

RESEARCH ARTICLE

The Development of ESG Practices in Uzbekistan: Challenges and Future Directions

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Abstract

This article examines how the sustainable development agenda is influencing changes in the world economy. These days, environmental stewardship (E), social responsibility (S), and good governance (G) are the three main areas that business and finance are concentrating on more and more. This essay explores the implications of Uzbekistan's shift to ESG and the obstacles the nation must overcome to achieve sustainable financing.

The current state of affairs, major challenges, and particular actions required to advance ESG principles in the nation are all examined in this article. Creating a functional national ESG infrastructure, establishing clear guidelines (methodology), making Uzbek ESG ratings comprehensible to international investors, and assisting local businesses in incorporating these concepts into their day-to-day operations are some of the major problems facing the country going forward.

KEYWORDS

ESG transition, sustainable finance, green economy, Sustainable Development Goals (SDGs), ESG principles.

INTRODUCTION

The modern global economy is undergoing a fundamental transformation driven by the depletion of natural resources, the intensification of climate risks, the growing social sensitivity of business, and the need to take into account the long-term consequences of economic activity. The key drivers of these changes are the climate agenda, the global architecture of sustainable development, and the transition to a new model of corporate behavior known as ESG. From a scientific and theoretical perspective, ESG should be regarded not only as a set of environmental, social, and governance criteria, but also as an institutional model for coordinating the interests of the state, business, investors, and society. This

model guides economic actors toward long-term value creation, the reduction of non-financial risks, greater transparency in corporate governance, and enhanced resilience to external shocks. In this sense, ESG serves as a mechanism for integrating the principles of sustainable development into strategic planning, investment selection, corporate governance, and financial reporting processes.

The conceptual foundations of the modern ESG approach were formed gradually. A significant milestone was the appeal made by United Nations Secretary-General Kofi Annan to the global business community in 2004, after which ESG factors began to be perceived as an important component of investment

analysis and corporate strategy. Subsequently, this logic became institutionally embedded in the 2030 Agenda for Sustainable Development, adopted by all UN Member States in 2015, the Paris Agreement, adopted in December 2015 and entering into force on November 4, 2016, and the European Commission's 2018 Action Plan on Financing Sustainable Growth. These documents moved ESG from the category of voluntary initiatives into the sphere of international regulatory, investment, and managerial practice. As a result, ESG came to be viewed as the foundation of a new business philosophy that determines companies' competitiveness, their access to capital, and their reputational sustainability in the long term.

The scientific significance of ESG in contemporary conditions is associated with the fact that this concept reflects the transition from the traditional model of short-term profit maximization to the model of "sustainable value creation." While classical financial theory primarily emphasized profitability and risk, the modern paradigm of sustainable finance increasingly highlights climate risks, transition risks associated with the shift to a low-carbon economy, issues related to human capital, business ethics, governance quality, and the resilience of supply chains. Consequently, ESG has become an important tool not only for the ethical positioning of companies, but also for the practical management of the cost of capital, investment attractiveness, and the resilience of business models. International standards IFRS S1 and IFRS S2 have formalized this very approach by establishing that sustainability-related risks and opportunities subject to disclosure are those capable of affecting a company's cash flows, access to finance, and cost of capital in the short, medium, and long term.

Global trends in 2025–2026 indicate that the ESG transition is entering a new phase—from the declarative acceptance of principles to their standardization, measurability, and integration into financial infrastructure. One of the key trends is the rapid spread of international sustainability disclosure standards. According to the IFRS Foundation, by mid-2025, 36 jurisdictions had adopted ISSB standards or were in the final stages of integrating them into national regulatory frameworks, and by September 2025, this number had risen to 37. These jurisdictions accounted for around 60% of global GDP, more than 40% of global market capitalization, and approximately 60% of global greenhouse gas emissions. This demonstrates that in 2025–2026, the global market is moving toward the formation of a unified baseline system for

sustainability disclosures necessary to ensure the international comparability of companies.

Another important trend has been the shift in emphasis from abstract "ESG positioning" to the verifiability and quality of data. In 2025, the IFRS Foundation issued specific guidance on the disclosure of climate transition plans, explicitly pointing to the need to overcome the fragmentation of such reporting. At the same time, the European Union and European supervisory authorities intensified their focus on combating greenwashing and ensuring proper control over the reliability of sustainability information. In 2025, ESMA confirmed its continued focus on the implementation of sustainable finance regulation and the prevention of greenwashing, while the European Commission, במסגרת the Omnibus package, proposed simplifying certain elements of the CSRD and CSDDD in an effort to reduce administrative burdens without abandoning the core objectives of sustainable regulation. This demonstrates that the current stage of ESG evolution is associated not with a retreat from the sustainability agenda, but with its institutional refinement, unification, and increased practical applicability.

From the perspective of global capital flows, 2025 confirmed that sustainable finance retains systemic significance, although the market is becoming more selective and more demanding regarding the quality of instruments. According to the Climate Bonds Initiative, by the end of 2025 the cumulative volume of GSS and SLB instruments had reached USD 8.1 trillion, of which USD 6.8 trillion, or 83%, were recognized as aligned with Climate Bonds methodologies. At the same time, the OECD emphasizes that green bonds continue to dominate among sustainable debt instruments, accounting for about 60% of their total issuance. These data suggest that in 2025–2026 the global sustainable capital market is not disappearing, but rather undergoing a stage of qualitative consolidation: investors are paying increasing attention not to formal ESG labels, but to the actual environmental and social performance of projects, the transparency of indicators, and the existence of verifiable KPIs.

Finally, an important macroeconomic trend remains the deepening contradiction between growing demand for sustainable investment and the persistent financing gap for achieving the Sustainable Development Goals.

According to OECD estimates, the annual SDG financing gap in developing and emerging economies has increased from

USD 2.5 trillion to USD 4 trillion. At the same time, UNCTAD reported in 2025 a deterioration in sustainable development financing conditions amid declining official development assistance and stagnating foreign direct investment in developing countries. Meanwhile, the IEA notes that global energy investment is expected to reach USD 3.3 trillion in 2025, of which about USD 2.2 trillion will be directed toward clean energy, grids, storage, electrification, and low-emission technologies—roughly twice the amount invested in oil, gas, and coal. Therefore, the global trend in 2025–2026 consists in the simultaneous strengthening of the climate investment agenda and the intensification of competition for long-term capital, which is particularly important for countries seeking to integrate into the new architecture of sustainable finance.

DISCUSSION

The shift in the paradigm of the global economy has led to the emergence of a new megatrend in the financial industry — sustainable finance. For national economies, this implies the need to adapt to new environmental, social, and governance requirements, which is particularly relevant in the context of the accelerating transformation of global capital markets. For Uzbekistan, the ESG agenda is gradually ceasing to be merely an external reference point and is becoming one of the significant directions of state economic, investment, and institutional policy. Under current conditions, sustainable finance is becoming not simply an element of international rhetoric, but an important instrument for ensuring the country's long-term competitiveness, attracting investment, and increasing the resilience of the national economy to external challenges.

One of the key factors in the development of ESG approaches in Uzbekistan has been the strengthening of the regulatory and legal framework in the field of sustainable development and the green economy. A significant role in this process has been played by documents aimed at implementing national goals and objectives in the field of sustainable development through 2030. It was these documents that laid the institutional foundation for integrating the principles of

environmental sustainability, rational use of natural resources, and green finance into state policy. In recent years, the country has consistently increased its attention to environmental protection, energy efficiency, resource conservation, and the expansion of renewable energy use. Notably, 2025 was declared the Year of Environmental Protection and the Green Economy in Uzbekistan, which indicates a transition from the declarative recognition of sustainable development to a more active phase of its practical implementation.

Practical data for 2025–2026 confirm that separate elements of a sustainable finance system are already being formed in the country. There has been an expansion of mechanisms for attracting external financial resources for green transformation, the development of concessional green lending programs, and the gradual introduction of instruments confirming the environmental sustainability of energy projects. In particular, efforts are being intensified to develop the market for green certificates, which is of great importance both for the domestic energy market and for the country's foreign economic activity. For national producers and exporters, this is especially relevant in the context of tightening international requirements for the environmental transparency of products and the origin of energy.

A significant area of practical ESG implementation in Uzbekistan is the energy sector. The country is rapidly developing solar and wind energy, commissioning new generating capacities, and increasing the share of green energy in the structure of its energy balance. This makes it possible to view the ESG transition not only as an environmental necessity, but also as an important factor in economic modernization, strengthening energy security, reducing dependence on traditional resources, and increasing the country's investment attractiveness. Moreover, the expansion of low-carbon energy creates additional prerequisites for reducing emissions, saving natural gas, and improving resource efficiency at the scale of the national economy.



Figure 1. Uzbekistan’s ESG Transition (2025–2026)

Overall, the analysis of the presented data allows several generalized conclusions to be drawn. First, the ESG transition in Uzbekistan has already acquired a practical dimension, as confirmed by specific investment, energy, environmental, and human capital indicators. Second, the main driver of the current stage is the state, which forms the regulatory foundation, initiates programs, attracts international financing, and sets the institutional vector of transformation. Third, ESG development in the country remains uneven: the most significant results have been achieved in the energy sector and in large corporate structures, while other sectors and a considerable part of the private business sector are involved in this process to a much lesser extent. Fourth, a high dependence of ESG progress on external sources of capital and international initiatives can be observed, which underscores the need to develop a domestic sustainable finance market.

From a scientific perspective, this means that the main problem at the current stage of Uzbekistan’s ESG transition lies not in the absence of practical steps, but in the need to ensure their systemic interconnectedness. In other words, further development should be directed toward integrating the regulatory framework, financial instruments, corporate reporting, independent ESG verification, intersectoral integration, and human capital development into a single sustainable institutional model. Only under such an approach will ESG be able to perform not merely a declarative, but a

fully transformative function in the development of the national economy.

At the same time, important changes are also taking place at the corporate level. A number of large companies have already begun to introduce ESG diagnostics, develop ESG plans, and establish the first practices of non-financial reporting and ESG ratings assessment. However, the existing results show that, at present, ESG in Uzbekistan is concentrated mainly in large systemically important enterprises, especially companies with state participation and those operating in capital-intensive sectors of the economy. At the same time, for small and medium-sized businesses, as well as for a significant part of the private sector, ESG has not yet become a полноценный part of strategic and financial management. This indicates the existence of a substantial institutional gap between isolated pilot practices and the formation of a holistic national ESG ecosystem.

In this regard, one of the most significant scientific problems remains the insufficient methodological clarity of the ESG approach at the national level. Despite the intensification of state policy in this area, the country has not yet developed a fully unified system of ESG criteria, indicators, measurement procedures, and principles for comparing data across different sectors and economic entities. The absence of a unified methodological framework complicates both the objective assessment of achieved results and the creation of a transparent environment for investors. As a result, ESG ratings

and non-financial reporting of individual companies still do not possess a sufficient degree of comparability and international interpretability, which limits the possibilities for attracting foreign capital.

Another important problem is the limited development of institutions for independent ESG assessment and verification. For the sustainable finance market to function effectively, it is necessary to have specialized structures capable of carrying out independent expertise, confirming the quality of ESG processes, analyzing non-financial reporting, and comparing results with international standards. In the absence of such mechanisms, there remains a risk of a fragmented approach, in which ESG is perceived primarily as a formal element of image policy rather than as an instrument for the real management of sustainability, investment risks, and the long-term value of business.

Another major scientific and practical problem is the insufficient depth of ESG integration into internal corporate governance. Under modern conditions, ESG cannot be limited solely to the preparation of reports or participation in rating procedures. Its full implementation requires the incorporation of environmental, social, and governance factors into strategic planning, investment analysis, internal control, risk assessment, and personnel motivation systems. In this context, the formation of internal corporate policies aimed at involving employees in sustainable management processes becomes particularly important. Greater employee participation contributes not only to improving the quality of managerial decisions, but also to the institutional consolidation of ESG as part of corporate culture.

A serious constraint is also the shortage of human capital in the field of sustainable development and green finance. The expansion of ESG practices requires the training of a new type of specialist possessing competencies in climate policy, non-financial reporting, sustainable investment, environmental auditing, green banking, and corporate governance. Consequently, without the systematic development of educational programs, professional retraining, and public awareness initiatives, it is impossible to ensure a high-quality deepening of ESG transformation. In this sense, the formation of a national ESG infrastructure should encompass not only normative-methodological and financial components, but also educational, expert, and human resource foundations.

In light of the above, it can be concluded that the further advancement of ESG investment in Uzbekistan requires the

implementation of a set of interconnected measures. First of all, it is necessary to develop a unified national ESG methodology aligned with international standards of sustainability reporting and assessment. Alongside this, it is important to create institutional mechanisms for the independent verification of ESG data, ensure the comparability of national ESG ratings with international assessment systems, and expand the mandatory practice of non-financial reporting, especially for large companies and enterprises with state participation. An essential direction should be the development of digital platforms for monitoring ESG indicators, allowing the integration of information on projects, funding sources, environmental effects, and social outcomes.

It is equally important to expand the practice of ESG implementation in the corporate sector through a system of economic incentives, including concessional lending, tax preferences, green bond mechanisms, and requirements in public procurement. At the same time, efforts should be intensified to train specialists, develop specialized educational programs, and disseminate knowledge in the field of sustainable development. Only through the simultaneous improvement of the regulatory framework, financial instruments, corporate practices, and human capital can Uzbekistan form a holistic system of sustainable finance.

Thus, the main scientific problem of the ESG transition in Uzbekistan lies not in the absence of individual environmental or investment initiatives, but in the insufficient interconnection between the regulatory and legal framework, corporate governance, rating systems, the financial market, verification institutions, and specialist training. Therefore, the strategic task of the next stage should be the formation of a полноценная national ESG ecosystem, within which the state, business, financial institutions, educational organizations, and investors function according to a unified logic of sustainable development. It is precisely such an approach that will make it possible to ensure higher investment attractiveness of the national economy, strengthen the confidence of international partners, and create the conditions for sustainable long-term growth.

CONCLUSION

In conclusion, the ESG framework can be regarded as a universal institutional instrument through which environmental, social, and governance factors are systematically integrated into corporate development

strategies. Within the paradigm of sustainable growth, ESG performs not merely a normative or reputational function, but also an important economic and managerial role. It enables firms to align strategic objectives with long-term sustainability priorities, improve the allocation of financial and non-financial resources, strengthen risk management systems, and ensure a more balanced interaction between human, natural, and economic capital. In this sense, ESG serves as a multidimensional mechanism for enhancing corporate resilience, adaptive capacity, and long-term value creation.

From a theoretical perspective, the growing significance of ESG is associated with the transformation of traditional approaches to corporate governance and finance. Whereas classical models primarily emphasized short-term profitability and shareholder returns, contemporary sustainable development theory highlights the importance of stakeholder balance, social legitimacy, environmental responsibility, and institutional transparency. Accordingly, ESG should be interpreted as a mechanism that expands the logic of corporate efficiency beyond purely financial indicators and incorporates broader criteria of sustainability, accountability, and social usefulness. This makes ESG particularly relevant in the context of global economic instability, climate risks, regulatory changes, and the increasing expectations of investors, consumers, and society.

For Uzbekistan, the formation of a full-fledged responsible investment ecosystem depends on the simultaneous development of several interrelated components: a coherent regulatory framework, a national ESG methodology, reliable systems of non-financial reporting, independent verification institutions, green financial instruments, and qualified human capital. The practical implementation of ESG principles requires not only formal policy support, but also their gradual institutionalization at the level of companies, financial institutions, state enterprises, and investment practices. Only under such conditions can ESG move from being a declarative agenda to becoming an effective mechanism of economic modernization and sustainable structural transformation.

At the same time, the growth of the ESG market inevitably generates new methodological, organizational, and institutional challenges. These include the need to ensure comparability of ESG indicators, improve the credibility of sustainability disclosures, prevent formalistic compliance, expand access to green finance, and strengthen the integration of ESG principles into strategic and operational

decision-making. Therefore, the effectiveness of Uzbekistan's ESG transition will largely depend on the country's ability to create a coordinated system in which the state, business sector, financial market, educational institutions, and civil society operate within a shared sustainability logic.

Thus, the consistent implementation of ESG principles creates the preconditions for the emergence of a comprehensive responsible investment ecosystem in Uzbekistan. Such an ecosystem can contribute not only to increasing the attractiveness of national ESG initiatives for domestic and foreign investors, but also to improving the quality of economic growth, strengthening institutional trust, accelerating green transformation, and enhancing the international competitiveness of the country. Ultimately, the integration of ESG into national and corporate development strategies should be viewed as an important condition for ensuring a more sustainable, balanced, and resilient model of socio-economic development.

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