

BAKU DIALOGUES

POLICY PERSPECTIVES ON THE SILK ROAD REGION

Vol. 9 No. 1 Fall 2025

The Strategic Logic of TRIPP

Trump's 'Business Diplomacy' in the Caucasus

Nikolas K. Gvosdev

Contrasting Visions for the Silk Road Region

The 3Bs Framework (Brussels-Baku-Beijing)

Nargiz Azizova

Will the Chinese Dragon Outfly the American Eagle?

Chingiz Mammadov

Azerbaijan's Active Non-Alignment

Farid Shukurlu and Joseph Shumunov

Energy Geoeconomics Trailblazers

The Evolution of the EU's Regulatory Role in Energy

Samuel Furfari

Azerbaijan's All-of-the-Above Energy Strategy

Artem Krashakov

Baku's Green Finance Policy

Fuzuli Aliyev

bakudialogues.ada.edu.az



ISSN Print: 2709-1848
ISSN Online: 2709-1856

Baku's Green Finance Policy

Pathways to Sustainable Economic Transformation

Fuzuli Aliyev

This essay explores Azerbaijan's strategic approach to green finance as a tool for sustainable economic transformation. It outlines the national and international policy context, institutional landscape, financial instruments, and key challenges. The paper concludes with actionable recommendations to strengthen the green finance ecosystem and support Azerbaijan's climate commitments, especially in light of its COP29 presidency and the COP30 outcomes.

Embracing Green Finance

The premise of the entire project launched by the United Nations Framework Convention on Climate Change

(UNFCCC) in 1992 is that climate change and environmental degradation pose significant risks to economic stability, public health, and long-term development. As part of their response, countries around the world, including Azerbaijan, have increasingly turned to green finance—a strategic approach to mobilizing capital for what are said to be environmentally sustainable projects and initiatives. Green finance encompasses a wide range of financial instruments and policies aimed at supporting the “transition” to a lower-carbon, climate-resilient economy.

Azerbaijan's strategy to embrace green finance has both environmental and economic dimensions. As a country rich in natural resources

and heavily reliant on hydrocarbons, Azerbaijan faces the dual challenge of reducing its carbon footprint while diversifying its economy. The

government has signaled its commitment to sustainable development through national strategies such as *Azerbaijan 2030: National Priorities for Socio-Economic Development*, and also via its increasingly active role in global climate negotiations during its COP29 presidency and subsequently. The country's green finance policy is emerging at the intersection of national development priorities and its global climate responsibilities. Baku is increasingly recognizing the need to align its economic model with environmental sustainability, especially as it hosted COP29 and deepened its role in international climate diplomacy.

Azerbaijan's long-term development vision, articulated in *Azerbaijan 2030*, identifies “a clean environment and green growth country” as one of its five strategic goals. This priority reflects a shift toward integrating environmental considerations into economic planning and infrastructure development. The country's *Strategy for Socio-Economic Development for*

This essay explores Azerbaijan's strategic approach to green finance as a tool for sustainable economic transformation.

2022-2026 further implements this vision by emphasizing the importance of energy efficiency, renewable energy, sustainable agriculture, and green urban planning. Together, these strategies provide a foundational policy framework for developing green finance mechanisms that can support the transition to a lower-carbon economy.

Azerbaijan is a party to the Paris Agreement, reached in 2015 at COP21, and has submitted updated Nationally Determined Contributions (NDCs), committing to reduce greenhouse gas emissions by 35 percent by 2030 compared to 1990 levels, with a conditional target of 40 percent. These commitments signal Azerbaijan's intent to contribute meaningfully to global climate efforts. The country's COP29 presidency offered a unique opportunity to showcase leadership in climate finance and sustainable development. It has sped up domestic reforms, attracted international partnerships, and positioned Azerbaijan as a regional hub for green finance innovation.

In recent years, Azerbaijan has taken concrete steps to build a

supportive policy environment for green finance. For example, the Central Bank of Azerbaijan (CBAR) launched the *Sustainable Finance Roadmap 2023-2026*, which outlines key priorities such as the development of a national green taxonomy to classify sustainable economic activities, the integration of ESG (Environmental, Social, and Governance) criteria into financial risk assessments, and the promotion of green financial instruments like green bonds and sustainability-linked loans, and capacity building for banks and regulators on climate-related financial risks. Complementary legislative efforts include laws on energy efficiency and renewable energy, along with reforms to environmental impact assessment procedures. These initiatives are supported by the World Bank, the United Nations Development Programme (UNDP), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and other likeminded institutions by providing technical assistance and funding to strengthen Azerbaijan's green finance ecosystem.

Institutional and Regulatory Landscape

The development of green finance in Azerbaijan is supported by an expanding institutional framework and evolving regulatory mechanisms. Although the ecosystem is still in its early stages, several key institutions have started to play a proactive role in shaping the country's sustainable finance agenda.

As mentioned earlier, CBAR has emerged as a leading institution in promoting green finance in the country through its *Sustainable Finance Roadmap 2023-2026*. It is also working to align its supervisory practices with international standards, including those set by the Network for Greening the Financial System (NGFS) and the Task Force on Climate-related Financial Disclosures (TCFD).

At the same time, the Ministry of Ecology and Natural Resources plays a central role in setting environmental policies and climate governance. It is responsible

for coordinating Azerbaijan's climate commitments under the Paris Agreement and for implementing national strategies related to biodiversity, emissions reduction, and environmental protection. The ministry works with financial institutions and foreign partners to ensure that green finance initiatives align with national environmental priorities. It also supports the development of monitoring and reporting systems for climate finance flows.

Being closely connected with the legacy global financial system, established multilateral development banks and international or regional organizations help support Azerbaijan's green finance agenda. Institutions such as the World Bank, ADB, EBRD, and UNDP provide technical assistance for policy development and capacity building, funding for green infrastructure and climate resilience projects, and support for issuing green bonds and developing ESG frameworks. These partnerships are important for adapting global best practices to national conditions and mobilizing climate finance on a larger scale, as are other, more regional ones. These include the Astana International Finance Centre (AIFC), the Islamic Development Bank (IsDB), the Asian Infrastructure Investment Bank (AIIB), and the nascent Turkic Investment Fund.

Financial Instruments and Market Development

As noted above, green finance development in Azerbaijan is gradually expanding through the introduction of financial instruments that promote environmentally sustainable investments. Although the market is still in its early stages, recent initiatives show increasing interest from both public and private sectors in leveraging finance to achieve climate and environmental goals.

In recent years, green bonds have become some of the most prominent instruments in Azerbaijan's emerging green finance landscape. In 2024, Unibank became the first Azerbaijani financial institution to issue a green bond, marking a significant milestone for the domestic capital market. The interest-bearing, uncertificated, registered, unsecured bonds have a maturity of 36 months, a nominal value of 100 manat (AZN, the national currency), an annual interest rate of 11.5 percent, a coupon payment period of every three months, and an issue volume of 20 million AZN. The bond was certified under international standards and aimed at financing renewable energy and energy efficiency projects. This issuance was supported by international

partners, including ADB and the AIFC Green Finance Centre, which provided technical assistance and ensured alignment with global frameworks like the International Capital Market Association (ICMA) Green Bond Principles. The success of Unibank's green bond has paved the way for other financial institutions to explore similar instruments, and discussions are underway to develop a national framework for green bond issuance, including incentives and regulatory support.

Beyond green bonds, Azerbaijani banks are starting to explore sustainability-linked loans (SLLs), which connect loan terms to the borrower's environmental or social performance. These instruments offer flexibility and can be applied across sectors like agriculture, manufacturing, and construction. The Central Bank of Azerbaijan has issued preliminary guidelines for ESG integration in lending practices, encouraging banks to assess climate-related risks and opportunities in their portfolios. Although adoption is still limited, pilot projects supported by foreign donors are helping to increase capacity and awareness.

Azerbaijan has access to various international climate finance mechanisms, including the Green Climate Fund (GCF), the Global Environment Facility (GEF), and bilateral donor programs. These funds support projects in renewable energy, climate adaptation, and sustainable land management. From this perspective, blended fi-

nance—combining public and private capital—is increasingly viewed as a practical way to expand green investments. Public guarantees, concessional loans, and technical assistance can help de-risk projects and attract private sector participation, especially in infrastructure and energy sectors.

The development of capital markets is also crucial for expanding green finance in Azerbaijan. Regulatory reforms are underway to enhance transparency, investor protection, and ESG disclosure standards. The Baku Stock Exchange is considering opportunities to list green financial products and attract institutional investors interested in sustainability. However, on the buyer side, investor engagement remains difficult because awareness of green finance principles is still limited among

Blended finance is increasingly viewed as a practical way to expand green investments.

domestic stakeholders. Educational campaigns, capacity-building initiatives, and demonstration projects are needed to build trust and increase demand for sustainable financial instruments.

Azerbaijan's Regional Role

As Azerbaijan positions itself at the forefront of climate action and sustainable development in this part of the world, regional cooperation in green finance emerges as a critical pathway to achieving its environmental and economic transformation goals. As a keystone state of the Silk Road region, coupled with its leadership role at COP29, provides

a unique opportunity to build collaborative frameworks that attract capital, share expertise, and expand green investments across borders.

These days, climate change is said by some to be a transboundary challenge that demands multinational, coordinated responses. The Silk Road region faces shared vulnerabilities—ranging from water scarcity and desertification

to “energy transition” and infrastructure resilience. Despite these common challenges, regional climate finance initiatives have historically been underfunded, receiving less than 2 percent of global climate finance between 2013 and 2018. Recognizing this gap, regional actors have started to align their strategies accordingly. The EU-led Cross-Regional Connectivity Agenda, launched in October 2025, aims to improve sustainable transport, energy, and digital infrastructure across the Black Sea and Silk Road regions. This initiative prioritizes renewable energy deployment and the “green transition” as foundational pillars. Additionally, COP29 in Baku

catalyzed dialogue on regional climate finance. Panels featuring stakeholders from Azerbaijan, Kazakhstan, Uzbekistan, and international institutions like the World Bank and the Japan Bank for International Cooperation (JBIC) emphasized the need for harmonized taxonomies, public-private partnerships, and shared verification standards for green financial instruments, which have already

Azerbaijan has taken bold steps to institutionalize its green finance agenda. The launch of the country's Climate Finance Action Fund (CFAF) in 2024 demonstrates its commitment to regional leadership.

started to show results and are expected to keep progressing.

Azerbaijan has taken bold steps to institutionalize its green finance agenda. The launch of the country's Climate Finance Action Fund (CFAF) in 2024 demonstrates its commitment to regional leadership. The CFAF, capitalized through contributions from fossil fuel-producing countries and companies, aims to raise \$1 billion for climate projects in developing states, including those in the Silk Road region. Additionally, Azerbaijan's partnership with multilateral institutions such as the World Bank and ADB has strengthened its capacity to participate in regional green finance. The World Bank's Country Partnership Framework (CPF) for Azerbaijan (2025-2029) highlights regional integration, renewable energy corridors, and climate-resilient infrastructure as key priorities.

Among the core states of the Silk Road region, Kazakhstan holds special significance for Azerbaijan in terms of cooperation and joint projects. Azerbaijan's strategic partnership with Kazakhstan across various sectors, including transport, renewable energy, financial services, and others, reflects its regional ambitions.

The Astana International Financial Centre (AIFC) has become a key institution for ensuring a level playing field for all financial market participants. Accredited by the Climate Bonds Initiative (CBI) and the International Capital Market Association (ICMA), the AIFC Green Finance Centre offers verification, advisory, and capacity-building services for sustainable financial instruments. As mentioned earlier, in 2024, AIFC played a crucial role in Azerbaijan's debut green bond issuance. Unibank, one of Azerbaijan's leading private banks, issued \$11.8 million in green bonds aligned with ICMA's Green Bond Principles. The AIFC Green Finance Centre provided a Second Party Opinion, certifying the bonds' environmental credentials and giving Unibank an "excellent" rating for its sustainability strategy. This collaboration not only validated Azerbaijan's green finance capabilities but also set a precedent for future issuances. AIFC's involvement ensures that Azerbaijani green bonds meet international standards, thereby boosting investor confidence and facilitating access to global capital markets.

Beyond verification, AIFC provides a distinctive legal and

regulatory environment based on English law, making it appealing for international transactions. Its infrastructure supports innovative financing mechanisms, including green sukuk, sustainability-linked loans, and blended finance structures. These instruments are particularly relevant for Azerbaijan as it aims to diversify its financial toolkit and attract foreign investment into its green economy.

Opportunities and Challenges

The shift to green finance presents Azerbaijan with a variety of strategic opportunities while also revealing structural and institutional challenges that need to be addressed to ensure long-term success. Understanding both aspects is crucial for designing effective policy measures and encouraging sustainable investment. Given the country's GDP structure, we can suggest that green finance provides a pathway for Azerbaijan to diversify its economy beyond hydrocarbons. Investments in renewable energy, sustainable agriculture, and green infrastructure can stimulate new industries, generate jobs, and lessen reliance on oil and gas revenues.

We can list the opportunities as follows:

- As a developing country and the host of COP29, Azerbaijan is well-positioned to attract international climate finance from sources such as the Green Climate Fund (GCF), the Global Environment Facility (GEF), and bilateral donors. These funds can support large-scale projects in the energy transition, climate adaptation, and ecosystem restoration.
- Green finance can open new opportunities for the private sector, especially in banking, insurance, and investment. Financial institutions can develop innovative products like attractive green bonds, sustainability-linked loans, and ESG investment portfolios, while businesses can gain better access to capital for sustainable projects.
- Investing in climate-resilient infrastructure and sustainable land use can lower vulnerability to climate risks such as droughts, floods, and soil degradation. This is particularly important for rural communities and sectors such as agriculture and water management.
- As the host of COP29, Azerbaijan has a unique opportunity to position itself as a regional leader in climate finance and sustainable development. This can boost its international image and

encourage stronger collaboration with neighboring countries and multilateral organizations.

- Azerbaijan should establish a Silk Road Region Green Finance Forum to institutionalize regional platforms, promote dialogue, share best practices, and coordinate joint projects.
- Leveraging support from multilateral financial institutions and international organizations will be essential to co-finance regional green infrastructure, especially in energy and transport sectors.
- Supporting the proposed Trans-Caspian Development Bank (TCDB), as outlined in the Spring 2025 edition of *Baku Dialogues* by Carlos Roa, Charles Yoakey, and Ibrahim Mammadov.
- Azerbaijan should expand its verification partnerships by continuing collaboration with AIFC for future green bond issuances and exploring joint certification schemes for sustainability-linked instruments. Finally, promoting capacity building through targeted training programs for financial institutions, regulators, and project developers will enhance the understanding and implementation of green finance tools, thereby strengthening the region's overall climate finance ecosystem.

Despite recent progress, Azerbaijan's financial institutions often lack the technical expertise and resources needed to effectively implement green finance frameworks. The good news is that regulatory bodies are aware of this and offer support to the country's financial institutions. Some of these capacity-building efforts include:

- Workshops and training programs organized by the Central Bank of Azerbaijan in partnership with the World Bank and UNDP, focusing on ESG integration, climate risk assessment, and green bond structuring.
- Technical assistance programs provided by the Asian Development Bank to support the development of a national green taxonomy and sustainable finance guidelines.
- University-led initiatives, such as curriculum development in sustainable finance and climate economics, aimed at preparing the next generation of professionals. For example, ADA University offers a Sustainable Finance course in the Bachelor of Science in Finance program.
- Regional knowledge exchanges, where Azerbaijani regulators and bankers participate in study tours and peer learning with institutions in countries like Georgia, Kazakhstan, Türkiye, and Uzbekistan.

These efforts are essential to build the human capital and institutional readiness needed for a robust green finance ecosystem.

Besides opportunities, we see challenges in various areas. A significant portion of Azerbaijan's banking sector is exposed to climate-sensitive sectors. According to one estimate, over 55 percent of the country's banking loan portfolio is vulnerable to climate-related risks. Without proper risk management tools, some foreign analysts claim that this could pose systemic threats to financial stability. The absence of standardized ESG disclosure requirements limits the ability of a self-selected group of investors and regulators to assess the sustainability of financial products. Clear and enforceable regulations are essential for market credibility and investor confidence. Moreover, public and private sector awareness of green finance remains low. Many businesses and financial institutions are unfamiliar with ESG principles, climate risk assessment, or the claimed benefits of sustainable investment. Education and outreach are critical to building market demand (along with competitive return rates, of course).

It is challenging for managers to make sustainability-related decisions because environmental and

climate-related data are often scarce or fragmented, hindering progress tracking, risk assessment, and reporting on green finance flows. Developing robust data systems and monitoring frameworks is a key priority.

Policy Recommendations

To accelerate the development of green finance in Azerbaijan and ensure its alignment with national and international sustainability goals, a coordinated and multi-level policy approach is required.

The following six set of recommendations aim to strengthen the regulatory framework, attract investment, and build institutional capacity.

One, standardized ESG disclosure requirements should be introduced for financial institutions and large corporations to enhance the overall integrity and sustainability of the financial system. These disclosures would significantly improve transparency and accountability in that niche field, allowing interested stakeholders to better understand the environmental and social impacts of financial activities. They would also enable more accurate risk assessment and portfolio alignment with sustainability goals, helping

institutions manage climate-related risks more effectively.

Lastly, standardized ESG reporting would facilitate the integration of Azerbaijan's financial sector with global ESG investment flows, possibly attracting additional foreign capital and positioning the country as a credible player in sustainable finance.

Two, the government and the Central Bank should introduce a range of fiscal and regulatory incentives to stimulate the growth of green bonds, sustainability-linked loans, and other climate finance instruments. These incentives could include tax exemptions, reduced interest rates for certified green projects, or other subsidies, thereby lowering the cost of capital, reducing market risks, and encouraging investment in environmentally sustainable initiatives. Additionally, credit guarantees or risk-sharing mechanisms could be implemented to mitigate financial risks and attract private sector participation in green investments.

To further accelerate project implementation, fast-track approval processes should be established for sustainable infrastructure developments, ensuring that green projects can move efficiently through regulatory channels and begin

delivering environmental and economic benefits without delay.

Three, capacity-building programs should be expanded across the financial sector, government agencies, and academia to strengthen Azerbaijan's green finance ecosystem. This includes training regulators and bankers on climate risk management, ESG integration, and the design of green financial products to ensure informed decision-making and regulatory oversight. Universities and research centers should be supported in developing specialized curricula and research initiatives focused on sustainable finance to prepare future professionals with the necessary expertise.

Lastly, establishing a national green finance knowledge hub would facilitate data sharing, policy coordination, and stakeholder engagement, serving as a central platform for learning, collaboration, and innovation in the field.

Four, green finance should be integrated into Azerbaijan's public-private partnership (PPP) framework to attract private investment in sustainable infrastructure. This involves designing bankable green PPP projects in key sectors such as energy, transport, and water, ensuring they meet both environmental and

financial viability criteria. To reduce investment risks and enhance project attractiveness, the government can leverage concessional finance and donor support, and offer guarantees or co-financing arrangements.

Lastly, promoting blended finance models that combine public and private capital will help attract larger funding pools and facilitate the implementation of complex, long-term green infrastructure projects.

Five, a robust system for tracking climate finance flows should be developed to monitor progress and ensure accountability in Azerbaijan's green finance initiatives. This system should be able to collect and publish comprehensive data on both public and private sources of green finance, providing transparency and enabling informed decision-making. It must also align with international reporting standards, such as those established by the OECD and UNFCCC, to ensure consistency and comparability with global practices.

Lastly, the system should support evidence-based policymaking

and facilitate stakeholder engagement by providing accessible, reliable information to guide strategic planning and foster collaboration across sectors.

Six, Azerbaijan should actively engage in regional platforms and global initiatives to strengthen its green finance ecosystem, share best practices, and attract sustainable investment. This includes participating in climate finance dialogues in international forums and conferences, thereby reinforcing its leadership role in global climate action. Collaboration with neighboring countries on cross-border green projects—such as renewable energy corridors, sustainable transport networks, and shared water resource management—can enhance regional resilience and unlock economies of scale.

Lastly, Azerbaijan should deepen its engagement with multilateral development banks and climate funds to access technical expertise, concessional finance, and co-investment opportunities that support the implementation of large-scale sustainable infrastructure and climate adaptation projects.

Azerbaijan's proactive engagement in regional green finance cooperation positions it as a catalyst for sustainable transformation in the Silk Road region.

Transformative Opportunity

Green finance represents a transformative opportunity for Azerbaijan to align its economic development with environmental sustainability and global climate commitments. This essay has outlined the strategic policy context, institutional landscape, financial instruments, and key challenges shaping Azerbaijan's green finance ecosystem. While progress has been made—particularly through the Central Bank's roadmap, the issuance of the first green bond, and emerging regulatory reforms—significant gaps remain in capacity, market readiness, and stakeholder engagement.

To advance the approach recommended in this essay, Azerbaijan should implement a comprehensive, coordinated strategy that includes enhancing ESG disclosure standards, incentivizing sustainable investments, and strengthening institutional capacity. Public-private partnerships and

international collaboration will be crucial to attract the large-scale finance needed for a successful “green transition.”

Azerbaijan's proactive engagement in regional green finance cooperation, supported by institutions like the AIFC, positions it as a catalyst for sustainable transformation in the Silk Road region. By leveraging its strategic partnerships, regulatory reforms, and financial innovation, Azerbaijan can not only meet its climate goals but also contribute to a resilient and inclusive regional economy.

In short, by embracing green finance, Azerbaijan can not only meet its climate goals but also unlock new avenues for economic diversification, innovation, and regional leadership. The time to act is now—through bold policy choices, strategic investments, and inclusive dialogue, Azerbaijan can shape a sustainable future for generations to come. **BD**

bakudialogues.ada.edu.az



“Our Group, a leading global brand exhibiting regional growth, draws strength from Türkiye to develop great projects and investments with over 50 companies in a wide variety of businesses, including construction, energy, industrial, tourism, education, and culture.”