Current status of green finance in Kazakhstan

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Abstract. The article examines the development and formation of green finance in Kazakhstan. It is noted that green finance is now becoming an integral component of achieving global and national sustainable development goals and the formation of a green economy, defining new environmentally sustainable contours and prospects for the development of the international financial system through the active growth of the «green» segment of the global financial market and responsible investment. Financial and economic instruments in the «sphere» of green economy, specifics of formation of «green» finance in the country, as well as factors impeding their development are analyzed. The article analyzes the current state of «green» finance in Kazakhstan, identifies the problems of «green» finance.

1 Introduction

In today's economic system, social and environmental issues are of great importance. The implementation of economic policy decisions should ideally take into account the fulfilment of sustainable development goals. The financial system, one of whose tasks is the efficient redistribution of monetary resources, plays an important role in this process. Banks and non-bank financial institutions have great investment potential for financing environmental and social projects. As green finance is a relatively new activity for banks and financial companies, monetary regulators and supranational financial institutions and organizations are only in the process of establishing uniform rules, regulations and guidelines in this area.

The global economic recovery from the pandemic will largely be green. Green recovery growth is being launched in Japan, South Korea, Germany and many other countries. Kazakhstan is far from the scale of support for a green turnaround in the economy. In order to open the Kazakh market of green projects to foreign investors, the national standard should be as close as possible to the international one. For this purpose, the green finance system should be as transparent as possible, the requirements for financial instruments should be clear to foreign investors, and the classification of areas classified as green should be compatible with international ones.

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2 Methods and materials

Various definitions of green finance can be found in the current literature. Thus, according to the United Nations Environment Programme (UNEP), the goal of green finance is "to increase the level of financial flows (banking, micro-credit, insurance and investment) from the public, private and non-profit sectors towards sustainable development priorities". An important part of this process is to control social and environmental risks, generating an appropriate commercial benefit while having a positive impact on the environment [1]. At the same time, the G20 Study Group on Green Finance defines green finance as "investments that contribute to environmental benefits in the broader sense of developing environmental sustainability". Green finance also involves efforts to incorporate environmental factors and adjust risk perceptions in order to increase green investments and reduce the amount of financing that is harmful to the environment [2].

In 2017, the European Commission issued a report "Defining Green in the Context of Green Finance", which details approaches to defining requirements for green finance instruments, understanding of green assets and green activities based on existing concepts and methodologies. The report also raises issues of interconnectedness between environmental (green), economic and sustainable finance. In doing so, the study stresses that it is important for today's investors not only to consider the environmental impact of the project being implemented, but also to assess the social and governance effects (figure). This, in turn, requires a more comprehensive approach to project evaluation based on sustainability principles [3].

Due to a lack of established terminology, authors of academic papers do not always distinguish between environmental/green and sustainable finance. Therefore, green finance can often be understood as finance that includes not only environmental but also management and social effects, which allows it to be defined as sustainable.

Sources of green finance can include bank resources, resources from other financial institutions, non-financial commercial institutions, individuals, government and non-profit organisations. The term "sustainable finance" itself is quite complex. And governments may take different approaches to developing a sustainable finance market. For example, in December 2019, the European Union authorities drafted the "Regulation on Establishing a Framework for Promoting Sustainable Investment and Amending Legislation", which will be officially published in June 2020. Some clauses in the document will come into force on 1 January 2022 and 1 January 2023.

The EU taxonomy is a framework, a system for classifying economic activities that can be defined under EU law as environmentally sustainable [4]. The taxonomy is designed to help investors, companies, and issuers make the transition to a low-carbon, sustainable and resource-efficient economy [5].

In order to achieve the goals of the Resolution, the document lists the main environmental objectives:

- adaptation to climate change;
- mitigation of climate change;
- sustainable use and protection of marine and water resources;
- transition to a circular economy;
- prevention and control of pollution;
- protection and restoration of biodiversity and ecosystems [6].

If we consider the experience in the development of green finance within individual countries of the European Union, we can highlight the Netherlands, which has had green credit legislation in place since 1995. Green mortgage regulations have been approved in the country since 2016. Under this project, buyers of real estate receive special certificates for the purchase and modernisation of housing. The certificates can be used to obtain a loan.
more favourable terms. The experience of Japan, where there is no taxonomy or clear definition of sustainable finance, is also interesting. However, the country does have a Green Bond Guideline, which is issued with the support of the Japanese Ministry of the Environment.

Based on the above, it can be concluded that green finance instruments are gradually beginning to be implemented in the legal regulations of a number of countries. At the same time, the development of green finance regulation is uneven and may vary from country to country. In this respect, the European states can be a good example to study this process.

3 Results

The issue of green economy development has been extensively covered in the Strategy «Kazakhstan–2050», and the Concept for the transition of the Republic of Kazakhstan to a green economy. The Concept identifies sectors of the economy that require "green" financing, target indicators for them, and the required amount of investment. The Government of Kazakhstan is developing a regulatory framework for green economy and green finance, regulating the CO2 Emission Trading System and creating a database of green projects. International organisations and developed countries are channelling green investments and supporting the country in developing the Green Finance Concept (including a green bond instrument) and green standards.

To apply green finance instruments, banks and other financial institutions use various ratings, indices, performance indicators, classifications to assess the compliance of projects to sustainability principles, determine the presence and level of environmental and climate risks, as well as...
and alliances lie within the realm of ESG principles, as it is joint efforts that can lead to the desired outcome.

The basic principles of ESG are agendas:

Firstly, it is openness and transparency in ESG-related matters. It is necessary to broadcast to the audience the goals, values, principles of the company, to conduct a sincere dialogue, to report on the results (including those that have not yet been achieved). The working group that deals with the implementation of the ESG strategy must communicate with the media, share the news, answer questions from journalists.

The position of sustainability director is increasingly common in large companies - he or she is also expected to be an active presence in the information field and to broadcast the company's sustainable agenda.

Secondly, the principles of sustainable development must be integrated into the company's overall strategy. This means perceiving and communicating ESG not as something separate, but as part of the business, located in the same information field. In the case of marketing communications and PR, ESG must be mentioned in the business context of the company and we must try to do it from different angles, in close cooperation with the ongoing processes of the company.

Thirdly, it is important to define the right communication channels for ESG. It is not a bad idea to create your own channels (as the interest from the media market in both the CIS and Europe is not very high at the moment). For example, this could be a corporate ESG magazine, a separate social media account, a thematic email newsletter, a separate section on the website.

Fourthly, create an ESG community and/or integrate into one of the established and working communities in order to share experiences, join forces and look for solutions. Within ESG communication, communities are an active driving factor.

Fifthly, the presence in ratings is also an important part of the communication in this direction and some kind of confirmation of the right way. RAEX-Europe compiles ESG rankings of companies in Kazakhstan, PwC Kazakhstan regularly publishes rankings of the best sustainability disclosure companies.

Sixthly, it is crucial to talk about a sustainable agenda in simple language that can be understood by different audiences. It is not uncommon for ESG materials to be littered with specialist terms and complex semantic constructions - it would be great to avoid this. ESG has already gone beyond the core business, so a company's sustainability efforts must be understandable to a wider audience.

Seventh, involve communication market professionals in the work - do not try to lock everything inside the company, but work with contractors who have accumulated ESG expertise.

The ESG market in Kazakhstan is just emerging and right now the rules and approaches to sustainable development communication are being developed. What is quite obvious is that it is necessary to talk about ESG as it allows to develop the direction, learn from each other's example, unite efforts, show the way, and thus achieve the ESG result faster.

The activity of Kazakh companies in developing and implementing ESG strategies has increased significantly over the last year. This has been facilitated by a number of measures taken by the government and the National Bank: approval of a low-carbon development strategy, adoption of a national taxonomy of green projects, recommendations of the Central Bank on sustainable development disclosure and accounting for ESG risks. In Kazakhstan, as in other countries, the financial market for ESG instruments is gradually developing, so we expect that the interest of Russian companies in ESG issues will continue to grow in the next few years.

Let's look at the main financial indicators of ESG in Kazakhstan (Table 1).
Table 1. Financial performance of ESG investments

<table>
<thead>
<tr>
<th>ESG instruments</th>
<th>Directions for the development of ESG instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESG lending (2021)</td>
<td>3 loans worth $62 mln</td>
</tr>
<tr>
<td>Issue of ESG bonds: green, social and sustainability bonds (2021)</td>
<td>According to Tokayev's official statements, the volume of sustainable financing market in Kazakhstan (loans + bonds) in 2021 will be $250 mln</td>
</tr>
<tr>
<td>Number of ESG funds</td>
<td>8 issues of ESG funds for $170 mln</td>
</tr>
<tr>
<td>Carbon exchange - GHG emissions (2019)</td>
<td>Operational since 2013</td>
</tr>
<tr>
<td>CO2 emissions from fuel combustion (2020)</td>
<td>0.354 Gt CO2 [5] (0.5 % of global volume)</td>
</tr>
<tr>
<td>Carbon neutrality</td>
<td>0.267 Gt CO2 (0.74 % of global emissions, 26th place) 14.2 t CO2 per capita (15th place in the world)</td>
</tr>
</tbody>
</table>
| Funding required to achieve carbon neutrality 2060 | From Table 1, we note that the level of ESG standards in Kazakhstan is currently relatively low in international comparison, especially when compared to European Union countries. However, the level of ESG standards in Kazakhstan varies widely among large companies. In 2022, Kazakhstan adopted an Investment Policy Concept until 2026. The concept contains promises by the government of Kazakhstan to work towards introducing ESG principles into the state planning system. It recognises the lack of a policy on ESG target as a significant shortcoming of the national model for attracting foreign investment. An analysis of Kazakhstan’s ESG practices and green finance techniques was conducted in December 2022. Among the leaders of the ESG agenda in Kazakhstan are national and foreign oil and gas companies and banks [13,14]. Table 2. Rating of best ESG agenda leaders in Kazakhstan

<table>
<thead>
<tr>
<th>Position</th>
<th>2022 year</th>
<th>2021 year</th>
<th>Company name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3</td>
<td>3</td>
<td>Karachaganak Petroleum Operating</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td></td>
<td>JSC NC KazMunayGas</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td></td>
<td>KazTransOil JSC</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td></td>
<td>KEGOK JSC</td>
</tr>
<tr>
<td>5</td>
<td></td>
<td>16</td>
<td>Kazakhtelecom JSC</td>
</tr>
<tr>
<td>6</td>
<td></td>
<td>10</td>
<td>National Holding Baiterek JSC</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td>9</td>
<td>JSC Saruk-Energo</td>
</tr>
<tr>
<td>8</td>
<td></td>
<td>7</td>
<td>JSC Halyk Bank of Kazakhstan</td>
</tr>
<tr>
<td>9</td>
<td></td>
<td>11</td>
<td>Centro-Asian Electric Power Corporation</td>
</tr>
<tr>
<td>10</td>
<td></td>
<td>5</td>
<td>KAZ Minerals</td>
</tr>
</tbody>
</table>

One of the leaders on the agenda is Karachaganak Petroleum Operating (KPO). It is an oil consortium formed by Shell, Eni, Chevron, Lukoil and KazMunayGas. KPO manages the Karachaganak oil and gas condensate field and the pipeline from it to Atyrau. In 2021 a taxonomy of green projects was approved in Kazakhstan. The main seven groups of such projects include:
- renewable energy: wind, solar, geothermal, hydro, hydrogen, bioenergy and others, as well as supply chains for such energy;
- energy efficiency: energy efficiency improvements in buildings, utilities, and energy-efficient buildings.
green buildings: buildings, associated systems and building materials, green infrastructure;
pollution prevention and control: air quality, reducing soil pollution;
sustainable use of water, waste: water conservation and sustainable use, waste and water; conservation and restoration of resources;
sustainable agriculture, land use, forestry, biodiversity conservation and ecotourism;
clean transport: low-carbon vehicles, clean transport infrastructure, clean transport ICT.

There are 277 issuers listed on the Kazakhstan Stock Exchange (KASE). The total capitalisation as of November 2021 was around $69 trillion (₸ 33 trillion). Kazakhstan Stock Exchange is actively promoting the ESG agenda. By 2023, proposals to introduce ESG principles into the state planning system are to be developed and support measures for companies that use them are to be analysed. By December 2024, it is planned to develop requirements for the content of annual ESG reports for listed companies.

4 Discussion

The implementation of ESG concept in the company policy is an important and responsible task, and the basic algorithm of effective management – SWOT analysis (table 3) [16,17] will help to do it properly, to identify perspectives and opportunities, to take into account weaknesses and possible threats.

Table 3. SWOT analysis of ESG implementation

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Compliance with general</td>
<td>- Lack of qualified personnel the financial</td>
</tr>
<tr>
<td>trends in the</td>
<td>cost of implementing the concept;</td>
</tr>
<tr>
<td>implementation of the</td>
<td>- Difficulty in allocating resources;</td>
</tr>
<tr>
<td>ESG concept;</td>
<td>- Lack of sufficient;</td>
</tr>
<tr>
<td>the increase of loyalty</td>
<td>- Practical measures to implement ESG</td>
</tr>
<tr>
<td>and trust from stakeholders (consumers, investors, contractors, supervisory authorities);</td>
<td>principles for all sectors.</td>
</tr>
<tr>
<td>opportunity to enter the</td>
<td>- Development of real measures to improve</td>
</tr>
<tr>
<td>international market;</td>
<td>corporate governance process, environmental</td>
</tr>
<tr>
<td>the opportunity to</td>
<td>regulation and social policy.</td>
</tr>
<tr>
<td>influence the public</td>
<td></td>
</tr>
<tr>
<td>legislation differences between Kazakh legislation and international standards and norms;</td>
<td></td>
</tr>
<tr>
<td>- Insufficient information support for the importance of implementing the concept;</td>
<td></td>
</tr>
<tr>
<td>- The small number of standardising and certifying organisations.</td>
<td></td>
</tr>
</tbody>
</table>
In the ESG transition process, it is important to analyse not only achievements but also failures, because they are an invaluable basis for further qualitative transformation and sustainable business growth. Thus, it can be noted that the application of a number of elements of green finance by institutions in the Republic of Kazakhstan are rather unevenly formed and are mainly based on initiatives of the financial institutions themselves or are the result of international cooperation.

5 Conclusion

Given that environmental and climate change issues are becoming increasingly important for every country, the following recommendations for the formation of a green finance market in Kazakhstan seem appropriate:

1. Develop and introduce regulatory documents containing rules and conditions for working with green finance instruments, which include green bonds, green loans and green project finance.

2. Forming a system of economic and social incentives from the state to increase the attractiveness of green finance, including compensating banks for the difference between market rates on loans and the lower cost of green loans, subsidising part of the coupon income on green bonds, conducting training events on the green economy, providing tax preferences for companies and individuals implementing green projects, etc.

3. Allocation of a separate section at the Kazakhstan Currency and Stock Exchange for circulation of green government and corporate securities.

4. Developing guidelines for banks on control and management of environmental and climate risks, including introduction of the environmental management framework in all financial institutions of the Republic of Kazakhstan.

5. Expand international cooperation in the area of environmentally sustainable financing, including joining international initiatives in this area.


7. Development of a methodological framework in the field of green finance, including the distribution of powers between existing government agencies or the creation of new institutions regulating this process.

The tools proposed above are basic algorithms that will enable a smooth and painless transition to the new concept and achieve a higher level of ESG policy for business start-ups and large corporations alike. After all, sooner or later, sustainability and ESG will inevitably affect everyone, with each of the actors involved benefiting from a «sustainable» and «green» transformation. Therefore, green finance is now a reality of modern business in Kazakhstan, without which it is impossible to achieve economic growth and build a prosperous future.

Green finance creates a new market segment for rating agencies, which will be able to survey companies and sell them environmental ratings similar to the emerging market of corporate governance ratings, which include various ethical and social indicators.
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