

Assessment of the appetite and conditions for international financial investors to invest in Kazakhstan's Green Economy

Final Report

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Content

1. Background	4
2. UNFCCC guidance on reporting and tracking climate finance	4
2.1 Paris Agreement decisions on transparency of climate finance	5
2.2 Lack of common definition of climate finance	8
2.3 UNFCCC Standing Committee on Finance	10
2.4 Climate finance sources currently being tracked under the UNFCCC	11
3. Other international criteria and approaches for climate finance tracking	12
3.1 OECD work on climate finance tracking and reporting	12
3.2 Joint MDB approach for climate finance reporting	14
4. Climate Finance MRV in Kazakhstan	18
4.1 Kazakhstan's Reporting Obligations under the UNFCCC and Biennial Reports	18
4.2 Upcoming reporting requirements for Kazakhstan under the Paris Agreement	19
4.3 National-level green investment flows	20
5. Assessment	27

1. Executive Summary

During the Astana Economic Forum on June 15/16, 2017 the project team conducted interviews with 104 premium or VIP participants of the Forum in order to gauge the appetite of international investors to contribute to Kazakhstan's green financial system and the conditions under which such an engagement can take place. 29 of the interviewees were representing Kazakhstan's financial, government and industrial sectors. The remaining 75 were from abroad, especially Europe (26), Asia (24), North America (12), and Russia (6).

The key survey results were as follows:

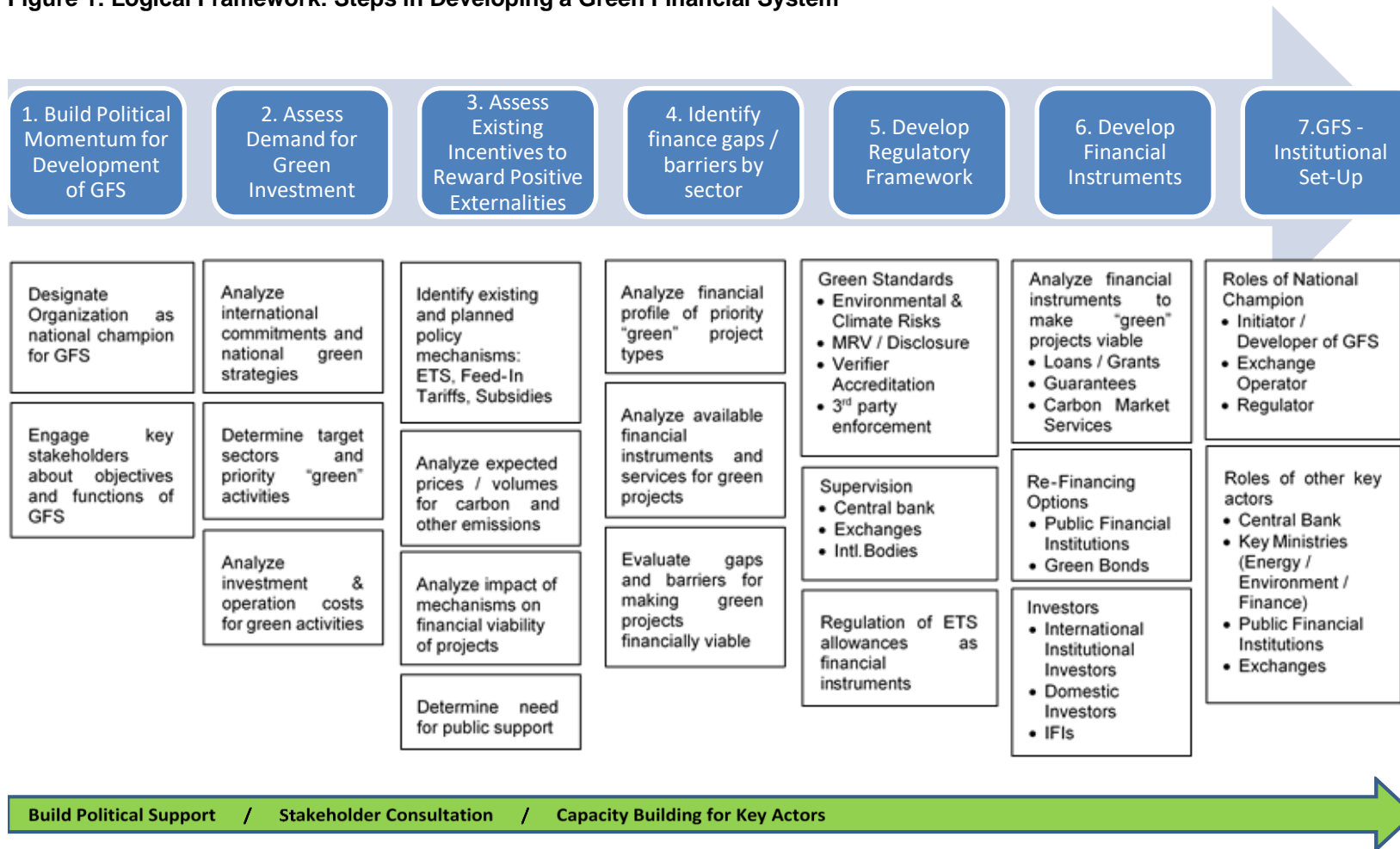
- Of the interviewees that already have investments in Kazakhstan, more than half (26 of 48) have experience with green investment in Kazakhstan and almost all (45 of 48) have an interest in participating in green investment in the future. The figures are similar if only international investors are concerned; 48% (15 of 31) have experience with green investment in Kazakhstan and almost all (29 of 31) have an interest in doing so in the future.
- Of the interviewees that already have experience with green investments, either in Kazakhstan or somewhere else, almost half (25 of 51) have such experience in Kazakhstan and the vast majority (46 of 51) has an interest in green investments in Kazakhstan in the future. Again, the figures are similar if only international investors are concerned; 40% (15 of 37) already have green investment experience in Kazakhstan and 90% (33 of 37) have an interest in doing so in the future.
- 13% of interviewees judge financial market appetite for green finance in Kazakhstan as high and a further 35% as moderate. The remainder believe that there is some or low appetite. The numbers are slightly more optimistic for international interviewees. 14% see a high market appetite and another 40% see a moderate one.
- Opinions among interviewees on which financial instruments is considered most attractive were almost evenly spread as shown by the below chart. 50% of respondents (42 of 84) mentioned at least one form of green bonds, whether project, corporate or sovereign.
- Almost all (95 of 104) interviewees had an informed opinion on the main barriers preventing investment in Kazakhstan's green economy. More than half of respondents (49 of 95) mentioned regulatory risk as a key factor. Other reasons mentioned by more than 20 respondents each were insufficient policy incentives for green investment, lack of green finance expertise and immaturity of Kazakhstan's financial markets.

2. Link to Logical Framework

This assessment should be viewed in the context of the Logical Framework developed as part of task A6.1 of this project. The focus of the Logical Framework is a dual one, both on what it takes to make individual green projects attractive and financially viable for project sponsors and what it takes to build an overall Green Financial System. The latter perspective is emphasized in the Flowchart below, which has been reproduced from Figure 3 of the Logical Framework document. Step 6 of the Flow Chart calls for the development of financial instruments from diverse sources of green finance. International financial investors can be an important source of green finance, as international investor interest in green investments typically still exceeds the supply of suitable projects that would qualify for green bonds or other green financial instruments.

The survey results provide important input for the design of financial instruments, as they examine the level of interests from international financial investors in Kazakhstan's green economy, the conditions, under which such investments can take place, as well as the barriers that currently prevent such investments from happening at a sufficiently large scale.

Figure 1: Logical Framework: Steps in Developing a Green Financial System



3. Survey Design

During the Astana Economic Forum on June 15/16, 2017 the project team conducted interviews with 104 premium or VIP participants of the Forum in order to gauge the appetite of international investors to contribute to Kazakhstan’s green financial system and the conditions under which such an engagement can take place. 29 of the interviewees were representing Kazakhstan’s financial, government and industrial sectors. The remaining 75 were from abroad, especially Europe (26), Asia (24), North America (12), and Russia (6).

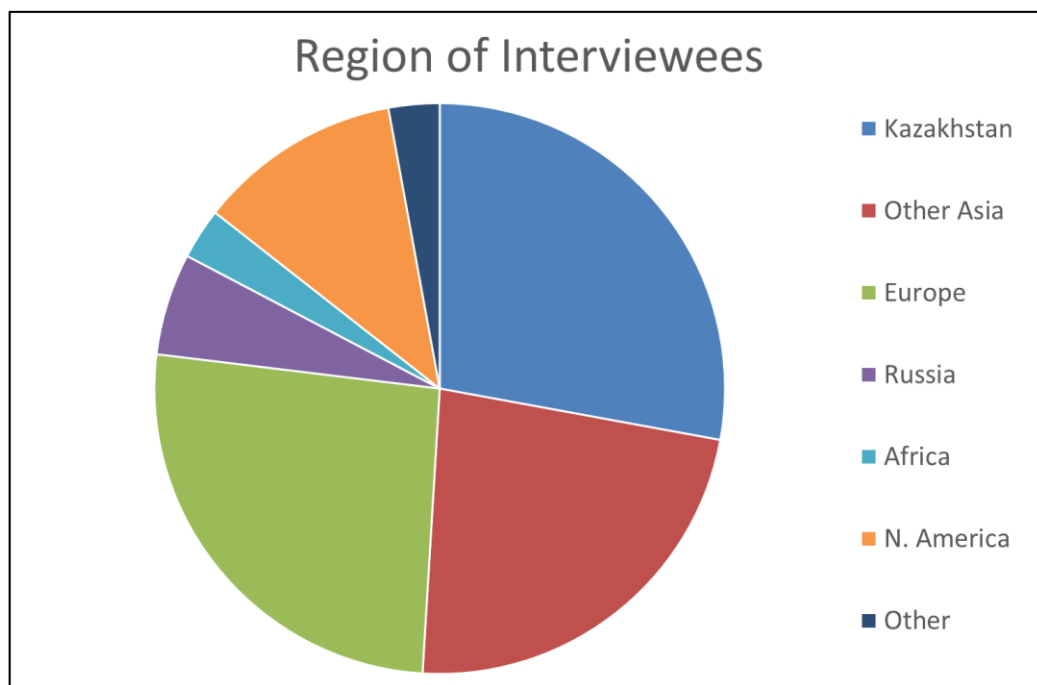


Figure 21. Regional distribution of Interviewees

The interviews were conducted by an interview team consisting of students from Nazarbayev University and led by Dr. Nurkhat Zhakiyev, Ph.D., Scientific Officer at the Energy, Ecology & Climate Laboratory, National Laboratory Astana, Nazarbayev University. The interviews were conducted in English, Russian or Kazakh language depending on the interviewees’ preferences. For each

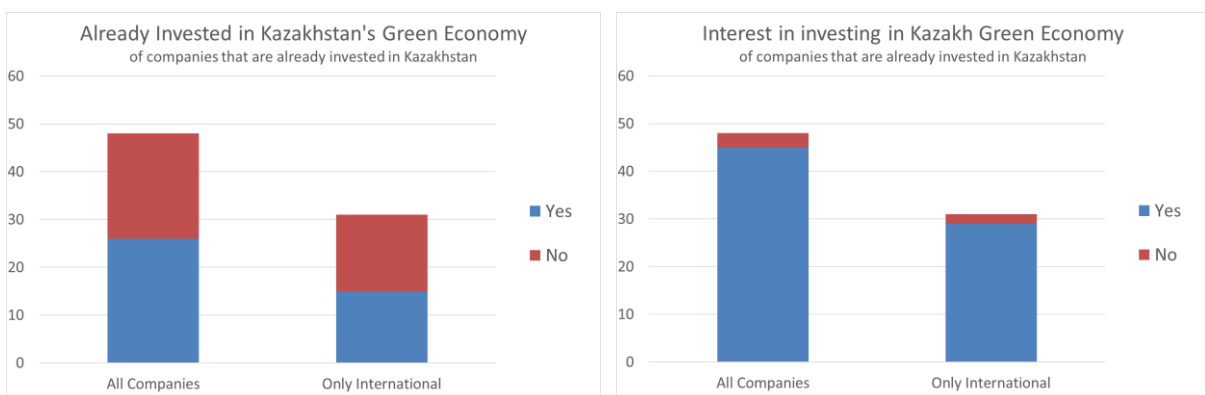
interviewee a survey form, the English version of which is shown in Annex 1, was filled in by the interviewer.

4. Analysis and Results

The key results of the survey were in the areas of investors’ own presence and interest in investing in Kazakhstan’s green economy, the market’s appetite for investing in Kazakhstan’s green economy, the most suitable financial instruments and the perceived main barriers:

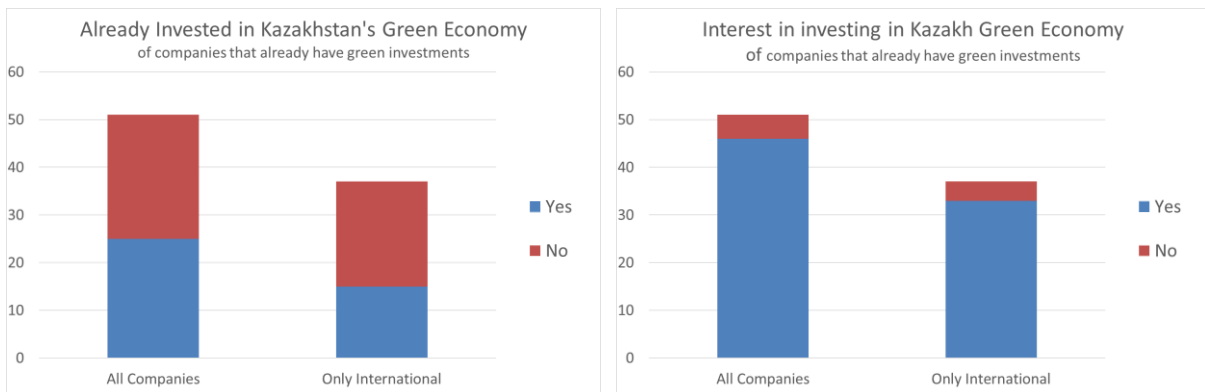
4.1 Investors’ Presence and Interest in Kazakhstan’s Green Economy

Of the interviewees that already have investments in Kazakhstan, more than half (26 of 48) have experience with green investment in Kazakhstan and almost all (45 of 48) have an interest in participating in green investment in the future. The figures are similar if only international investors are concerned; 48% (15 of 31) have experience with green investment in Kazakhstan and almost all (29 of 31) have an interest in doing so in the future. The survey results suggest that investors who are already present in Kazakhstan have recognized the potential opportunities that investments in Kazakhstan’s green economy offer. The government of Kazakhstan apparently has had some success in raising awareness for its green economy efforts. Many investors also have already actual experience with green investments in Kazakhstan, which suggests that barriers-to-entry even for international investors are likely manageable and that the future capacity building efforts can build on a substantial base of existing expertise.



Figures 3 and 42. Investing in Kazakhstan’s Green Economy. Experience and Interest by companies that are already invested in Kazakhstan

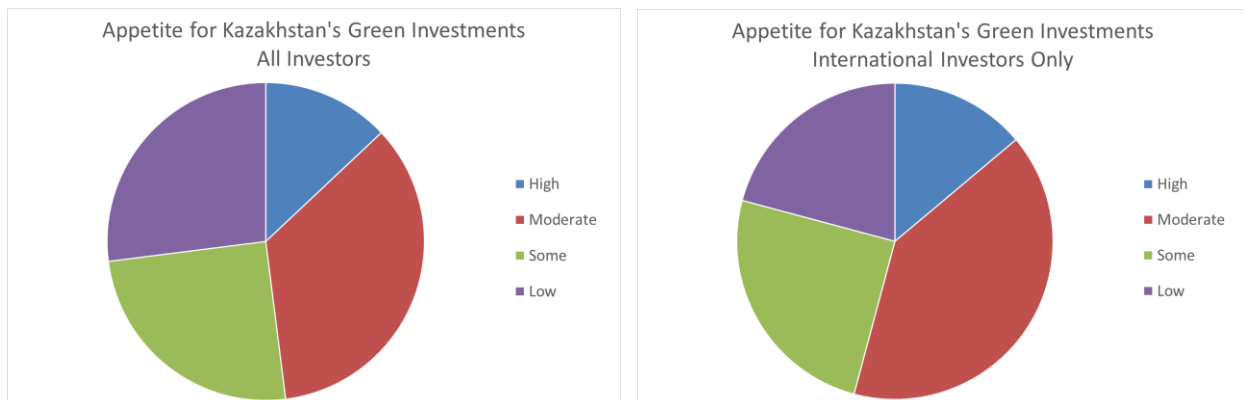
The above results are confirmed when looking at the results from interviews with companies that already have experience with green investments, either in Kazakhstan or somewhere else. Almost half (25 of 51) have such experience in Kazakhstan and the vast majority (46 of 51) has an interest in green investments in Kazakhstan in the future. Again, the figures are similar if only international investors are concerned; 40% (15 of 37) already have green investment experience in Kazakhstan and 90% (33 of 37) have an interest in doing so in the future.



Figures 5 and 63. Investing in Kazakhstan’s Green Economy. Experience and Interest by companies that already have green investments somewhere

4.2 Investors’ Appetite for Investing in Kazakhstan’s Green Economy

13% of interviewees judge financial market appetite for green finance in Kazakhstan as high and a further 35% as moderate. The remainder believe that there is only some or low appetite. The numbers are slightly more optimistic for international interviewees. 14% see a high market appetite and another 40% see a moderate one.



4.3 Investors’ Opinions on Suitable Financial Instruments

Opinions among interviewees on which financial instruments is considered most attractive were almost evenly spread as shown by the below chart. 50% of respondents (42 of 84) mentioned at least one form of green bonds, whether project, corporate or sovereign.

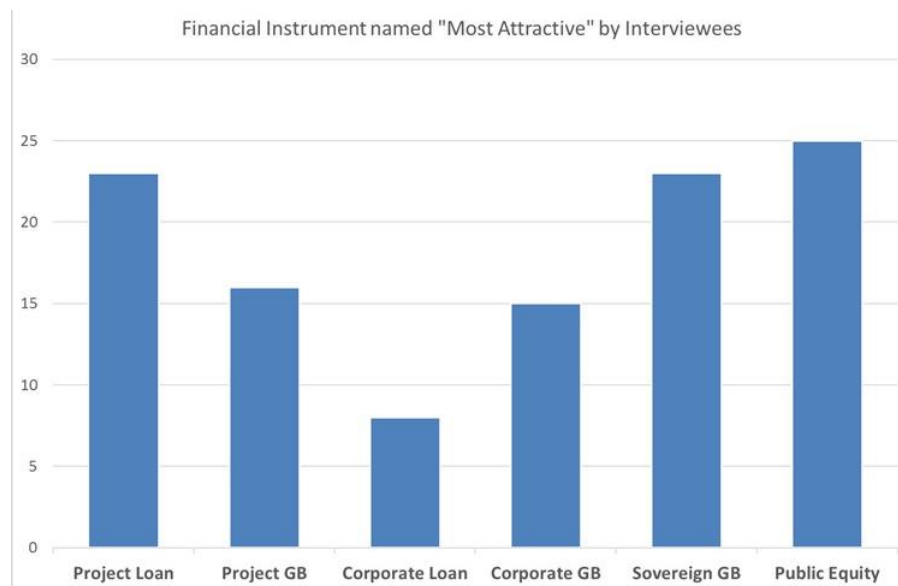


Figure 7. Most attractive financial instruments

Almost all (95 of 104) interviewees had an informed opinion on the main barriers preventing investment in Kazakhstan’s green economy. More than half of respondents (49 of 95) mentioned regulatory risk as a key factor and related factors, such as political risk and incentives also appear to play a major role. Other reasons mentioned by more than 20 respondents each were a lack of green finance expertise and immaturity of Kazakhstan’s financial markets, which can be addressed via institution and capacity building.

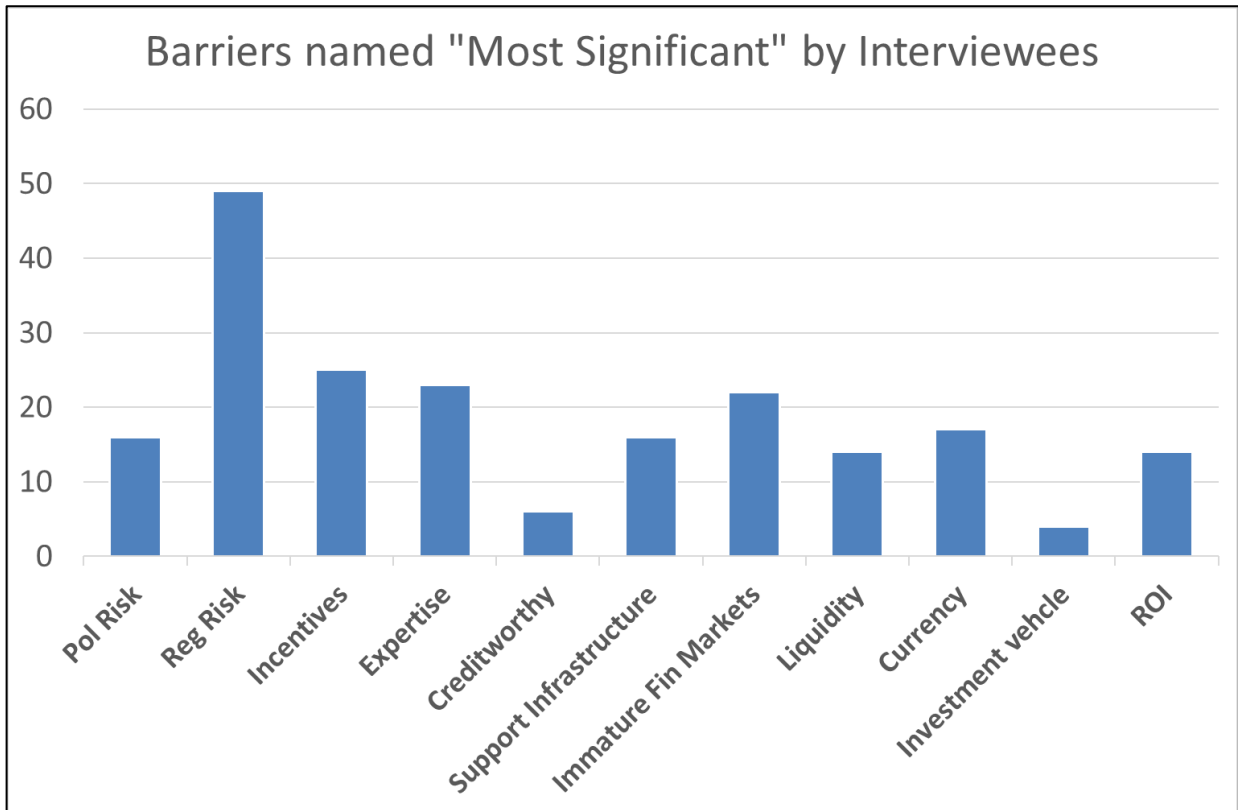


Figure 8. Most significant barriers for green investments

Assessment of Appetite and Conditions for International Financial Investors

To Invest in Kazakhstan's Green Economy

SURVEY QUESTIONS

1. Where are you based: _____
 - (Region: Western Europe, North America, Asia-Pacific, Middle East, Other)
2. What is the size of the institution you represent (assets under management, size of fund, investments available for deployment)?
 - Small (< \$10m), Medium (\$10m-\$100m), Large (\$100m-\$1bn), Very large (>\$1bn)
3. Are you currently invested in the green economy (yes, no)?
4. Are you currently invested in Kazakhstan (yes, no)?
5. Are you currently invested in Kazakhstan's Green Economy (yes, no)?
6. Are you interested to invest in Kazakhstan's Green Economy (yes, no)?
Examples of Green Economic Sectors (Questions 3, 5, 6):
 - Renewable energy generation
 - Energy efficiency
 - Energy and carbon capture and storage
 - Energy and carbon trading
 - Water treatment and conservation
 - Sustainable agriculture
 - Sustainable building and construction
 - Sustainable transportation
 - Recycling and waste treatment
 - Clean technology
7. Are you aware of the Kazakhstan Government's Green Economy concept and/or related sustainability commitments, policies, programs (yes, no)?
8. How do you judge the current market appetite for investments relating to Kazakhstan's Green Economy (low, some, moderate, high)?
9. Which financial instruments are currently most attractive to you for investment in Kazakhstan's Green Economy? _____ (or tick the answers below)
 1. Project loan
 2. Project green bond
 3. Corporate debt
 4. Corporate green bonds
 5. Sovereign and sovereign-related green bonds
 6. Public equity
 7. Private equity
10. In your opinion, what are the main barriers to investment in Kazakhstan's Green Economy? _____ (or tick the answers below)
 1. Political risk (unpredictable political environment and support for green projects)
 2. Regulatory risk (unpredictable legal frameworks and enforcement of regulations)
 3. Insufficient enabling policies (feed-in-tariff methodology, tax incentives, subsidies)
 4. Limited domestic expertise in Green Economy projects
 5. Creditworthiness of projects and their sponsors
 6. Inadequate supporting infrastructure (e.g., transmission & distribution network, transport and information communications)
 7. Immature local financial markets
 8. Limited market liquidity
 9. Currency volatility and risk
 10. Lack of suitable investment vehicles
 11. Inadequate returns on investment projects