LEVERAGING SUSTAINABLE & INNOVATIVE FINANCE INSTRUMENTS & TECHNOLOGIES

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DIRECTOR, SUSTAINABLE DEVELOPMENT
AIFC AUTHORITY
1. Total issuance in 2023 could reach EUR 880 bln.
2. Sustainable bonds now exceed 3% of overall bonds outstanding over time
3. SLBs are growing

Central Asia will need **$20 billion** of investment in solar, wind, hydro, and modernizing national and regional grids for improved trade and interconnectivity by 2030 (World Bank, May 2023)

### RES Potential in Central Asia

<table>
<thead>
<tr>
<th></th>
<th>Small HPPs</th>
<th>Solar</th>
<th>Wind</th>
<th>Geothermal</th>
<th>Bio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MW</td>
<td>MW</td>
<td>MW</td>
<td>TW/h</td>
<td>TW/h MW</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>4,800 (&lt;35 MW) 2,707 (&lt;10 MW)</td>
<td>3,760,000</td>
<td>6,684</td>
<td>354,000</td>
<td>11,388</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>900 (&lt;30 MW) 275 (&lt;10 MW)</td>
<td>267,000</td>
<td>537</td>
<td>1,500</td>
<td>256</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>30,000 (&lt;30 MW)</td>
<td>195,000</td>
<td>410</td>
<td>2,000</td>
<td>146</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>1,300</td>
<td>655,000</td>
<td>1,484</td>
<td>10,000</td>
<td>1,992</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>1,180 (&lt;10 MW)</td>
<td>593,000</td>
<td>1,195</td>
<td>1,600</td>
<td>1,685</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39,862</strong></td>
<td><strong>5,470,000</strong></td>
<td><strong>10,310</strong></td>
<td><strong>369,100</strong></td>
<td><strong>15,467</strong></td>
</tr>
</tbody>
</table>

Note: Small HPPs are defined as plants with a capacity of <10 MW and <35 MW. Source: Laldjebaev, Isaev, Sakhimov, 2021.

- Today, fossil fuels account for 95% of total energy supply in the 5 countries of Central Asia - Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan
- In Kyrgyzstan and Tajikistan over 90% of electricity is generated from hydropower.

### Water Stress in Central Asia in 2040

- 10% to 15% - Estimated drop in water volumes in the Syr Darya and Amu Darya basins by 2050.
- 30% - Decrease in glacier surface area in Central Asia over the past 50-60 years as a result of changing climate conditions.

### Collaboration in water

All CA countries to further increase the use of water resources for irrigation and hydropower generation, as per national programmes.

The projected investment needs of the region’s water sector in 2021–2030 will amount to **about $9.7 billion**. The bulk investment will go to the two countries of the Aral Sea basin — Kazakhstan (49.3%) and Uzbekistan (26.2%).
### SELECTED INDICATORS OF GREEN FINANCE DEVELOPMENT IN THE REGION

<table>
<thead>
<tr>
<th></th>
<th>Kazakhstan</th>
<th>Kyrgyzstan</th>
<th>Turkmenistan</th>
<th>Uzbekistan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Taxonomy</strong></td>
<td>√</td>
<td>Under development</td>
<td>-</td>
<td>Under development</td>
</tr>
<tr>
<td><strong>Labelled sustainable finance market size</strong></td>
<td>$ 500 mln</td>
<td>$ 1 mln</td>
<td>-</td>
<td>$ 235 mln</td>
</tr>
<tr>
<td><strong>ESG reporting guidance</strong></td>
<td>√</td>
<td>√</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
KAZAKHSTAN SUSTAINABLE FINANCE MARKET

#1 in Eastern Europe and Central Asia (GGFI)

$544M (+26% in Q1 2023, from $401M)

Sustainable finance market in Kazakhstan

60% of Green bonds and loans in Kazakhstan are verified by the AIFC Green Finance Centre

Volume of issuances – KZT 219 bln.

- Green bonds: 43.4
- Green loans: 28.5
- Social bonds: 146.9

Number of issuances

- Green bonds: 4
- Green loans: 3
- Social bonds: 11

Number of issuances

- DAMU
- HALYK BANK
- SAMRUK ENERGY
- KEGOC
- EDB
- ADB
- DBK

$544M (+26% in Q1 2023, from $401M)

Sustainable finance market in Kazakhstan

60% of Green bonds and loans in Kazakhstan are verified by the AIFC Green Finance Centre
### Select emerging and frontier markets

<table>
<thead>
<tr>
<th></th>
<th>Chile</th>
<th>Russia</th>
<th>Hungary</th>
<th>Malaysia</th>
<th>Kazakhstan</th>
<th>Pakistan</th>
<th>Morocco</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Taxonomy</strong></td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Market size</strong></td>
<td>$33 bln.</td>
<td>$6,4 bln.</td>
<td>$4,8 bln.*</td>
<td>$3,9 bln.</td>
<td>$500 mln.</td>
<td>$500 mln.</td>
<td>$450 mln.</td>
</tr>
<tr>
<td><strong>Incentives</strong></td>
<td>Yes</td>
<td>Yes*</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes*</td>
<td>No</td>
<td>No</td>
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<tr>
<td><strong>Mandatory disclosure</strong></td>
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<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

### G20 WG on Sustainable Finance priorities for 2023

- Mechanisms for mobilisation of resources for climate finance (policy measures and financial instruments)
- Enabling finance for SDGs (biodiversity finance, social impact investing)
- Capacity building

### FC4S Work Programme 2023

- Transition Finance Strategies
- Talent Development
- SDG Investment Accelerator
- Gender Finance Working Group
- Biodiversity Finance

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Hungary - [https://www.climatebonds.net/files/reports/cbi_pricing_h2_2022_01c.pdf](https://www.climatebonds.net/files/reports/cbi_pricing_h2_2022_01c.pdf) (includes only green) - end of 2022*


## Kazakhstan Framework

### Standards
- **Green taxonomy of Kazakhstan** *(criteria for selecting green projects for ESG funding)*
- **Definitions, principles, verification embedded** *(Adopted at AIX and in KZ)*
- **Social taxonomy of Kazakhstan** *(criteria for selecting social projects for ESG funding)*

### Incentives
- **Subsidy scheme for green bonds / loans under the state program for SMEs** *(Adopted in 2022 – cases are pending)*
- **Benefits and differentiated fees for ESG instruments on exchanges** *(introduced at KASE)*
- **Support from investors in ESG instruments – IFIs (EBRD, EDB, DBK, etc)** *(There are cases of ESG investments by IFIs)*

### Products
- **Green bonds / loans** $398M
- **Social bonds** $99M
- **Sustainability-linked bonds (SLB)**
- **Green equity / IPO**
- **ESG index**

### Disclosure
- **AIX voluntary ESG reporting guide** *(Mandatory reporting to be introduced in 2023-24)*
- **KASE mandatory ESG reporting** *(introduced in 2021)*
- **ARDFM guidelines on ESG reporting for financial institutions** *(to be adopted by ARDFM in 2023)*
NEXT STEP FOR GREEN TAXONOMY: Updating of taxonomy to possibly include the following sectors

- Include Category "Low pollution energy" with sub-sectors "Generation of electricity and heat from gas, Fuel switch", and "Manufacture of equipment for nuclear energy", “Construction and operation of nuclear power plants” within Sector “Alternative sources, fuel switch”

- Include the "Omir" National Green Building Certification Scheme as an alternative threshold criteria in the Green Buildings category

Taxonomy subsectors that lack national standards in threshold criteria:

- **Green and energy efficient buildings** - standards for energy consumption during development, sustainability in buildings and construction works, building design

- **Energy Efficiency** - Energy Consumption and Energy Saving Standards

- **Sustainable Agriculture and Sustainable Tourism** - Eco-labels - Eco-labeling standards for organic products and organic agriculture, sustainable tourism, hotels
Draft Taxonomy of social projects of Kazakhstan has been developed

Social project selection and verification tool for social, PPP loans and bonds

**Principles**

- Projects under the Social project classification (taxonomy) are funded through social and other bonds
- Social projects are directly aimed at solving or mitigating a specific social problem and / or achieving positive social outcomes for the target population
- No significant negative social or environmental side effects (“Do No Significant Harm”): a social project should not be implemented to the detriment of other areas

**Outline of the taxonomy of social projects**

1. Creating accessible basic infrastructure
   - 1.1. urban environment and rural settlements
   - 1.2. transport
   - 1.3. digitalization
2. Ensuring access to socially significant services
   - 2.1. healthcare
   - 2.2. education
   - 2.3. culture, art, tourism
   - 2.4. sport
3. Affordable housing and infrastructure
   - 3.1. affordable and comfortable housing
   - 3.2. housing and communal infrastructure
4. Support for employment and entrepreneurship
   - 4.1. employment
   - 4.2. entrepreneurship and self-employment
5. Food security and sustainable food service delivery systems
   - 5.1. food security and access to food
6. Development and creation of prosperous and fair socio-economic conditions
   - 6.1. Social responsibility
KEY SUCCESS FACTORS FOR THE REGION

- Cooperation in upscaling carbon emission trading
- Alignment of green finance standards
- Green Investment (bankable) projects
In June 2021, the Green Finance Center became the regional office of the Green Investment Principles for Belt and Road in Central Asia.

**OFFICE OBJECTIVES:**
- Assisting Central Asian banks in greening their activities and issuing green bonds through GIP implementation
- Program of activities to increase the capacity of banks in the region
- Providing access to international capital markets for regional green projects through the GIP project database
- Dissemination of GIP Working Group Research Results in the Region

**ONGOING PROJECTS:**
- Advisory Board of the Regional Office
- Integration of investment project databases in Central Asia with the GIP platform

**GREEN INVESTMENT PRINCIPLES SIGNATORIES**

**SIGNATORIES FROM CENTRAL ASIA**

**GIP SIGNATORIES:**
- Positioning as financial institutions with a strong ESG orientation
- Report on their ESG progress
- Get access to:
  - networking with global GIP member financial institutions leading the ESG agenda and sharing experiences
  - webinar program in the field of transition climate risk management, ESG practices, climate reporting, etc.
  - Belt and Road GIP database of green projects