

Green finance market in Kazakhstan

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Content

Executive summary	3
I. INTERNATIONAL CLIMATE INITIATIVE	4
II. GREEN BONDS AND INTERNATIONAL GREEN BOND STANDARDS	5
III. OVERVIEW OF THE GLOBAL GREEN FINANCE MARKET	8
IV. GREEN FINANCE MARKET IN KAZAKHSTAN	11
1. Kazakhstan’s strategic documents and international commitments on sustainable development and the establishment of a green finance market.....	11
2. Development of Green Taxonomy and other regulatory frameworks for green financing.....	13
3. Analysis of Kazakhstan’s green finance market.....	14
4. About the AIFC Green Finance Centre.....	18
Annex: DEBUT ISSUANCES	21

EXECUTIVE SUMMARY

The purpose of this analytical report is to examine and analyse the green finance market in Kazakhstan in order to inform the private sector, government agencies, and the general public on the market's status, trends, and structure, as well as the opportunities for attracting financing for green projects through the issuance of green finance instruments.

Kazakhstan has enacted strategic papers on the transition to a green economy and low-carbon development, as well as a legal framework for the functioning of green finance market. At the legislative level, incentives have been implemented for small and medium-sized enterprise issuers in the form of loan rate subsidies for implementation of green projects, coupon rates subsidies for green bonds, and green bond guarantees.

Green bonds and green loans of approximately KZT 150.2 billion were issued on the Kazakh market in more than 3.5 years of existence. International and local financial institutions, as well as energy businesses, are the primary market drivers.

One of the main objectives of the Astana International Financial Centre (AIFC) is to encourage the country's long-term economic growth, including attracting long-term investments for transition to a low-carbon economy and developing a supporting financial ecosystem.

The main green financing instruments are green bonds and loans, the proceeds of which are used to finance environmentally sustainable projects, and which comply with internationally recognised standards in the field of green finance, such as the Green Bond Principles of the International Capital Market Association and the Climate Bonds Standard of the Climate Bonds Initiative in case of certification. It is recommended to obtain an independent external review for recognising a bond or loan as "green".

The AIFC Green Finance Centre is the country's leading independent external review provider for green financial products, with the AIFC Green Finance Centre (GFC) assisting in the issuance of almost 60% of green bonds and loans in the country. Furthermore, the Centre ensures development of policies and instruments for sustainable financing and is actively involved in the development of the country's legal and methodological framework for sustainable financial instruments. The GFC is currently working on creation of new green products and mechanisms that can expand opportunities for issuers in the country to attract financing for green projects.

I. INTERNATIONAL CLIMATE INITIATIVE

“The global financial system needs reshaping to finance an inclusive, prosperous and environmentally sound future, in other words: to achieve sustainable development”.

UNEP,
The Financial System We Need:
From Momentum to Transformation, October 2016

The United Nations has identified climate change as "one of the most pressing issues of our time." The United Nations Intergovernmental Panel on Climate Change issued a study in 2007 that connected global warming to human activities.

Recognising the risks posed by climate change, a group of financial institutions, including the World Bank, Swedish pension funds, and banks, have collaborated with climate change experts, including CICERO and the Centre for International Research on Climate and Environment, to develop approaches to debt financing as one of the climate change solutions. Based on the outcomes of the collaboration, criteria were devised and compliance with those criteria would confirm the positive impact of attracted investments on the environment. As a result, the European Investment Bank and the World Bank successfully issued the world's first green bonds in 2007-2008, laying the groundwork for the global green bond market, establishing criteria for issuance and reporting on the use of funds raised, and setting a precedent for the use of external review as a second opinion.

The Climate Bonds Initiative, an international organisation working to mobilise global capital for climate action, developed the first wind energy bond standard in 2011, laying the groundwork for standardisation, and in 2014, a consortium of investment banks published the first principles of green bonds, further monitoring and development of them was transferred to an independent secretariat based on the International Capital Markets Association (ICMA)¹. These concepts were then adopted as voluntary standards for the market's green bond issuance procedure.

¹ <https://www.climatebonds.net/market/best-practice-guidelines>

II. GREEN BONDS AND INTERNATIONAL GREEN BOND STANDARDS

Global sustainable development and the transition to a green economy are currently high on the global agenda. Three principles underpin sustainable development:

- Environmental impact (Environment),
- Social responsibility (Social),
- Effective system of corporate governance (Governance),

which together forms the principles of responsible business conduct – ESG.

ESG finance, also known as sustainable finance, is a broad concept that refers to a variety of financial products that aim to finance projects with a positive environmental impact (green bonds), specific social groups (social bonds), or a combination of both (sustainability bonds). Meanwhile, types of bonds in the field of sustainable development can be separated into two broad categories (use of proceeds and sustainability-linked bonds, Fig. 1).

Figure 1. The main types of bonds in the field of sustainable development

	USE OF PROCEEDS	STRUCTURE	INFORMATION DISCLOSURE	EXAMPLES
Use of proceeds bonds – green, social, blue, sustainability bonds	Eligible projects defined in the Policy	Typical	Report on the distribution of revenues, on the impact of projects	<i>GREEN: Renewable energy (Solar, Wind, Hydro power plants), TRANSITIONAL TARGET: Construction and modernisation of gas turbine units, transition to an efficient steam-gas cycle, gas-fired thermal power plants – with total GHG emissions of no more than 270 CO2/kWh.</i>
Sustainability-linked bonds (SLB)	General corporate goals	Linked to the achievement of Sustainable Development Goals (SDGs, SPT)	Report on the implementation of KPIs, on the consequences for bond's financial characteristics	<i>TRANSITION AND ESG BONDS related to the implementation of a medium- and long-term plan (strategy) for the transition from coal to gas generation (for example, for 10 years), or the transition to technologies for complete CO2 capture</i>

Source: Federated Hermes, ICMA

Green bonds are use of proceeds bond instrument where the proceeds will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible green projects with ecologically sustainable benefits which are aligned with the ICMA Green Bond Principles and/or regional/national taxonomy.

It is recommended that all sustainability instruments adhere to recognised international standards and/or taxonomies to ensure the highest level of transparency and credibility.

The Green Bond Principles of the International Capital Market Association (ICMA) and the **Climate Bonds Standard** of the Climate Bonds Initiative are two international documents that are the most widely used around the world for the issuing and certification of green bonds.

The ICMA Green Bond Principles (GBP) are voluntary guidelines for issuing green bonds, originally prepared on a best practice basis by a consortium of investment banks in 2014 and

further developed by the ICMA. The guidelines were upgraded in 2018 and June 2021, and it is now the world's most widely used green bond standard. **According to ICMA, 97% of all sustainable bonds in 2020 were issued in accordance with the Green Bond Principles (and, in some cases, with the CBI standards)**².

The Principles emphasise the necessary transparency, accuracy, and integrity in the information that issuers disclose and communicate to interested parties. The Principles guide potential issuers through the key components of a green bond issuance, including:

- the use of proceeds for environmentally sustainable activities;
- the process for determining project eligibility;
- managing revenue in a transparent, trackable, and auditable manner; and
- an annual report on the use of proceeds.

The Green Bond Principles do not define green bonds in detail. The principles propose the following broad categories of green projects: energy, buildings, transportation, water management, waste management, and pollution control, natural assets such as land use, agriculture, and forestry, industry and energy-intensive commercial activities, information technology, and communications³. Meanwhile specific green bond definitions are left to the discretion of the issuer.

According to the Principles, issuers should disclose in the Bond Framework or in a legal document that is available to investors, that their sustainable project aligns with the specified components. Additionally, the guidelines recommend to obtain an independent assessment (external review) for recognising a bond issuance or loan as sustainable; in Kazakhstan and Central Asia, one of such external review providers is the AIFC Green Finance Centre.

The Climate Bond Initiative's (CBI) **Climate Bond Standard**, in turn, offers a taxonomy with screening criteria for defining green economic activity and mandates that green bonds be verified by recognised external assessors. **The CBI standard was used to issue around a quarter of the world's green bonds in 2020**⁴.

Issuers must meet a variety of requirements covering the whole life cycle of the securities in order to issue certified green bonds under the Climate Bonds Initiative (CBI). Key aspects include full compliance with the Climate Bond Standard; compliance with the selection criteria for environmentally friendly projects; transparent and mandatory requirements for the use of proceeds, monitoring, and reporting; external audit and independent external control; and certification by an independent climate bond standard.

Currently, certification according to the Climate Bond Standard is available in seven sectors (energy, transport, water, buildings, land use & marine resources, industry, waste & pollution control).⁵

² <https://www.icmagroup.org/assets/documents/Sustainable-finance/GBP-Infographic-040521.pdf>

³ <https://www.climatebonds.net/market/best-practice-guidelines>

⁴ [European Parliament. European green bonds.](#)

⁵ <https://www.climatebonds.net/standard/taxonomy>

The guidelines also improve financial market players' understanding of the relevance of environmental and social impact and facilitate attraction of more capital to support sustainable development.

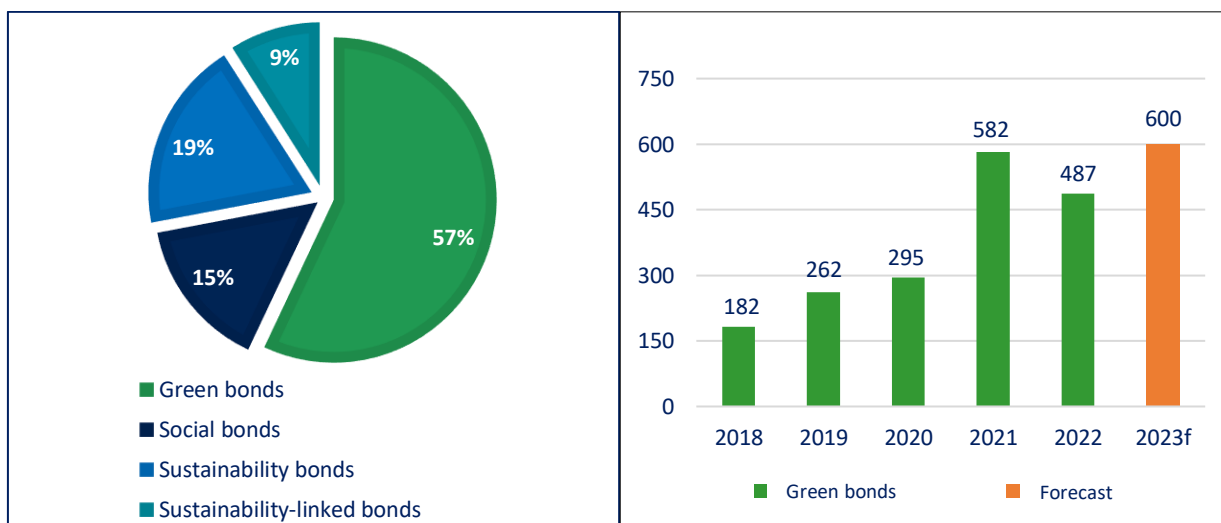
In 2018, the Loan Market Association (Loan Market Association, Asia Pacific Loan Market Association, and Loan Syndications & Trading Association, hereinafter referred to as LMA/APLMA/LSTA) approved the Green Loan Principles, which are analogous to the ICMA Green Bond Principles. Green loans labelled in accordance with these Principles are loans and credits that are solely intended to finance or refinance (in whole or in part) new and/or existing green projects of environmental significance while adhering to essential features of the Green Lending Principles. The Green Lending Principles are distinguished by their complete alignment with the Green Bond Principles and the establishment of requirements for the loan-raising process that are nearly identical to those for green bonds in terms of the direction of use of proceeds (categories of green projects), the process of evaluating and selecting projects, managing raised funds, reporting and disclosure of information, and external evaluation. The principles allow for the application of the principles to a broad range of loans and credits, as well as financial instruments that are essentially credit products and instruments (term loans, revolving credit lines, lines of credit, consortium and syndicated loans, revolving loans, letters of credit, guarantees, leasing, factoring, and so on).

III. OVERVIEW OF THE GLOBAL GREEN FINANCE MARKET

According to the Climate Bonds Initiative’s Sustainable Debt, Global State of the Market Report for the first six months of 2023, the global market for sustainable development debt instruments (including green, social, sustainability, and sustainability-linked bonds) is rapidly expanding, with a combined volume of USD 4.2 trillion by the end of the first half of 2023⁶.

Green bonds continued to lead the sustainable debt market in 2022, accounting for around 57% of the total sustainable debt market. After nearly doubling in 2021, the global green debt financing market shrunk in 2022 together with the regular debt market. Green bond issuance amounted to USD 487 billion, a 16% decrease from the previous year⁷ (See Fig. 2).

Figure 2. The percentage share of green bonds in the sustainable debt market in 2022, the volume of green bond issuance from 2018 to 2022, and forecast for 2023, USD billion



Source: CBI

The Markets 360 team anticipates that in 2023 global green bond issuance will rebound and potentially exceed a record volume of 2021, hitting roughly USD 600 billion⁸.

According to the CBI report, two-thirds (67%) of green bond volume in 2022 were issued in developed markets, 23% in emerging countries, and 9% owned by supranational organisations. China overtook the United States as the world leader in green bond issuance (USD 85.4 billion) in 2022. However, Europe is home to the majority of 2022 green bond issuers. Renewable energy companies dominate among non-financial sector issuers, which is consistent with the worldwide trend towards decarbonisation and the transition to clean energy sources. (See Fig. 3).

⁶ Climate Bonds Initiative. [Sustainable Debt Market. Summary H1 2023.](#)

⁷ Climate Bonds Initiative. [Sustainable Debt. Global State of the Market Report 2022](#)

⁸ BNP Paribas. [Green bond growth to return in 2023](#)

Figure 3. The Global Green Bond Market in 2022 in numbers

Top 3 countries by issuance volume:	Top 3 largest issuers:	The largest issuers in the non-financial sector:
China – \$85.4 billion (18%)	European Union – \$26 billion	China Three Gorges Corporation, China (Renewables) – \$5.1 billion
USA – \$64.4 billion (13%)	European Investment Bank – \$14.5 billion	Orsted, Denmark (Renewables) – \$4 billion
Germany – \$61.2 billion (13%)	Federal Republic of Germany – \$14.3 billion	Iberdrola, Spain (Renewables) – \$3.1 billion
Deal size:	Deal currency:	The most frequent issuer:
Average deal size – \$140 million	Deals were carried out in 33 currencies Top 3 currencies: Euro, US dollars, Yuan	National mortgage association (USA) – 431 deals

Source: CBI

Overall, the Climate Bonds Initiative highlights the following green bond market developments in 2022:

- 1) The global energy crisis has caused the world’s leading economies to invest more actively in clean energy development, and as a result, more capital is being attracted to boost the capacity of renewable energy and green hydrogen.
- 2) An increase in average deal size, but a decrease in the number of deals with shorter maturities.
- 3) Maintaining proper disclosure compliance in a continuously changing industry is a significant challenge. It is becoming more difficult for issuers to keep up with all the innovations as the number of rules, processes, and indicators to monitor the impact of investments is increasing. Issuers must stay up to date on new standards and regulations, as well as evolve with the market, but first and foremost, they must strengthen corporate reporting.

The Climate Bonds Initiative had registered a total of USD 324.2 billion in sovereign sustainable bonds by the end of 2022. Green bonds made up 81% of the volume, totalling USD 263.3 billion. Currently, over 20 sovereign governments throughout the world, including Hungary, Thailand, Germany, Italy, the Netherlands, UK, and Sweden, have issued green bonds to finance budget spending on green projects and programmes.

According to the CBI, the total number of sovereign sustainable bond issuers will reach 50 by 2023. By entering the sustainable bond market, governments are delivering a strong statement of sustainability commitment to the private sector and investors. The issuing of sovereign instruments with sustainability themes can serve as a stimulus for domestic market development by drawing more sources of investments and encouraging more issuers to use capital markets to finance assets, projects, and expenditures that contribute to a sustainable future⁹.

The AIFC Green Finance Centre sees significant promise in Kazakhstan’s Ministry of Finance issuing sovereign green or sustainable bonds to accomplish low-carbon economic and social

⁹ CBI, Sustainable Debt. Global Status report 2022.

development goals. In Kazakhstan, such issuance will require the formation and coordination of an interdepartmental working group. The AIFC Green Finance Centre may assist sovereign/municipal issuers in ensuring that green bond issuance programmes adhere to international standards of green financing.

The government of Uzbekistan issued the SDG sovereign bonds worth USD 235 million denominated in local currency on the London Stock Exchange in the summer of 2021 to attract funds from impact investors and institutional players. In October 2023, Uzbekistan for the first time placed green Eurobonds denominated in local currency in the amount of USD 349.1 million, the yield on which was reduced due to high investor demand.

Ministry of Finance of Belarus announced plans to list green bonds on the Russian stock exchange in the near future. As an example of a municipal issuance, the Moscow government issued green bonds on the Moscow Exchange in May 2021.

IV. GREEN FINANCE MARKET IN KAZAKHSTAN

1. Kazakhstan's strategic documents and international commitments on sustainable development and the establishment of a green finance market

A country's sustainable development is development that meets the demands of the current generation without jeopardising future generations' ability to satisfy their own needs. Kazakhstan is no exception to governments around the world embracing the notion of sustainable development into their long-term development policies.

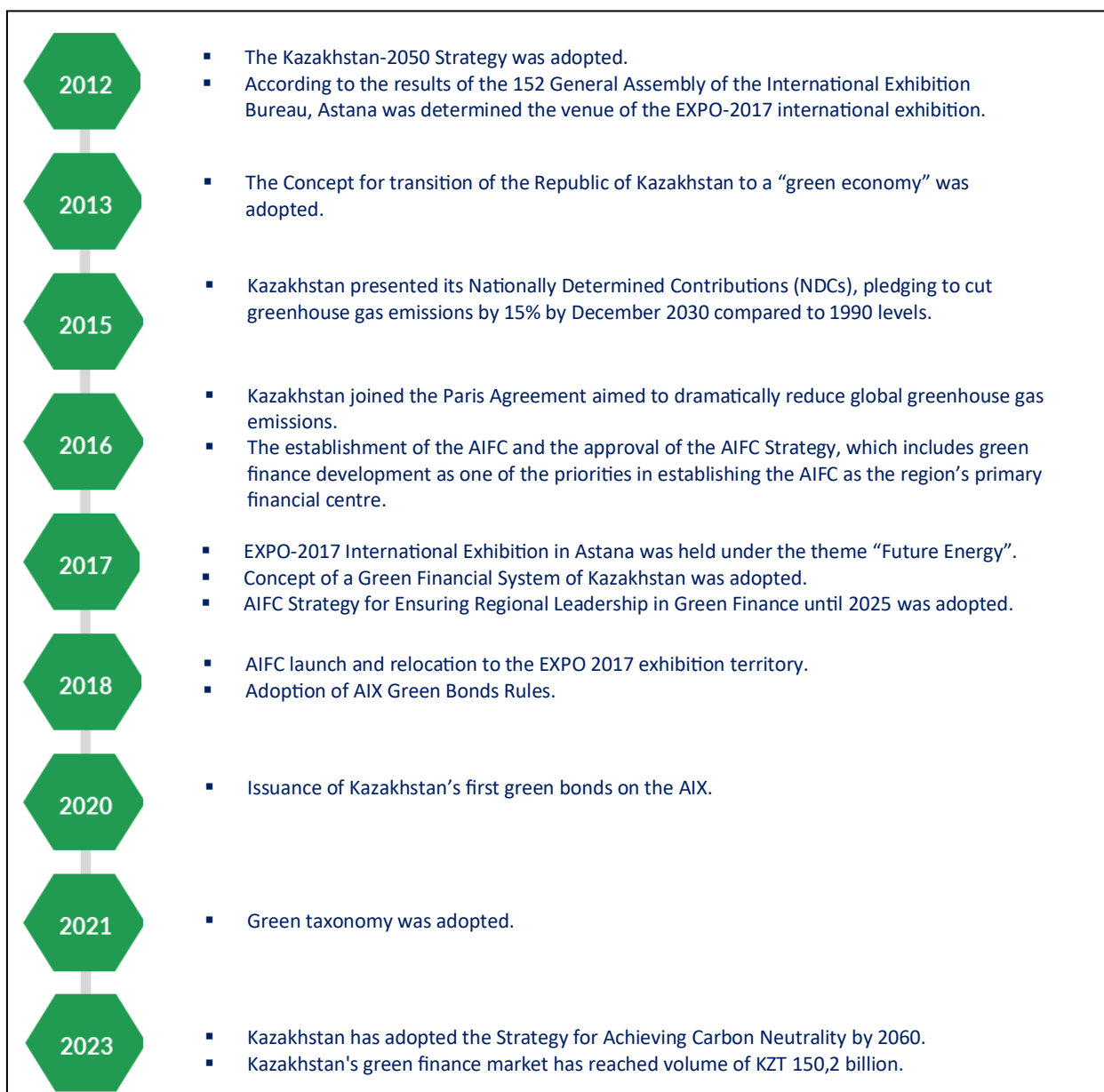
Adopted in 2012, the **Strategy "Kazakhstan-2050": a New Political Course of an Established State** establishes clear rules for developing a sustainable and efficient economic model based on the country's transition to a "green" route of growth. The shift to a green economy is a key tool for sustainable development. **The Concept for transition of the Republic of Kazakhstan to a "green economy"** was approved in 2013, laying the groundwork for Kazakhstan's long-term development by improving the quality of the environment and the quality of life of the population. According to the Concept, the annual investment required for the transition to a "green economy" is around 1% of GDP, or USD 3-4 billion¹⁰. **Kazakhstan ratified the Paris Agreement** in 2015-2016, with the goal of considerably lowering global greenhouse gas emissions and submitted its Nationally Determined Contributions (NDCs) with an unconditional reduction of 15% in greenhouse gas emissions by December 2030, compared to 1990. At the Climate Ambition Summit in December 2020, President of the Republic of Kazakhstan K.K. Tokayev announced a new goal – Kazakhstan achieving carbon neutrality by 2060, reaffirming Kazakhstan's obligations under the Paris Agreement, and the **Strategy for Achieving Carbon Neutrality by 2060** was adopted by Presidential Decree in February 2023.

The Strategy estimates net investment in low-carbon technologies that enable low-carbon development and carbon neutrality at USD 610 billion, with direct public investment accounting for only 3.8% of overall investment. More than half of the required investments, or USD 386.3 billion, are existing and circulating assets in the economy that will be redirected from primary sectors to greener sectors, with the remainder, or USD 223.7 billion, being new investment resources.

Kazakhstan's strategic goals and international obligations for sustainable and low-carbon development necessitate the active mobilisation of investments in this direction, which required the establishment of a "green" financial infrastructure as well as the corresponding legislative and methodological framework.

¹⁰ Concept for the transition of the Republic of Kazakhstan to a "green" economy

Figure 4. Timeline of the development of Kazakhstan's green finance market and the AIFC's key role in coordinating the region's green finance development



Today, Kazakhstan has a green finance market, and legal framework for the market’s operation and development has been established, owing in part to the efforts of the AIFC Green Finance Centre.

The AIFC has the potential to become a regional green finance hub contributing to the growth of the green finance industry in the Central Asian and East European region due to its legal position and opportunities, as well as the country’s geographical location.

2. Development of Green Taxonomy and other regulatory frameworks for green financing

The AIFC Green Finance Centre has worked to introduce the legislative and regulatory framework of Kazakhstan's green finance system, specifically the following documents on green finance:

- Concept for the implementation and development of green finance instruments and principles: for the first time a review of Kazakhstan's green finance system was conducted, barriers were considered, recommendations for further development were presented, and the AIFC's central coordinating role in the development of system was outlined;
- AIX Green Bond Rules specifying the rules for issuing green bonds on the AIX and ensuring the protection of interests of issuers and investors, as well as the integrity of the Exchange's market and the AIFC community;
- Rules for reimbursement of the external review expenses for green bond issuers, which allowed for reimbursement of external review fees for green bonds issued or listed on the AIX between January 1, 2020 and December 31, 2021. This proposal was designed to encourage issuers to issue green bonds to finance environmentally friendly initiatives in Kazakhstan.

In addition, the AIFC Green Finance Centre proposed consolidating the concept of "green finance" in the new Environmental Code of the Republic of Kazakhstan and the Entrepreneurial Code of the Republic of Kazakhstan, with the goal of harmonising the conceptual apparatus and stimulating the green finance market in Kazakhstan:

- "Classification (taxonomy) of "green" projects subject to financing through "green" bonds and "green" loans" (as approved by Decree of the Government of the Republic of Kazakhstan No. 996 dated December 31, 2021);
- Economic incentives for green bonds and loans, such as coupon and interest rate subsidies, as well as a green bond guarantee mechanism (authorised by Resolution of the Government of the Republic of Kazakhstan No. 43 dated February 2, 2022; operator – DAMU Entrepreneurship Development Fund).

The "green" taxonomy is a unified system of classification of economic activities, project categories, and assets aimed at increasing the efficiency of use of existing natural resources, lowering the level of negative environmental impacts, increasing energy efficiency, energy savings, climate change mitigation, and climate change adaptation. Adoption of the Taxonomy contributed to market players' rising interest in sustainable financial instruments as well as in projects on the transition of the country's economy to low-carbon development.

The taxonomy covers seven project categories (see Fig. 5).

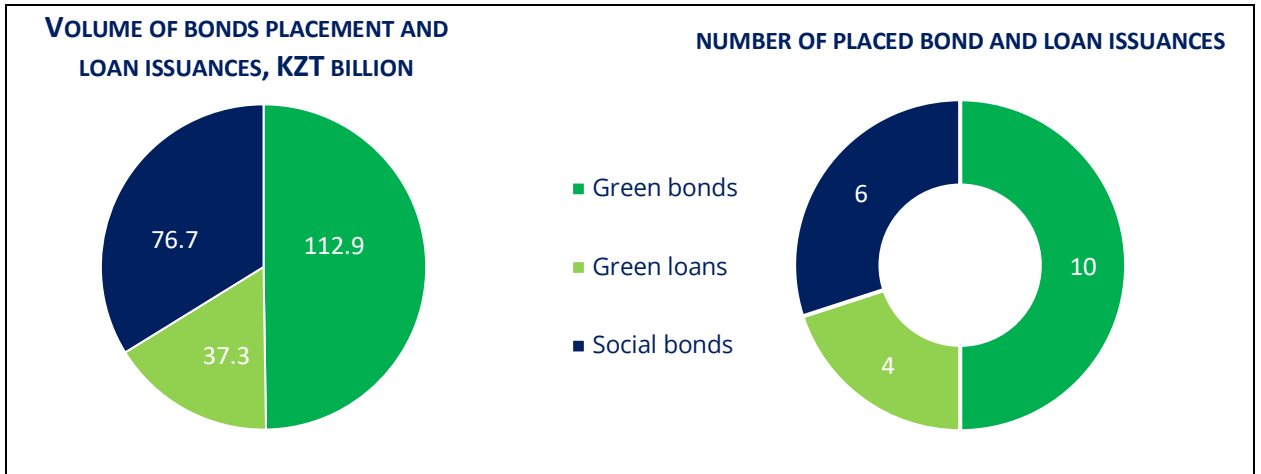
Figure 5. Categories of “green” projects according to the Green Taxonomy of the Republic of Kazakhstan

	Renewable energy (wind, solar, geothermal, hydro, bioenergy, renewable energy supply chain and supporting infrastructure, hydrogen production)
	Energy efficiency (improving energy efficiency at current and under construction industrial facilities, improving energy efficiency in the public and utility sectors, and constructing energy-efficient buildings, structures, and facilities)
	Green buildings (green buildings, related systems and materials, and green infrastructure)
	Pollution prevention and control (air quality, soil)
	Sustainable water use and waste (sustainable water use and conservation, waste and wastewater, resource conservation and recovery)
	Sustainable agriculture, land management, forestry, biodiversity conservation, and ecotourism
	Clean transport (clean transport, low-carbon vehicles, clean transport infrastructure, ICT for clean transport)

3. Analysis of Kazakhstan’s green finance market

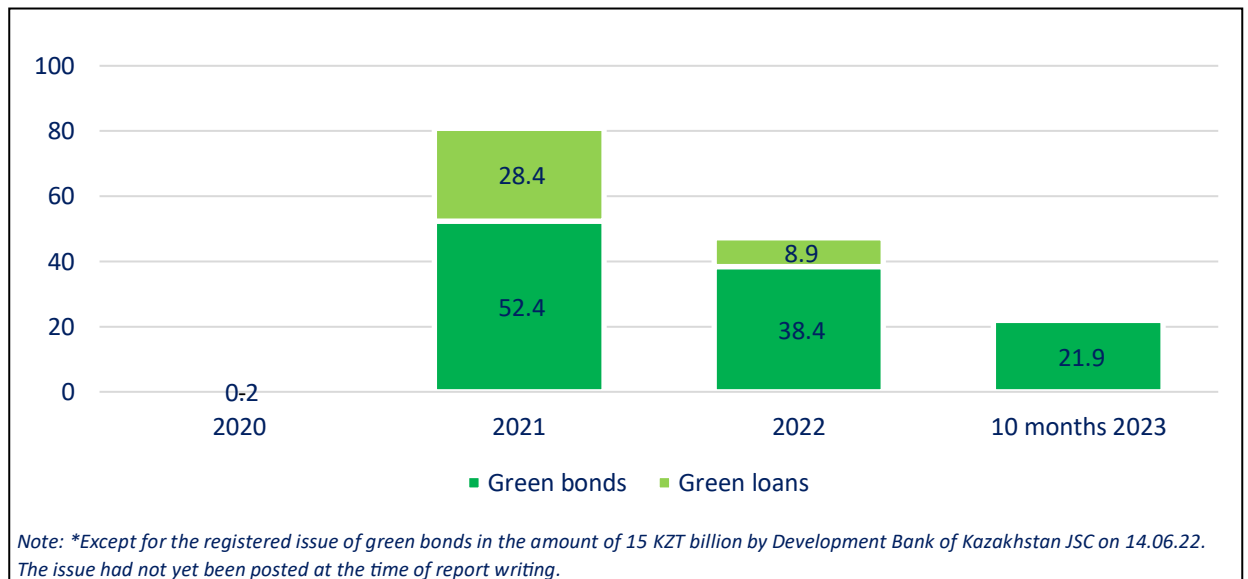
To a large extent, as a result of the comprehensive work carried out with the Green Finance Centre’s participation, as of the end of October 2023, **in the sustainable finance market of Kazakhstan bonds were placed and loans were issued for a total amount of more than 226.9 billion tenge (USD 483.1 million at the exchange rate as of November 1, 2023)** (the green bonds issuance by the Development Bank of Kazakhstan JSC in the amount of KZT 15 billion dated 14.06.22 had not yet been placed at the time of preparation of the report). Green securities, such as green bonds and green loans, made up 66% of the entire amount. **By the end of October 2023, the issuance volume of green financial instruments amounted to KZT 150.2 billion**, with green bonds accounting for KZT 112.9 billion and green loans accounting for KZT 37.3 billion (see Fig. 6).

Figure 6. Structure of Kazakhstan's sustainable finance market as of the end of October 2023



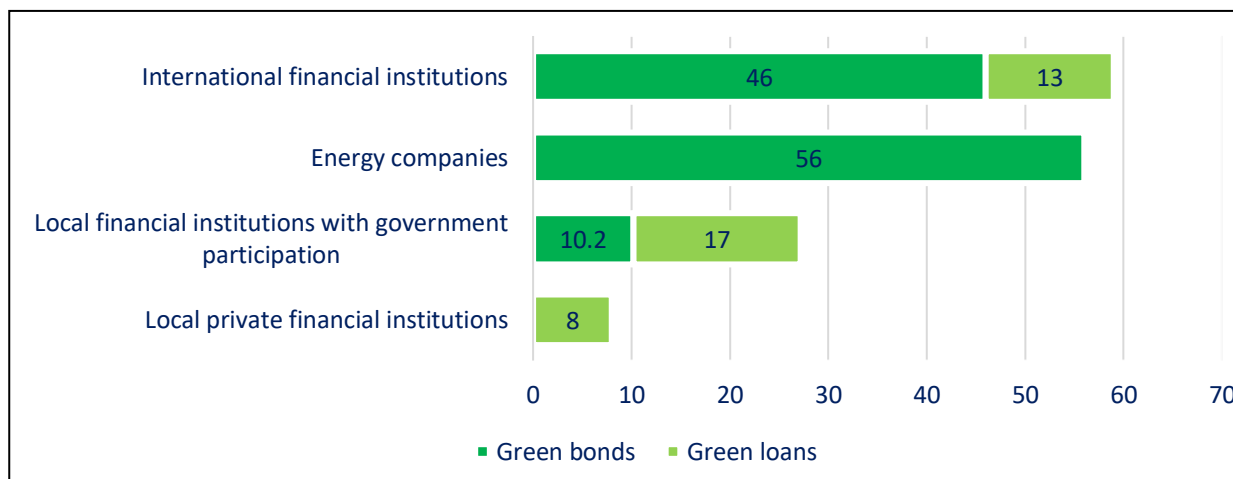
The highest issuance volume happened in 2021 and amounted for KZT 80.8 billion (see Fig. 7).

Figure 7. Issuance of green finance instruments in Kazakhstan, KZT billion



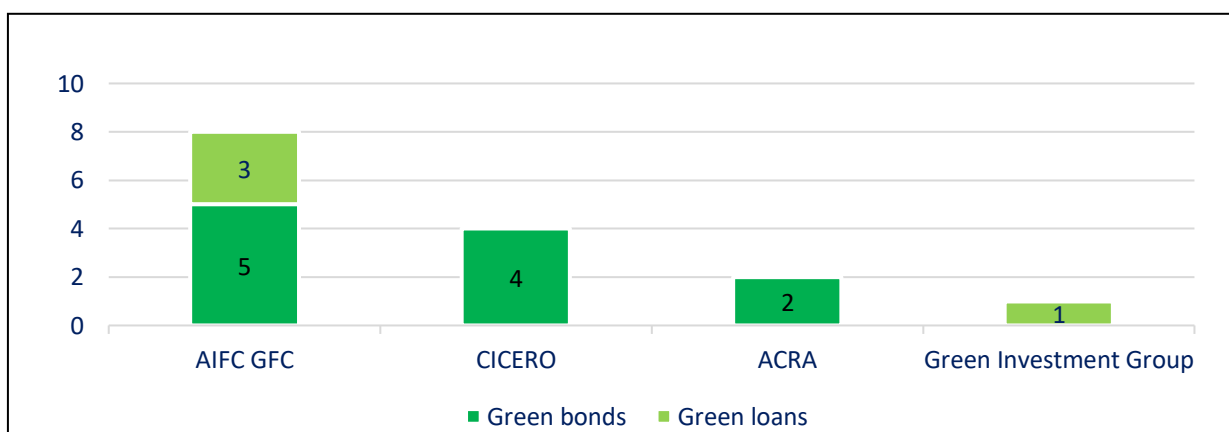
International financial institutions (Asian Development Bank, Eurasian Development Bank) are the largest issuers of green financial instruments, followed by energy companies (Samruk-Energy JSC and KEGOC JSC), domestic financial institutions with state participation (Development Bank of Kazakhstan JSC, Damu Entrepreneurship Development Fund), and local private financial institutions (Halyk Bank) (see Fig. 8).

Figure 8. Issuance of green bonds and green loans by issuer type (KZT billion) as of the end of October 2023



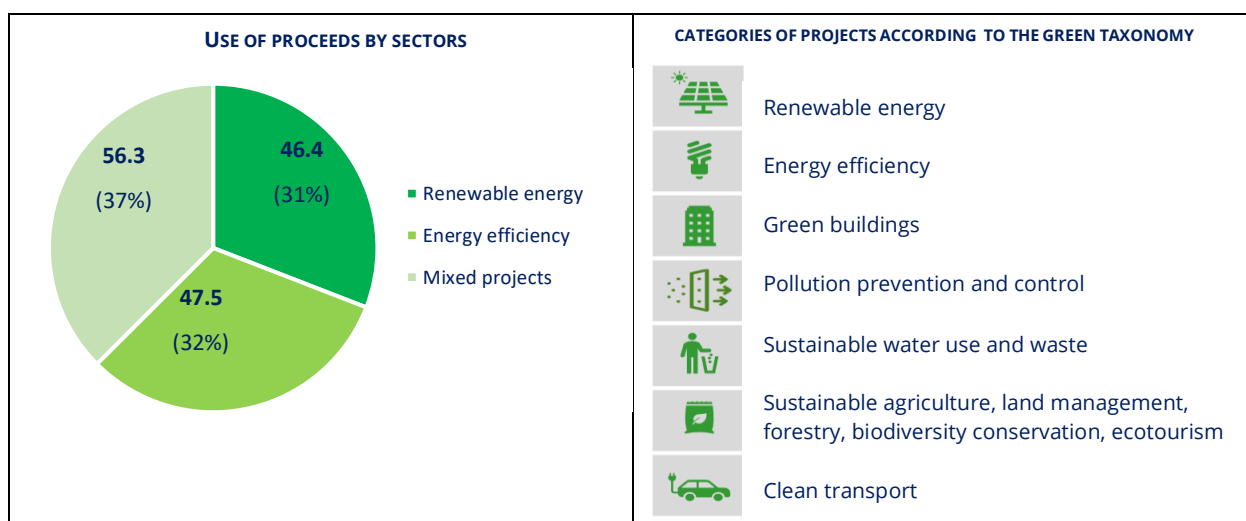
Issuers in Kazakhstan use an external review in a form of Second Party Opinion to verify green finance instruments. The AIFC Green Finance Centre (Kazakhstan), CICERO (Norway), ACPA (Russia), and Green Investment Group (Kazakhstan) provided external review over the observed period. The AIFC Green Finance Centre is the leader in Kazakhstani market (see Fig. 9).

Figure 9. Providers of external review in Kazakhstan by the number of prepared external reviews on green finance instruments as of the end of October 2023



The revenues from the issuance of green bonds and green loans in Kazakhstan are primarily used for energy efficiency and renewable energy projects (32% and 31%, respectively), with the remainder being mixed green projects. Energy efficiency projects include the building and operation of street lighting networks, as well as the restoration of electrical networks, which help to reduce greenhouse gas emissions while enhancing energy efficiency.

Figure 10. Use of proceeds by sectors from the issuance of green bonds/loans as of the end of October 2023, according to Kazakhstan's Green Taxonomy, KZT billion.



In September 2021, the Eurasian Development Bank and Batys Transit JSC signed a loan agreement to issue a green loan in the amount of KZT 3.6 billion to finance the project “Construction and operation of networks street lighting in Atyrau,” and in November of the same year, Development Bank of Kazakhstan JSC and Halyk Bank issued green loans in the amounts of KZT 16.95 billion and KZT 7.9 billion, respectively.

In general, it is worth noting that in Kazakhstan the share of the banking sector in financing the real sector of the economy in the total volume of investments in fixed capital is 1.5% of investments (in January-March 2023¹¹), however, this does not exclude the potentially significant role of banks in financing the green economy and decarbonisation in particular. At the same time, the country’s banking sector continues to play a limited role in the development of a low-carbon economy, with the exception of the Development Bank of Kazakhstan’s (DBK) activities as a development institution, which in recent years has provided a number of credit lines and financing for new projects in the field of renewable energy sources in tenge at relatively low interest rates (note: green loans which are not labelled according to the international standard “Green Loan Principles” of LMA/LSTA/APLMA).

It is necessary to note the credit lines of international development banks contributing to the development of green lending. For example, in July 2021, the EBRD and Bank CenterCredit signed a green economy credit line of USD 20 million aimed at energy-efficient modernisation of business and residential properties, with the possibility of receiving subsidies under the National Entrepreneurship Development Project for 2021–2025.

At the same time, green loans are critical instruments for financing decarbonisation, and the implementation of a system for accounting for the green lending volume in the banking sector is a pressing issue.

¹¹ <https://stat.gov.kz/ru/industries/business-statistics/stat-invest/publications/5195/>

Currently, banks in Kazakhstan, as well as financial regulators (the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market (hereinafter referred to as the Agency) and the National Bank of the Republic of Kazakhstan) do not collect data on the volume of green loans in order to assess the total volume of investments in the implementation of tasks for the transition to a green economy or implementation of nationally determined contributions (NDCs) of Kazakhstan to achieving the temperature target under the Paris Agreement. Meanwhile, the Agency has begun work on the implementation of the Roadmap for the Implementation of ESG Principles in the Financial Sector, according to which it is planned to introduce mandatory ESG reporting in the financial sector as part of financial organisations' published annual reports in 2024, including reporting on green loans.

The total amount of green loan portfolios for the implementation of green projects in Kazakhstan (both labelled and not labelled as green according to the international standard of LMA/LSTA/APLMA, as of mid-2023 and in some cases according to data as of the end of 2022) is **KZT 1.4 trillion**, according to rough estimates by the AIFC Green Finance Centre. This assessment for Kazakhstan includes information on the green portfolios of the EBRD (including loans from Bank CenterCredit under the GEF energy efficiency programme in the amount of KZT 6.5 billion), ADB, EDB, AIIB, DBK, supported by Damu Entrepreneurship Fund subsidies and guarantees for green projects, Halyk Bank green loans (according to the 2022 sustainability report), and Otbas Bank green mortgages.

At the same time, when only national second-tier banks and DBK were considered, the share of green portfolios amounted to approximately **1.15% (KZT 301.2 billion)** of the entire volume of loan portfolios of banks in Kazakhstan. Furthermore, according to 2014 data, the average share of green loans in many emerging and developed countries was more than 10% of overall lending volume (China, Japan, Italy, UAE, the Netherlands, Spain, Hong Kong, Germany)¹².

The Green Taxonomy might be used to establish a reporting system for tracking green loans by banks, and universal data collection on the volume of green loans by banks would allow for a better assessment of the total volume of green investments and incentives for green projects.

Currently, the AIFC Green Finance Centre is working on the development of new "green" products, such as "green" capital (Green equity)/"green" IPO, which, according to the Centre, will expand the possibilities of investing in green projects and might spark high demand from Kazakhstani issuers.

4. About the AIFC Green Finance Centre

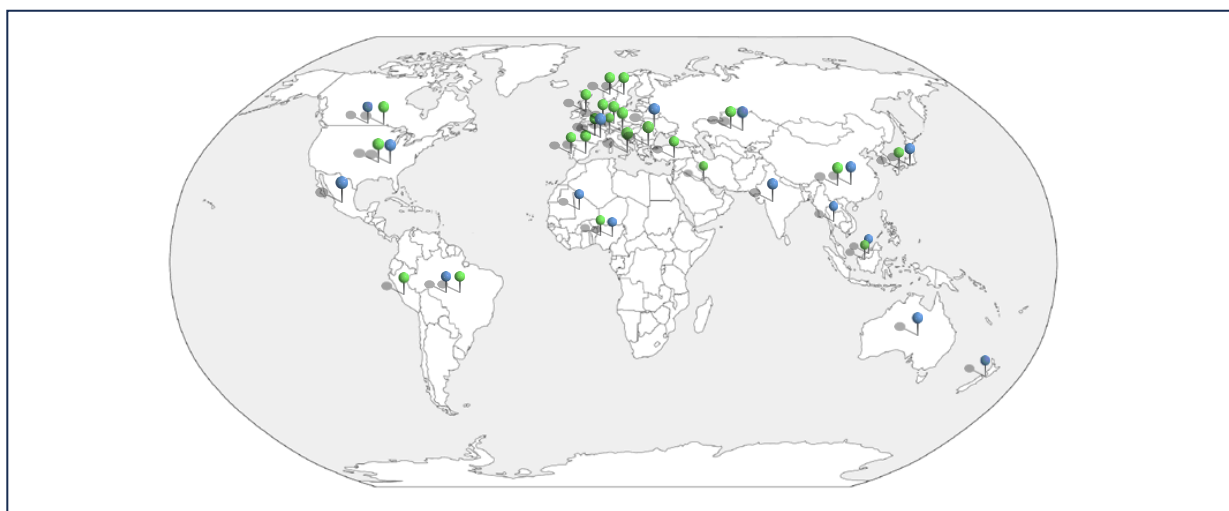
One of the primary goals of the Astana International Financial Centre is to promote the country's long-term economic growth, including the transition to a low-carbon economy, by attracting long-term investments and creating a supportive financial ecosystem. On June 1, 2018, the AIFC established the Green Finance Centre, the primary goal of which is to accelerate Central Asian countries' transition to a low-carbon, more sustainable economy by establishing a well-

¹² [World Bank, Green Finance. A Bottom-up Approach to Track Existing Flows](#)

functioning market for sustainable financial instruments in the region, such as green, social, and sustainable bonds and loans, etc.

The AIFC Green Finance Centre ensures the development of sustainable finance policies and mechanisms and is the only company in Central Asia that has been accredited by Climate Bonds Initiative (CBI) to verify sustainable finance instruments for CBI certification and included in the External Review Service Mapping of International Capital Markets Association (ICMA). In addition, the Centre serves as the regional office for Green Investment Principles (GIP) for Belt and Road in Central Asia.

Figure 11. Countries* where ICMA (↓) and CBI (↓) accredited SPO providers are located



**Note: The map shows the countries where accredited providers are headquartered. There may be several providers in one specified country.*

The AIFC Green Finance Centre is the country's flagship for offering an external review of green financial instruments – nearly 60% of green bonds and loans in Kazakhstan were issued with the support of the AIFC Green Finance Centre as of the end of October 2023.

In general, the Centre offers a variety of services to assist companies in issuing sustainable bonds and providing loans by developing the necessary documents and policies in the field of sustainable finance and providing an external review, namely:

- *sustainable finance policies in which potential issuers/borrowers disclose the processes they have in place to confirm their compliance with international principles of sustainable development financing (ICMA, CBI, taxonomies);*
- *pre-issuance reporting in the form of a Second Party Opinion and post-issuance verification on the use of proceeds, compliance of the issuer/borrower's internal processes with applicable standards, including an assessment of the compliance of a green/social bond/loan, or financial instrument linked to indicators of sustainable development (SLB, KPI-linked, etc.) corresponding to the issuer's policy;*
- *annual reports on impact of projects funded through the issuance of sustainable development bonds.*

It is worth mentioning, the Centre participated in the issuance of Kyrgyzstan's first social (gender) and green bonds. In addition, the Centre developed and presented a draft sustainable finance taxonomy in collaboration with Kyrgyzstan's Ministry of Natural Resources, Ecology and Technical Supervision.

The AIFC Green Finance Centre is currently working with the Ministry of Ecology and Natural Resources of the Republic of Kazakhstan to expand Kazakhstan's Green Taxonomy, taking into account the priorities of Kazakhstan's Strategy for achieving carbon neutrality by 2060.

In December 2022, within the context of the climate agenda the Eurasian Economic Commission High-Level Working Group in close collaboration with the AIFC Green Finance Centre developed and approved a Model Taxonomy of green projects, revealing the criteria for EAEU countries' green projects. The goal of developing a model taxonomy is to stimulate and bring together EAEU countries' approaches within the framework of the systemic development of green financing instruments in the EAEU area, and the prepared criteria for green projects became one of the first criteria formed for the integration, which can serve as the basis for the development or updating of national taxonomies, as well as potential instrument for development of cross border projects. For these purposes, the GFC took part in the development of requirements for verification system of financial instruments that might potentially be issued using the EAEU Model Taxonomy.

ANNEX: DEBUT ISSUANCES

Case-1: First green bonds in Kazakhstan

The Damu Entrepreneurship Development Fund successfully issued the first green bonds in Kazakhstan in August 2020, placing green bonds worth KZT 200 million on the AIX, laying the groundwork for the launch of the local sustainable finance market. The securities had a maturity of 36 months and a coupon rate of 11.75%.

This issuance was made as part of a joint initiative between the United Nations Development Programme (UNDP) in Kazakhstan and the Ministry of Energy of the Republic of Kazakhstan, with financial support from the Global Environment Facility (GEF), to reduce the risks associated with investing in renewable energy sources. The Damu Entrepreneurship Development Fund attracted capital through the issuance and placement of “green” bonds for lending to SMEs in order to finance the development of renewable energy projects. Based on the results of the first green bond placement, the full volume of attracted capital was used to fund the construction of a solar power plant in Turkestan.

Figure 12. Solar power facility (2 MW) at Shoulder village, Otyrar district, Turkestan region, financed by the first green bonds issued in Kazakhstan.

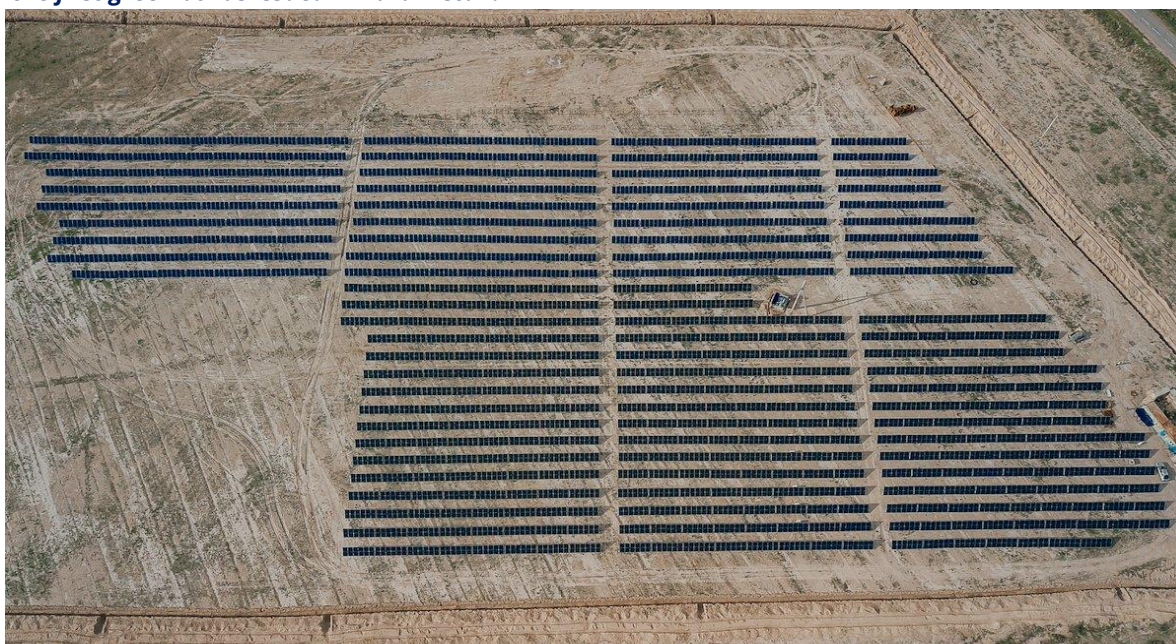


Photo credit: UNDP in Kazakhstan

The first green bonds were issued with receiving an external review in a form of Second Party Opinion from the AIFC Green Finance Centre on the bonds’ compliance with Green bond principles of ICMA. This issuance launched the country’s sustainable debt market.

Case-2. First green loan in Kazakhstan

The Eurasian Development Bank (EDB) and Batys Transit JSC signed a loan agreement in September 2021 to offer a labelled (according to international standards) green loan in the amount of KZT 3.6 billion to finance the project “Construction and operation of street lighting networks in Atyrau city.” This is the fourth stage of the overall PPP project for street and highway lighting in the Atyrau region. The new segment is 148,525 metres long. The project cost amounted to KZT 4.6 billion. The second and third rounds of the project have already been implemented and funded by the EDB.

The implementation of each stage of the project allows for reducing the number of road accidents (by 44% based on the results of the second and third stages), crime rates (by 0.5% based on the results of the second and third stages), and the costs of energy consumption by street lighting networks (up to 70% based on the results of the second and third stages), maintenance costs (by 36% based on the results of the second and third stages), CO2 emissions (by 0.682 tons per year based on the results of the second and third stages).

Figure 13. Street lighting in Atyrau, partially financed by a green loan issued by the EDB



Photo credit:

<https://kapital.kz/finance/98917/yeabr-profinansiruyet-stroitel-stvo-setey-ulichnogo-osveshcheniya-v-atyrau.html>

The AIFC Green Finance Centre provided the project support and prepared the internal policies of Batys Transit JSC, including the Green Finance Policy, which adheres to the LMA/LSTA/APLMA Green Loan Principles.¹³

¹³ <https://eabr.org/press/releases/evraziyskiy-bank-razvitiya-i-ao-batys-tranzit-podpisali-kreditnyy-dogovor-na-summu-3-6-mlrd-tenge/>

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