Developing environmentally responsibly investment 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 essential for the transition to a green economy. The article defines the essence of responsible investment within the framework of ESG investment, which takes into account the unity of environmental, social, and corporate governance factors. An analysis of the status and development of responsible investment factors and corporate governance factors is performed. The article also analyzes the status and development of responsible investments in economically developed countries. The possibilities of formation of an ecosystem of financial support for environmentally responsible investments in Kazakhstan are estimated. The following factors constraining and stimulating investments in "green" economy projects are identified, and measures of state support for environmentally responsible investment in the country are proposed. Investments in the country; and the measures proposed by the government to support the development of environmentally responsible investments in the country.

1 Introduction

The current situation in the field of environmental protection, the systematic increase in the level of negative impact on the environment by enterprises operating on environmentally inefficient equipment, against the background of the global greening of international relations, require increased attention to the task of achieving a balanced "green" growth in Kazakhstan. With the adoption in 2013 of the Concept for the transition of the Republic of Kazakhstan to a "green economy" at the state level, the need to adjust the model of economic development and transition to sustainable development on the principles of "green growth" was demonstrated [1,2]. In 2016, Kazakhstan acceded to the OECD Declaration on Green...
Growth, under which signatory countries declare their efforts to implement green growth strategies, promote green investments and sustainable management of natural resources, and reform domestic policies to eliminate environmentally destructive measures [3]. In February 2018, Kazakhstan’s National Development Plan 2025 was adopted, highlighting the green economy as a separate priority.

The processes of “green” transformation of the national economy that are gaining momentum have identified the need to systematize and refine scientific and theoretical approaches to the definition of the essence and economic content of environmentally responsible investment within the concept of ESG investment, taking into account the unity of environmental, social and corporate governance factors and their implementation in the practice of Kazakhstan.[4,5] The development of “green” economy is impossible without forming a special financial system that facilitates attracting “green Thus, investment is an important tool to support the transition to a green economy [6].

2 Methods and materials

Responsible investment practices are evolving rapidly. The Global Sustainable Investment Alliance (GSIA), an initiative of the UN to mobilise business resources and fill a large funding gap for sustainable development programmes, identifies seven key responsible investment strategies (Table 1) [7].

Table 1. Key strategies for responsible investment

<table>
<thead>
<tr>
<th>Varieties</th>
<th>Development areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negative (exclusionary)</td>
<td>Exclusion of certain sectors, companies or practices from a fund or portfolio, based on certain ESG criteria</td>
</tr>
<tr>
<td>Positive ('best in class') screening</td>
<td>Investments in sectors, companies or projects selected as a result of positive ESG criteria compared to peers in its class</td>
</tr>
<tr>
<td>Positive (statutory) screening</td>
<td>Screening of investments for compliance with minimum international business practice standards (OECD, ILO, UN, UNICEF standards)</td>
</tr>
<tr>
<td>ESG integration</td>
<td>Systematic and explicit inclusion of environmental, social and governance factors in financial analysis by investment managers</td>
</tr>
<tr>
<td>Sustained thematic investment</td>
<td>Investments in activities or assets that are directly linked to sustainability (e.g. clean energy, green technology or sustainable agriculture)</td>
</tr>
<tr>
<td>Transformative investing</td>
<td>Targeted investments that address social or environmental issues, including community investments that provide capital to traditionally underserved individuals or groups, as well as direct financing to companies pursuing specific social or environmental goals</td>
</tr>
<tr>
<td>Use of shareholder power</td>
<td>Use of shareholder power to influence corporate behaviour in line with ESG principles, including through direct corporate participation, preparation and participation in shareholder proposals, proxy voting</td>
</tr>
</tbody>
</table>

3 Results

Let us assess the green investment policy of the Republic of Kazakhstan in order to identify both positive and negative aspects of the implementation of this policy. One of the indicators characterizing Kazakhstan’s investment policy in the field of environmental protection is the amount of current expenditures on environmental protection. Thus, according to official data...
from the Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, expenditures on environmental protection remain highly unstable, as can be seen from data on their growth rates ranging from -12.9% to 24.2%. It is possible to level the influence of inflation factor on dynamics of current expenses indicator by consideration of an indicator of volume of expenses for environmental protection as a percentage of GDP (Table 2).

Table 2. Indicators characterizing the investment policy of Kazakhstan in the field of environmental protection

<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 - bonds for $170 mln</td>
</tr>
<tr>
<td>Carbon exchange</td>
<td>Operational since 2013</td>
</tr>
<tr>
<td>GHG emissions (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>
<tr>
<td>Funding required to achieve carbon neutrality 2060</td>
<td></td>
</tr>
</tbody>
</table>

In the analysed period, environmental protection expenditures as a percentage of GDP fluctuated between 0.31% and 0.43%. This indicates a clear underfunding of environmental protection measures in Kazakhstan. In comparison, in 2018, the 27 EU member states spent 1.7% of total public expenditure and 0.8% of GDP on environmental protection [11]. Since 2018, there has been a positive increase in investment in environmental protection in Kazakhstan.

To date, investments in renewable energy sources (81.7% of total investments) are the main focus in Kazakhstan. Next in importance are investments: for atmospheric air protection (5.5%), waste management (4.6%), protection and rehabilitation of soil, ground and surface waters (4.4%), biodiversity and habitat conservation (2.1%). Investments in energy-saving technologies and energy efficiency, as well as investments aimed at reducing greenhouse gas emissions, cumulatively account for only 0.3%, and to the total of all investments they account for 0.0005%. On the whole, the share of investments into environmental protection in the total volume of investments into the fixed capital is excessively small - 1.6% [12].

By sector, industry accounted for 86.8% of all investments in environmental protection in the Republic of Kazakhstan in 2019, of which 58.3% were in electricity, gas, steam and air conditioning, and 21.6% in manufacturing. Mining and quarrying attracted 6.6% of the investment, and almost as much in construction. It can be stated that the green economy investment policy for Kazakhstan has not yet justified itself. According to the Climate Change Performance Index (CCPI) compiled by the environmental organization Germanwatch, in 2020, Kazakhstan entered the red zone, taking 54th place [13]. In total, the CCPI rating involves 61 countries from among those which account for more than 90% of global greenhouse gas emissions.

Thus, research into the theory and international practice of responsible investment is particularly relevant for Kazakhstan, where the relevant market segment is just emerging.
4 Discussion

Table 3. Factors stimulating and restricting green investment and green growth

<table>
<thead>
<tr>
<th>Factors stimulating green investments</th>
<th>Factors inhibiting green investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>- energy security factor;</td>
<td>- external investment environment factors</td>
</tr>
<tr>
<td>- a factor of powerful multiplier effect;</td>
<td></td>
</tr>
<tr>
<td>- environmental cleanliness factor;</td>
<td></td>
</tr>
<tr>
<td>- environmental security factor;</td>
<td>- difficulties in correctly measuring green growth, including the ambiguity of estimates of the impact of green economy investments on output growth and employment in various industries and non-productive sectors;</td>
</tr>
<tr>
<td>- climate change risk reduction factor;</td>
<td></td>
</tr>
<tr>
<td>- factor of knowledge-intensiveness and competitiveness</td>
<td></td>
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</tbody>
</table>

Factors of the internal investment environment

- weak development of competencies in the financial sector;
- lack of an effective system to monitor and supervise the compliance of financial institutions with green finance policies;
- poor diversification of green investment funding sources

Note - compiled by the authors on the basis of the source [15,16,17]

While recognising the undoubted advantages of the responsible investment market for Kazakhstan, the informational, regulatory and structural limitations cannot be levelled. The most significant of these is related to the fact that the domestic financial system is characterised by a neo-continental model with its high reliance on bank and budget financing. This holds back the adoption of leading practices to a significant extent, but does not preclude the advantages of catch-up development. The development of responsible investment in Kazakhstan is hindered by the low transparency of Kazakh companies, shortcomings in corporate governance, poor business attention to environmental issues, the high concentration of the financial market on commodity companies, and the mentality of the population, which shows no appreciable interest in ESG principles.

5 Conclusion

Kazakhstan's economy today is developing according to a "brown" scenario and is still quite heavily oriented towards mineral extraction to the detriment of the development of "green" technologies. The state should be the driver of priority promotion of "green" projects; only the state has the power to transfer the economy to "green rails" and make it financially attractive for business.
In this context, in order to implement the experience of developing environmentally responsible investment of foreign countries in Kazakhstan, the activities of the state can be carried out in the following directions:

1) measures requiring investment:
   - state financial support of priority branches in the form of equity participation in the authorized capital
   - establishment of targeted state programmes to protect all types of natural resources (atmospheric air, water and land resources)
   - budget financing of technical re-equipment of strategically important industries with replacement of obsolete traditional equipment with ecologically up-to-date ones;
   - public-private investment in green infrastructure projects, including green public transport, renewable energy and energy-efficient buildings;
   - targeted funding for research and development on environmentally friendly technologies;
   - institutional reform to improve the quality of public environmental management;
   - investing in environmental literacy and competence of the population, allocating more state educational grants for training of environmental specialists as well as specialists in creation of new environmentally clean technologies [18, 19];

2) measures which do not require significant investments
   - deepening international cooperation on green, low-carbon and sustainable development of the economy-
   - strengthening environmental monitoring of the activities of enterprises at all stages of production;
   - reducing tax rates, introducing tax holidays for new-ly created “green” enterprises.
   - conversely, introduction of an increased tax on products whose production is accompanied by excessive greenhouse gas emissions;
   - organising a system for trading in greenhouse gas emission quotas;
   - development of the financial market, including ESG investing, green bond market and green lending, responsible investment funds, etc.;
   - introduction of ESG assessments of market participants;
   - involvement of mass media and environmental organizations in educational activities to create environmental awareness among the population and business representatives [20];
   - the improvement of environmental legislation in the country on fundamentally new principles, involving the harmonization of the interests of society with the opportunities of the biosphere.

It is obvious that the proposed measures require further specification and determination of the necessary financial support for their implementation.

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