

GREEN FINANCE AND REGULATORY INITIATIVES IN SUPPORT OF DOMESTIC CAPITAL MARKET

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LEADING IFC IN CIS COUNTRIES



AIFC is strategically positioned to service the growing market of CIS countries, which encompass a region with a combined **GDP of \$2.3 tn** and a **population of 240 mln** people

AIFC Advantages



English common law jurisdiction



World class regulation standards



Emerging capital market



Independent judicial system



Special tax and currency regime



Astana is the highest ranked city in the region according to Global Financial Centres Index, progressively moving higher in the index from #88 in 2018 to #66 in 2023.



Astana International Exchange



Product Pipeline

- Equity (IPO/SPO, Pre-IPO, Regional Equity Market Segment, Junior Mining segment, “Belt & Road” segment)
- Debt (public bonds, private placements, Islamic bonds, green bonds)
- Structured products (ETF, ETN)

130 listings

630k+

investor accounts

+108% in volume of trade (Q1 23 vs. Q1 22)



Specialist trading application

TABYS trading app aimed at retail investors wishing to get exposure to global markets through internally managed ETN structures

15 ETNs

20k+ trading accounts

200k+ downloads

\$3 mln + AUM

Non-conventional finance priorities



Green & Sustainable finance

- AIFC’s Statement of Commitment to Sustainable Finance Principles
- Growing Size of the sustainable finance market in Kazakhstan (around \$530 million)
- Taxonomy of green projects and Measures of state support
- Growing level of interest in green bonds (1 in 2020 vs. 18 in 2023)



Islamic finance

- Access to significant Muslim consumer market in Central Asia and CIS (~ 80 mln people in 2023, projected population growth to 100 mln in 2030)
- Cross-listed Sukuk (~ \$5bn)

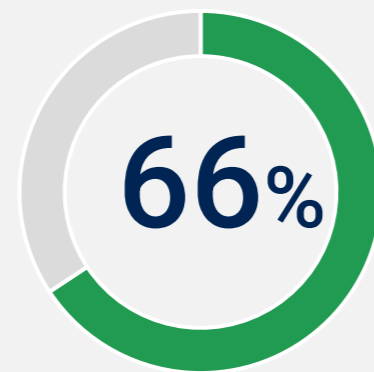


Fintech

- Cryptocurrency trading opportunities
- The first start-up sandbox in the region
- Separate regulation tailored to fintech companies
- Opportunities for crowdfunding

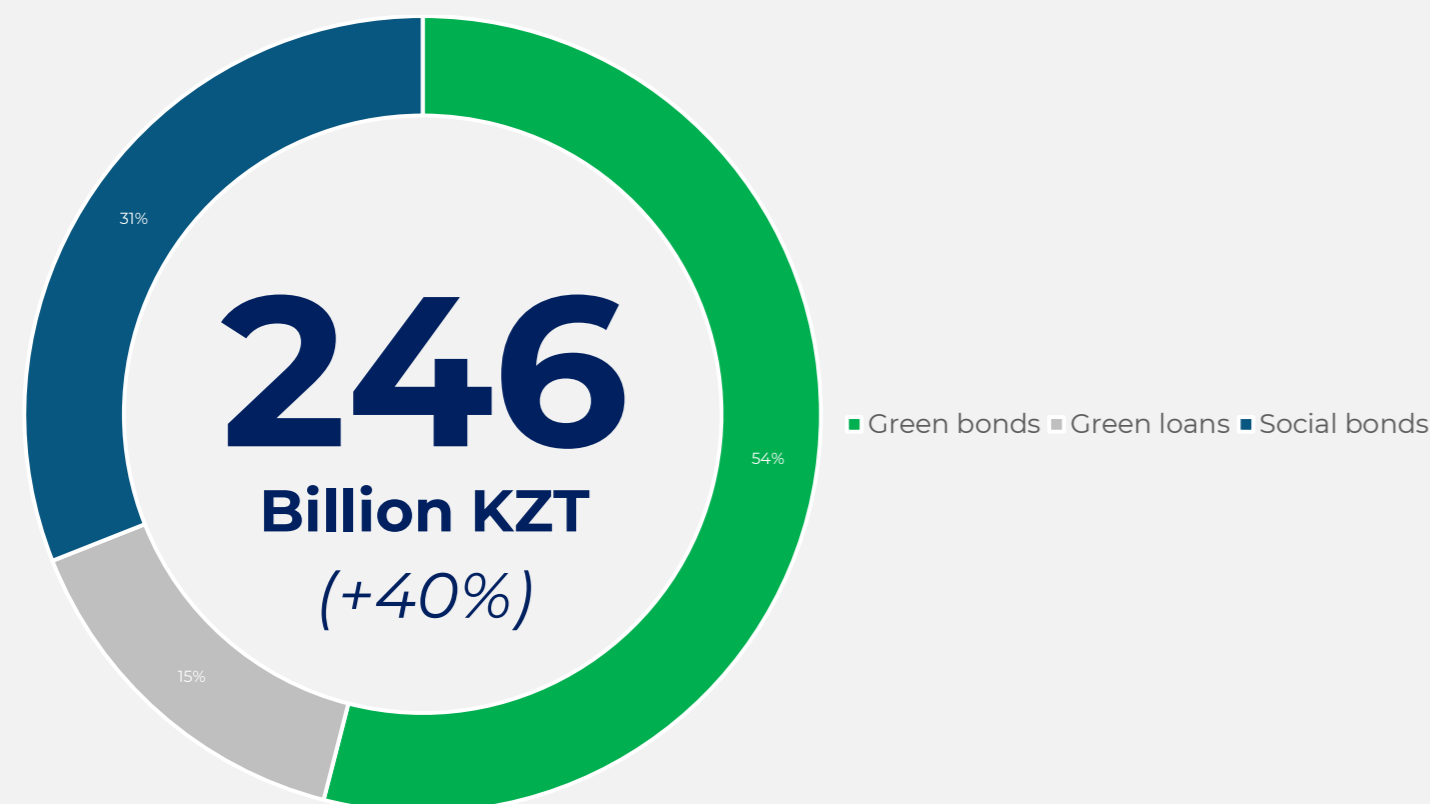


in Eastern Europe and Central Asia (GGFI)



of green finance instruments are verified by **AIFC Green Finance Centre**

SUSTAINABLE FINANCE MARKET OF KAZAKHSTAN



CURRENT INITIATIVES IN KAZAKHSTAN

LEGISLATION

- Further development of green taxonomy
- Adoption of social taxonomy
- ESG disclosure

ESG INVESTMENT

- Promotion of SLBs
- Municipal green bonds (Almaty)
- Sovereign green/sustainable bonds (Ministry of Finance)
- ESG funds





REGIONAL INITIATIVES

- Regional office for GIP in Central Asia
- ESG bonds market of Kyrgyzstan
- Model green taxonomy for EAEU
- Green Finance Turkic Council
- Green investment for Central Asia via AIFC

STRATEGY FOR KAZAKHSTAN'S LOW CARBON NEUTRALITY BY 2060



Required investments for carbon neutrality by 2060: \$ 610 billion

-  Decarbonization of the energy sector requires the use of natural gas as an intermediate fuel
-  Accelerated transition of power capacities and district heating from coal to natural gas
-  Use of carbon capture and storage technologies
-  The power generation structure will include nuclear power plants as a stable source of energy. A long-term vision for nuclear energy to be developed

Targets by type of electricity generation

Electricity generation billion kWh	Carbon neutrality			
	2030	2030 (B %)	2060	2060 (B %)
Coal-fired thermal power plants and CHP	33,5	25,4%	-	0,0%
Gas-fired thermal power plants and CHP	39,8	30,1%	102,6	16,8%
Oil products	0,3	0,2%	-	0,0%
Hydro Power	23,2	17,6%	19,5	3,2%
Wind	21,0	15,9%	201,7	33,0%
Solar	12,6	9,5%	283,5	46,3%
Biomass	1,6	1,2%	4,5	0,7%
TOTAL	132,1	100,0%	611,8	100,0%

Annotations: A bracket groups Hydro Power, Wind, and Solar, showing an increase from 44,2% in 2030 to 83,2% in 2060. Red arrows indicate the transition of Coal-fired thermal power plants and CHP from 25,4% in 2030 to 0,0% in 2060, and Gas-fired thermal power plants and CHP from 30,1% in 2030 to 16,8% in 2060.

Source: Preliminary targets for electricity production by types of renewable energy sources, in billion kWh in the Carbon neutrality scenario according to the early draft Doctrine of Carbon Neutrality Doctrine (September 2021, based on the Report on Modeling Outcomes, GIZ)

AMENDMENTS TO GREEN TAXONOMY



- 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"
- More adaptation and resilience projects:
 - Add more climate change adaptation projects: include the subsector "Prevention and elimination of the consequences of drought, floods and mudflows"
- Include the National Green Building Certification Scheme "Omir" as an alternative threshold criteria in the Green Buildings category
- Tightening green criteria and aligning them with international standards (Climate Bonds Initiatives Taxonomy or EU Taxonomy) in the following sectors and sub-sectors:
 - Medium hydro power plants (up to 100 MW)
 - Bioenergy product facilities and bioenergy production
 - Green hydrogen production
 - Add more examples to the energy efficiency sub-sector

KAZAKHSTAN FRAMEWORK FOR SUSTAINABLE FINANCE



Green taxonomy of Kazakhstan	✓
Adopted at AIX and in KZ (ESG bonds definitions, principles, verification)	✓
Social taxonomy of Kazakhstan	⌚
ARDFM guidelines on E&S risk management	⌚
AFSA regulations on ESG funds	⌚

Green bonds / loans	\$454M
Social bonds	\$81M
Sustainability-linked bonds (SLB)	⌚
Green equity / IPO	⌚
ESG index	⌚



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

✓	AIX voluntary ESG reporting guide <i>(Mandatory reporting to be introduced in 2024-25)</i>
✓	KASE mandatory ESG reporting <i>(introduced in 2021)</i>
✓	ARDFM guidelines on ESG reporting for financial institutions <i>(adopted by ARDFM in 2023)</i>

Select emerging and frontier markets

	Chile	Russia	Hungary	Malaysia	Kazakhstan	Pakistan	Morocco
Taxonomy	No	Yes	Yes	Yes	Yes	No	No
Market size	\$33 bln.	\$6,4 bln.	\$4,8 bln.*	\$3,9 bln.	\$500 mln.	\$500 mln.	\$450 mln.
Incentives	Yes	Yes*	Yes	Yes	Yes*	No	No
Mandatory disclosure	No	No	No	Yes	No	No	Yes

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

Chile - <https://greenfinancelac.org/resources/news/chile-becomes-the-first-country-in-the-world-to-issue-a-sustainability-bond/>

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

Malaysia - WB-IFS_UnleashinSustainableFinanceSEA (end of 2021) + 2022 data from (<https://www.bloomberg.com/news/articles/2022-09-30/malaysia-raises-970-million-in-green-islamic-bond-sale>)

Pakistan - <https://www.greenfinanceplatform.org/policies-and-regulations/pakistan-issued-first-green-bond> (only bond)

Morocco - <https://www.moroccoworldnews.com/2022/03/347817/moroccos-green-financing-market-stands-at-450-million> (end of 2022*)

GROWTH OF SUSTAINABLE FINANCE MARKET



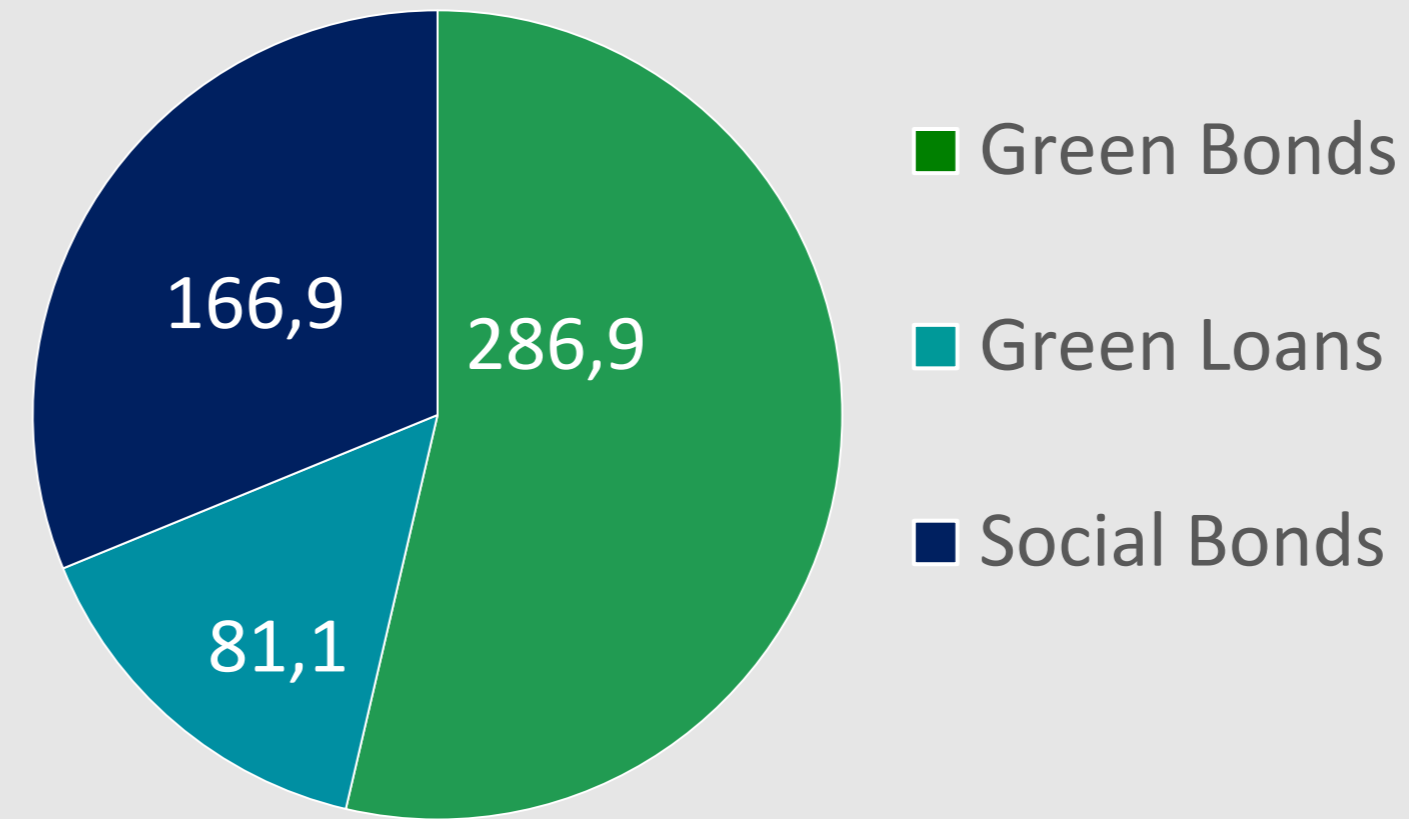
\$535M²

(Q2 2023, +70% from \$320M in 2022)

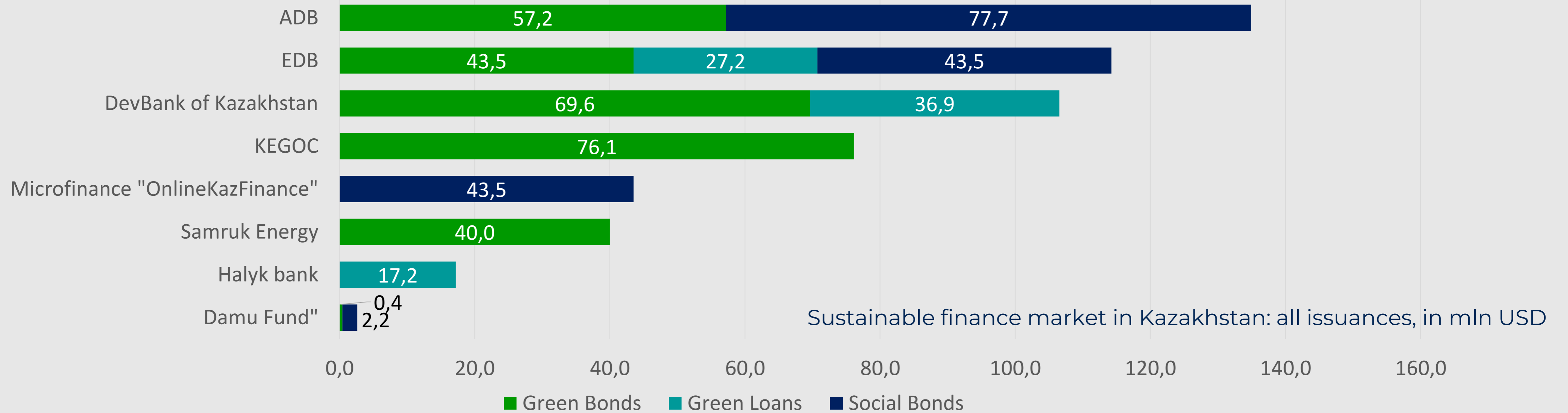
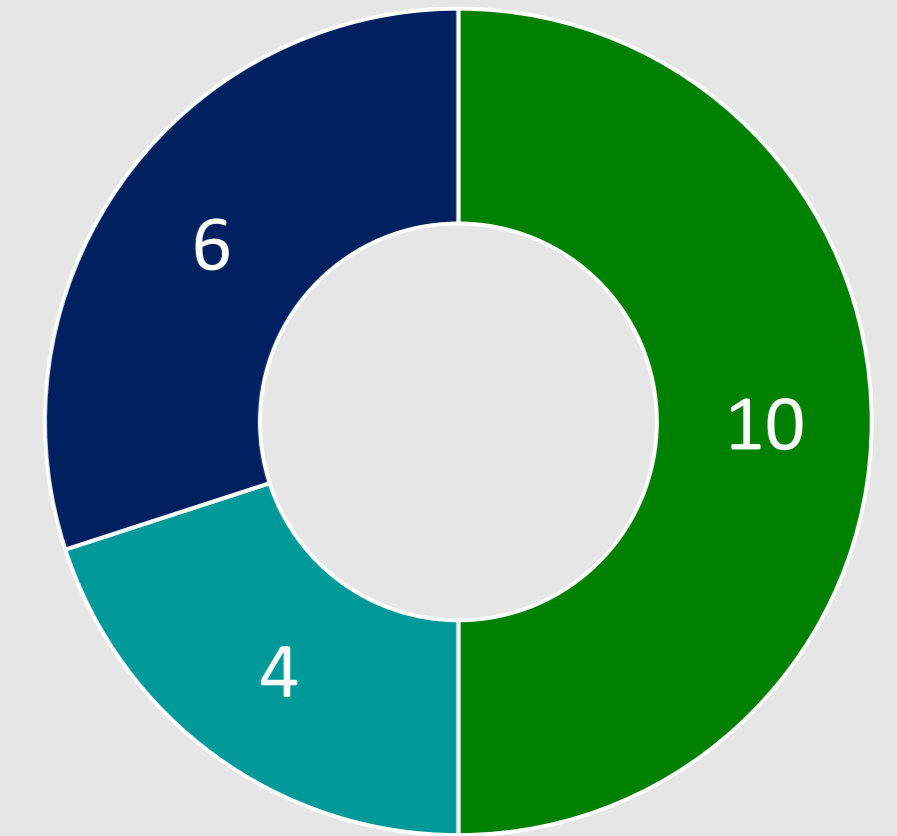
Sustainable finance market in Kazakhstan

² As of 01.09.2023, NBK official rate, 459.69 KZT

Issuance – \$mln



Number of Issues

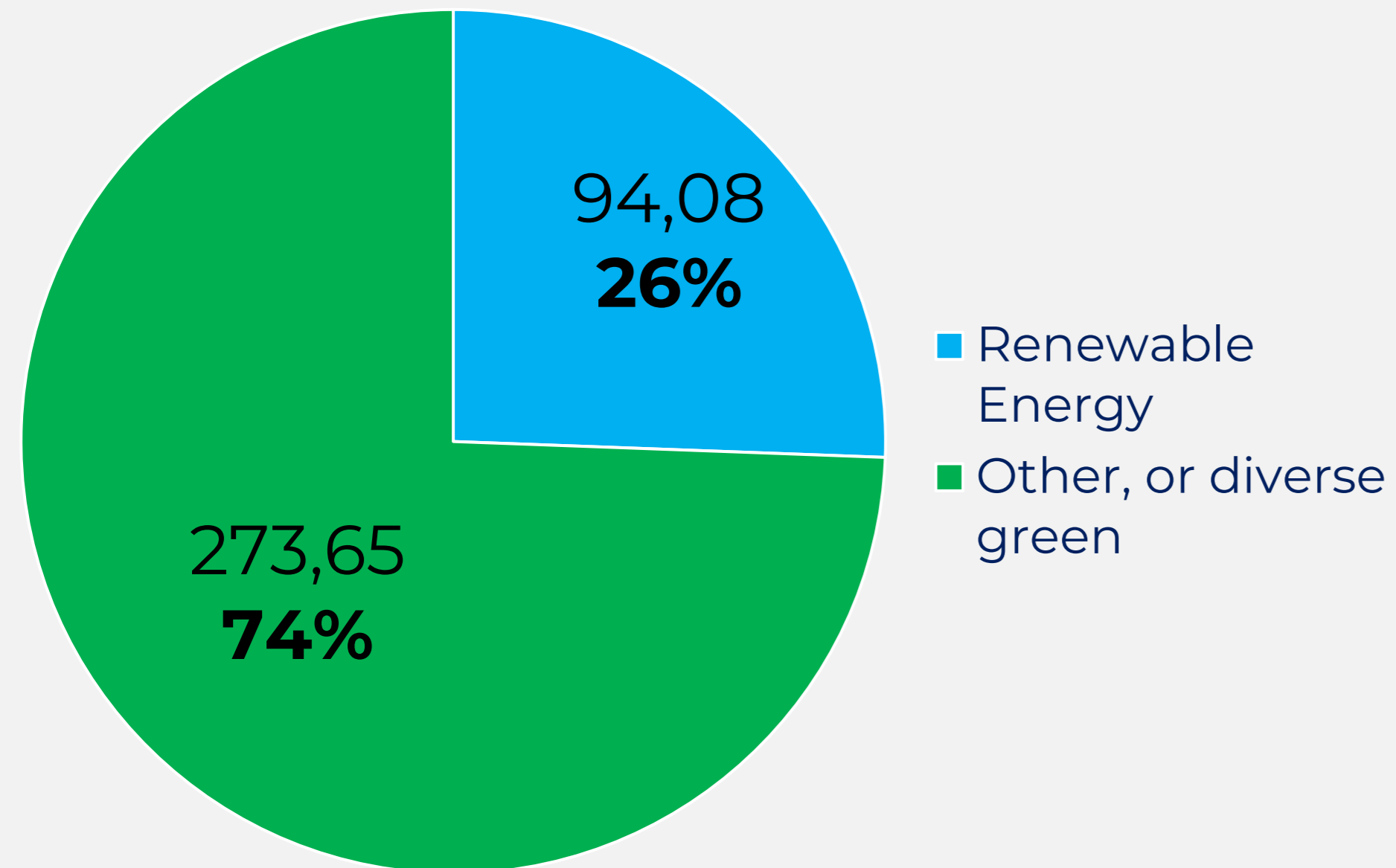


Sustainable finance market in Kazakhstan: all issuances, in mln USD

CASES IN KAZAKHSTAN



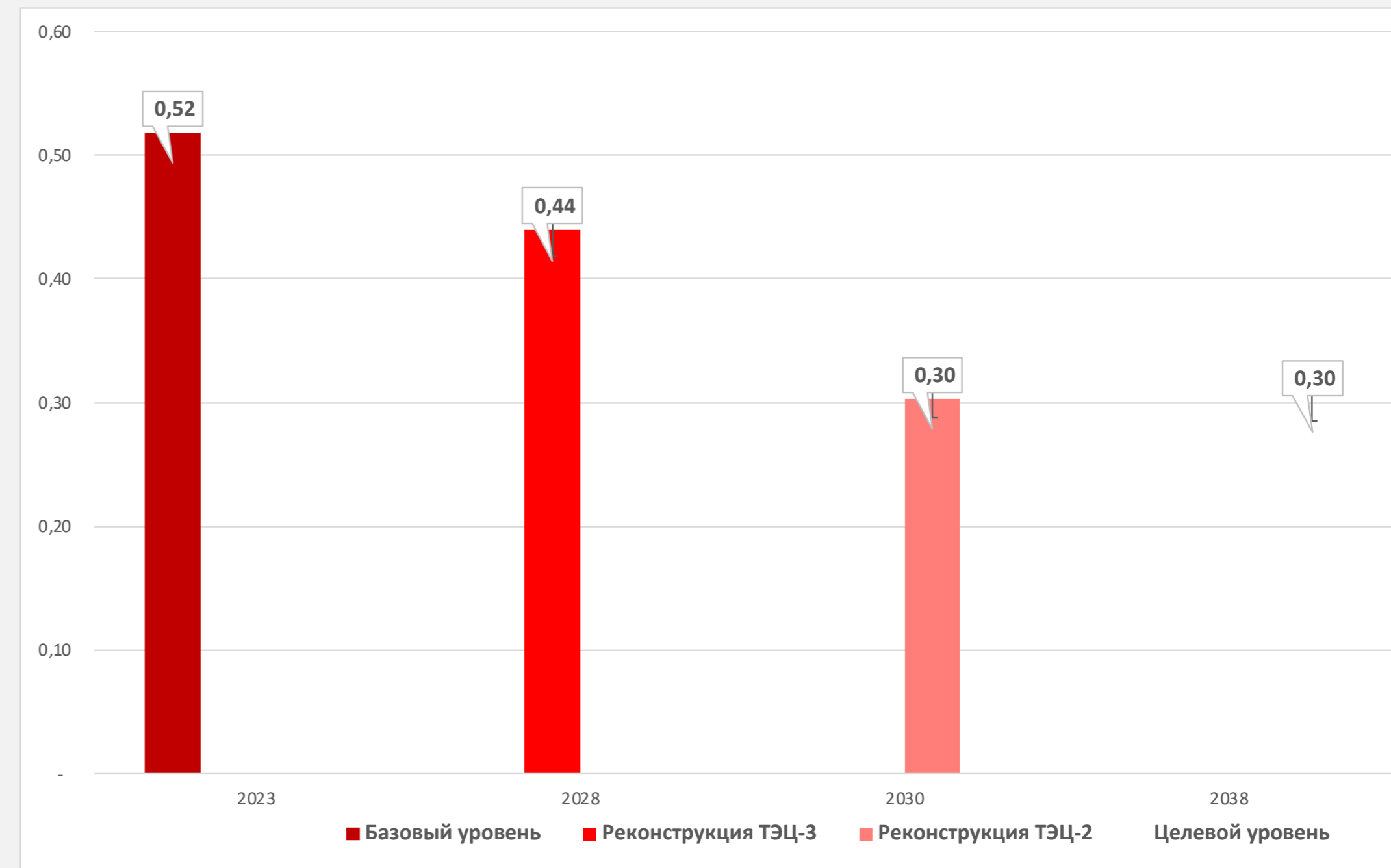
Use of Proceeds from green bonds/loans (\$mIn), as of 1 August 2023



ALMATY POWER STATIONS (ALES) SUSTAINABILITY-LINKED FINANCE FRAMEWORK



“Net Scope 1 GHG Emission Intensity” is identified as KPI



SLB Target

By 2030, reduce the net Scope 1 GHG emission factor by 42%: from 0.5 tCO2e/MWh in the base year (2019-2021) to 0.3tCO2e/MWh

Ways to achieve the target are to implement the following projects

- Project “Modernization of Almaty CHPP-2 with environmental impact reduced” (CHP-2)
- Project “Reconstruction of Almaty CHPP-3 with an increase in plant capacity of at least 450 MW” (CHP-3)

GREEN INVESTMENT NEEDS FOR CENTRAL ASIA



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

	Small HPPs MW	Solar MW	Wind TW/h	Geothermal TW/h	Bio MW		
Kazakhstan	4,800 (<35 MW) 2,707 (<10 MW)	3,760,000	6,684	354,000	11,388	54,000	300
Kyrgyzstan	900 (<30 MW) 275 (<10 MW)	267,000	537	1,500	256	171	200
Tajikistan	30,000 (<30 MW)	195,000	410	2,000	146	45	300
Turkmenistan	1,300	655,000	1,484	10,000	1,992	N/A	N/A
Uzbekistan	1,180 (<10 MW)	593,000	1,195	1,600	1,685	2	800
Total	39,862	5,470,000	10,310	369,100	15,467	54,218	1,600

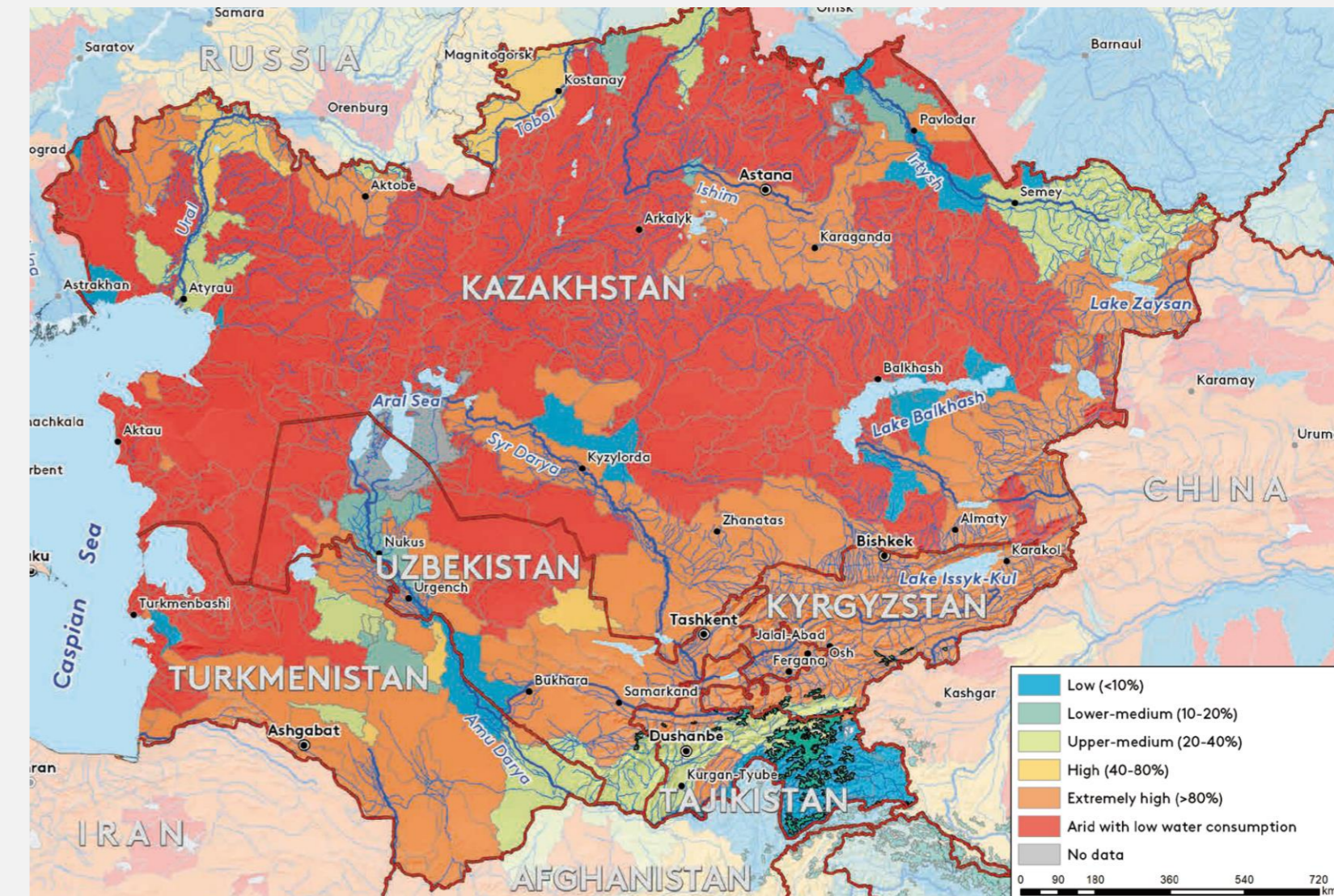
Note: Small HPPs are defined as plants with a capacity of <10 MW and <35 MW.

Source: Laldjebaev, Isaev, Saukhimov, 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.

Source: Eurasian Development Banks report, Nov 2022

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%)**.



Regional Chapter for BRI GREEN INVESTMENT PRINCIPLES in Central Asia

Assisting the banks of Central Asia in greening their activities and facilitating access for regional green projects to global capital markets

SIGNATORIES FROM CENTRAL ASIA



OBSERVERS FROM CENTRAL ASIA



Евразийский
Банк
Развития



Model green taxonomy of the Eurasian Economic Union (EAEU)

developed by "VEB.RF" and AIFC GFC and approved in EAEU

- Opens mutual access of issuers to the national capital markets of Russia and Kazakhstan
- Governments of the EAEU countries can use the document as the basis for their own criteria



Assistance to regional governments in development of sustainable finance taxonomies

- Kyrgyzstan sustainable finance taxonomy: GFC, together with Ministry of Natural Resources of Kyrgyzstan, prepared and presented a draft sustainable finance taxonomy
- Sharing experience with Uzbekistan in development of green (WB) and social (UNDP) taxonomies