of a country governs the regulation of financial institutions and markets. Financial sector policies aim to enable efficient flows of capital while maintaining overall economic stability. In order to have an impact on green financing, financial sector policies need to provide financial institutions with the required incentives, regulations, information and capacity to make green investments. As financial institutions are by nature risk-averse, policy instruments need to address their ability to assess specific risks associated with green investments, shield them from risks through guarantee mechanisms, and provide incentives in the form of concessional refinancing schemes. Moreover, financial sector policies may aim to increase transparency in the green investment sector by introducing reporting standards and by using credit policies and loan targets to encourage financial institutions to support green investments.

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