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## THE NATURE OF GREEN PENSIONS

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### ABSTRACT

Organizations, large and small, must tackle the climate emergency. Although many industries have embraced sustainability, pension funding is often overlooked. Investments in pensions impact our future environment and economy. Industries harming the environment, like fossil fuel extraction, rely heavily on pension funds. This overview aims to show how important pension investments are and to ensure sustainability goals aren't hurt by harmful investments.

**Keywords:** nature, green pensions

### Introduction

Organizations of all kinds—whether multinational companies, small enterprises, or nonprofit entities—have a critical role to play in addressing the global climate emergency. While many industries have adopted sustainability measures, one influential area often remains underappreciated: financial investment, particularly pension funding. The way pension money is invested today plays a decisive role in shaping the environmental and economic landscape of our future retirement. Industries that contribute significantly to ecological harm—such as those involved in fossil fuel extraction and deforestation—frequently rely on pension fund support.

This overview is intended to help employers understand the powerful influence pension investments can have and to ensure that their sustainability objectives are not compromised by investments that negatively impact the environment.

## PENSIONS AND CLIMATE IMPACT

Pension funds in the UK collectively manage about £3 trillion—savings entrusted by millions of individuals. Each month, roughly £10 billion flows into these funds, invested on behalf of employees and employers to secure financial stability in retirement. However, these investments often ignore their immediate social and environmental repercussions, which can in turn affect both returns and future security.

Currently, large financial allocations are directed toward industries like fossil fuels, gambling, tobacco, and arms manufacturing, without evaluating whether these align with the vision of a sustainable future. Such investment practices not only endanger our shared future but also conflict with the ethical standards and environmental commitments upheld by many modern organizations.

For instance, UK pension funds have invested £88 billion in fossil fuel companies, averaging about £3,000 per saver in firms such as BP and Shell. These companies continue to expand fossil fuel production, despite urgent scientific warnings advocating for a transition to renewable alternatives.

Additionally, for every £10 invested in pensions, approximately £2 supports industries contributing to deforestation. Our research has identified sectors such as logging, mining, tobacco, and manufacturing—backed by pension investments—as key drivers behind the annual destruction of 10 million hectares of forest.

Despite these challenges, there is considerable room for improvement. By 2035, UK pension schemes could allocate over £1 trillion toward environmentally responsible initiatives like clean energy. This amount would fulfill around 50% of the funding required to meet the UK's 2050 net zero target—delivering both environmental benefits and solid financial performance.

To increase pension funds' involvement in green investments, it's essential that these investments remain competitive in terms of risk and return. Attracting significant private capital will require engaging pension funds beyond the niche realm of socially responsible investing (SRI), which, although growing, still represents a small segment of the market. Institutional investors, including pension funds, won't commit to green projects solely for their environmental value—they must also be financially viable.

One major obstacle to greater pension fund investment is the current lack of supportive environmental policies. Many green investments struggle to compete, often because they involve emerging technologies that are not yet commercially viable and require financial support. Additionally, market inefficiencies contribute to this lack of competitiveness—traditional "dirty" technologies are underpriced, as their environmental damage isn't fully accounted for, and fossil fuels continue to receive substantial subsidies.

To address this, government intervention is crucial—both to aid the commercial development of clean technologies (through measures like R&D tax credits, accelerated depreciation, investment incentives, and government-backed venture capital) and to correct market distortions (such as through effective carbon pricing).

For policy to be considered "investment-grade," it must meet three criteria: it should be **loud** (large enough to make a real financial difference), **long** (maintained over a sufficient time period), and **legal** (backed by clear and stable regulatory frameworks).

## WHAT IS A GREEN PENSION?

A green pension fund is one that aligns financial strategy with climate and sustainability goals. Key components include:

- **Net Zero Commitments:** A pledge to reduce carbon emissions across all investments to net zero by 2050, with a 50% reduction by 2030.
- **Sustainable Investment:** Funding is directed toward innovations and initiatives that address environmental issues, including renewable energy and biodiversity.
- **Shareholder Engagement:** Pension providers actively influence companies by voting and engaging, particularly with those in high-emission industries, to advocate for sustainable changes.
- **Strategic Divestment:** When efforts to influence companies fail, green pensions take the step of divesting from businesses that are not taking emissions reduction seriously.

## CONCLUSION

Adopting a green pension strategy signals a strong commitment to the long-term wellbeing and financial security of employees. It also boosts an organization's reputation among prospective talent, clients, and stakeholders. By reducing the carbon footprint associated with pension investments, companies can better align with broader sustainability strategies and contribute meaningfully to combating climate change and ecological degradation. Moreover, sustainable investing has proven capable of delivering competitive returns while fostering a healthier planet. Recent findings confirm that green investment models are both economically sound and environmentally impactful.