

PROSPECTS FOR THE DEVELOPMENT OF GREEN LENDING PRACTICES IN COMMERCIAL BANKS

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Abstract: This article examines the conceptual framework and development prospects of green lending practices within commercial banking systems. In the context of global climate change and the transition to a sustainable economy, the role of financial institutions in allocating capital toward environmentally friendly projects is analyzed. The study explores the strategic mechanisms for integrating environmental, social, and governance criteria into the credit assessment processes of commercial banks. Furthermore, the paper identifies the primary challenges hindering the expansion of sustainable finance and proposes actionable recommendations to enhance green credit portfolios, mitigate environmental risks, and foster sustainable economic growth.

Keywords: green lending, commercial banks, sustainable finance, climate change, credit risk management, environmental criteria, green credit portfolio.

Introduction

The contemporary global economy is undergoing a significant paradigm shift driven by the urgent need to address environmental degradation and climate change. As key intermediaries of capital allocation, commercial banks play a pivotal role in facilitating this transition by redirecting financial flows from high-emission industries toward sustainable and eco-friendly initiatives. Green lending has emerged as a strategic financial instrument designed to fund renewable energy projects, energy efficiency advancements, waste management systems, and sustainable agriculture.

The relevance of this study is underscored by the growing international emphasis on sustainable development goals and the increasing regulatory pressure on financial institutions to manage environmental risks. Although green finance has gained momentum globally, many commercial banking sectors still face structural and methodological obstacles in successfully scaling up these practices. The primary objective of this article is to evaluate the current state of green lending in commercial banks and to delineate the strategic prospects for its comprehensive development. Furthermore, the systemic vulnerability of financial markets to climate-related shocks

has prompted international regulatory bodies to redefine the parameters of fiscal oversight. Commercial banks are increasingly operating under frameworks where environmental risks are recognized as material financial risks capable of destabilizing credit portfolios. This evolutionary pressure necessitates a thorough exploration of how banking institutions can successfully institutionalize ecological criteria without compromising their primary liquidity and profitability mandates.

Main Body

The evolution of green lending in commercial banks represents a transformative adjustment of traditional banking operations to meet the requirements of modern sustainable economic development. The integration of ecological standards into banking operations requires a fundamental restructuring of credit risk assessment methodologies, shifting from a purely financial evaluation to a comprehensive framework that includes environmental impacts. Commercial banks that actively implement green lending practices not only contribute to ecological preservation but also achieve a competitive advantage by attracting international green funds, optimizing their asset portfolios, and mitigating potential regulatory and environmental risks. The expansion of these practices is heavily dependent on the formulation of a clear national green taxonomy, which establishes standardized definitions and criteria for what constitutes an environmentally sustainable project, thereby preventing the risks associated with superficial environmental claims known as greenwashing. Financial institutions utilize various instruments such as green bonds, subsidized eco-loans, and specialized credit lines to incentivize businesses to adopt low-carbon technologies and sustainable production methods.

Despite the clear strategic benefits, the widespread adoption of green lending faces several substantial barriers, including the lack of historical data regarding the long-term performance of green projects, higher initial transaction and assessment costs, and the absence of specialized expertise within credit committees to accurately evaluate environmental risks. To overcome these challenges, commercial banks must leverage advanced digital technologies, artificial intelligence, and big data analytics to automate environmental risk scoring and monitor the ecological performance of borrowers in real time. Furthermore, the active participation of central banks and governmental bodies through regulatory incentives, such as reduced reserve requirements for green assets or credit guarantees for ecological innovations, serves as a crucial catalyst to stimulate commercial banks to offer more favorable interest rates for green loans. As global financial markets increasingly prioritize sustainability, the capability of commercial banks to institutionalize green lending practices and develop specialized green financial products will determine their long-term financial viability, credit rating stability, and market share in the rapidly evolving economic landscape. A significant operational dimension of expanding green credit facilities involves the

alignment of institutional incentives with the long-term lifecycle of ecological investments. Unlike conventional corporate loans that often yield rapid capital turnover, sustainable infrastructure projects typically feature extended gestation periods and delayed break-even thresholds. To bridge this structural disparity, progressive commercial banks are adopting syndicated green financing structures and entering into public-private partnerships to distribute default risks across a broader spectrum of stakeholders. Moreover, the implementation of internal shadow carbon pricing mechanism allows credit analysts to stress-test borrower portfolios against future environmental regulations and carbon taxes, thereby future-proofing the bank's asset quality.

Conclusion

The development of green lending within commercial banks is no longer merely a voluntary corporate social responsibility initiative but an essential prerequisite for economic resilience and financial stability. The transition to sustainable financing practices enables commercial banks to manage climate-related risks effectively while unlocking new avenues for portfolio growth and international collaboration.

To maximize the potential of green finance, commercial banks must invest in building specialized human capital, establishing robust environmental risk evaluation frameworks, and forming strategic partnerships with ecological experts. Additionally, financial regulators should foster an enabling environment by introducing supportive fiscal policies and standardized guidelines for green asset disclosure. Ultimately, the successful expansion of green lending practices will accelerate the transition to a circular economy, ensuring that financial systems actively support long-term sustainable development and global ecological preservation.

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