

Review and Recommendations on Financial Policy, Regulations and Oversight

Task B.2 of project “Green Financial System for
Kazakhstan”

Final Report

2.10.2017

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1. Executive Summary

Kazakhstan's legal and regulatory framework for the financial sector is a multi-tiered system of strategic policy documents, laws and regulations, promulgated by either the government or the National Bank, acting as the regulator of the financial system. Within in its own territory, AIFC has their own rule-making ability where they can issue regulations that are different from those applicable at the national level.

Strategic Policy Documents

- Strategic Plan for the Development until the Year 2020
- 2014 Concept for the Development of the Financial Sector

Laws

- 1995 Law on Banks and Banking Activities
- 1995 Law on the National Bank of the Republic of Kazakhstan
- 2003 Law on the Securities Market
- 2006 Law on Project Financing and Securitization
- 2013 Law on Pensions
- 2015 Constitutional Law on AIFC
- 2008 Budgetary Code

Regulations

- 2015 National Bank's regulation on reporting by second-tier banks
- 2016 National Bank regulation on corporate bonds
- 2009 Government's regulation on government bonds
- 2013 National Bank regulation on risks assessment systems for pension funds
- 2013 National Bank regulation on disclosure of information on the investment portfolio of the Single Accumulative Pension Fund
- 2009 Government regulation on permitted financial instruments for investment from the National Fund

Currently, there is no special consideration for green finance in any of the legal or regulatory documents. As a result, changes need to be introduced throughout the multi-tiered system. At the level of Strategic Policy Documents it is recommended that a National Roadmap for the Implementation of a GFS in Kazakhstan is developed and adopted by the Government of Kazakhstan. As National Champion for the Green Financial System AIFC can take a lead role in developing the document, however it would derive its power from the official endorsement by the government and the signature of the President of Kazakhstan. The Roadmap would be a detailed guide for key and supporting actions to be taken in the areas of governance, capacity building, financial instruments (such as green bonds), green standards and disclosure, public finance, incentive mechanisms (such as the KazETS) and finally the legislative and regulatory framework itself. In addition to creating the National Roadmap, other strategic policy documents

should be amended to explicitly highlight the importance of developing the Green Financial System as well as to set strategic goals and quantitative targets for the banking sector, the securities market and the pension fund to support green investments.

At the level of National Laws, disclosure requirements on environmental impact of lending as well as on environmental risks can be included in the Law on Banks and Banking Activities. The National Bank already has broad authority to regulate the banking sector, private insurance companies, the securities market and the pension fund. In the Law on the National Bank of the Republic of Kazakhstan, the National Bank should be given authority to further regulate the GFS (outside of AIFC territory) with regard to disclosure and reporting requirements, financial instruments, and criteria for green investments.

Within the AIFC territory, the AIFC has rule-making powers and can therefore serve as a laboratory where regulations can be tried during the Initiation Phase (2017-2018) and the Deepening Phase (2019-2021) before they are applied nationwide. AIFC has therefore an opportunity to create an operational framework for green finance by issuing regulations on

- the disclosure of information on environmental aspects
- the assessment and monitoring of environmental and climate-related risks
- the liability for adverse environmental impacts for lenders and investor as well as the AIFC itself
- the criteria and procedures for determining green investment projects
- the procedures for the monitoring and reporting on the environmental impacts of green investment projects

Moreover, the AIFC in cooperation with other major stakeholders would create frameworks for specific financial instruments, likely starting with a Green Bond Framework. The framework would include the procedures for creating and issuing a green bond in Kazakhstan, the eligibility criteria for issuers and projects as well as the monitoring and verification standards for the use of proceeds. In many instances, AIFC would rely on international standards, such as the Green Bond Principles or the Green Bond Standards, and modify them accordingly in order to fit local conditions and priorities.

2. Link to Logical Framework

The purpose of this report is to review the current financial policies, regulations and oversight and make recommendations for areas of improvement. In particular, this document

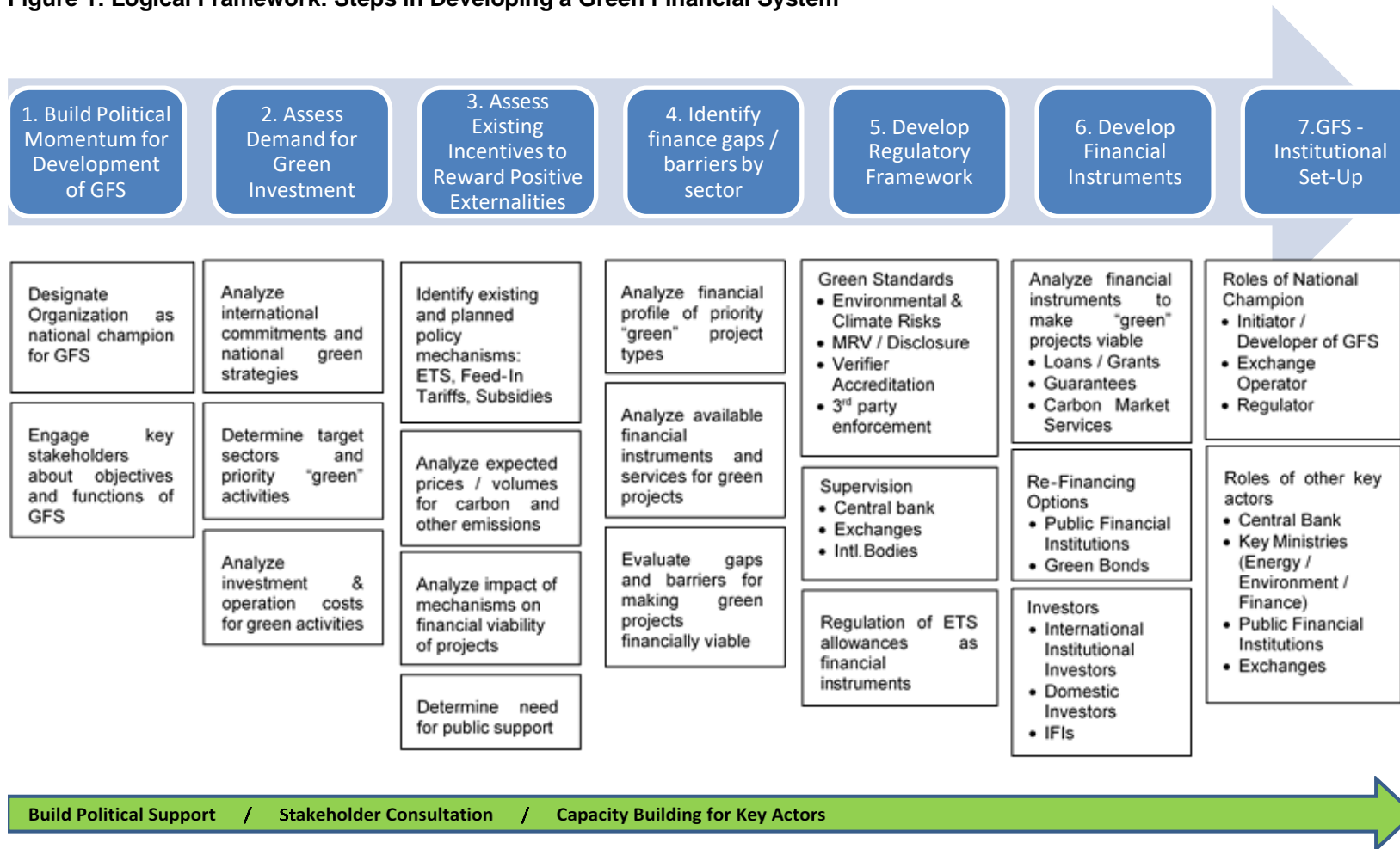
- analyzes the current financial policy context and legislative base for the regulation of Green Finance
- makes recommendations on additional legal responsibilities for financial institutions, listed companies and bond issuers

- makes recommendations for legal or regulatory requirements to promote the GFS. These could be specific to the AIFC territory or apply nationwide

The 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 (GFS). The latter perspective is emphasized in the Flowchart below, which has been reproduced from Figure 3 of the Logical Framework document. Step 5 of the Flow Chart calls for the development of a regulatory framework for the GFS. The regulatory framework covers the implementation of green standards in the areas of defining what qualifies as a green investment,

This report builds substantially on the results of the Inception Phase, in particular task A4, which provided a review of the financial sector's capacity to support green economy development in Kazakhstan. The report also is closely linked to the recommendations made in task B2 and B3, in particular those on the future role of AIFC, the implementation of green standards, the development of a green bond market and the setting up of an AIFC carbon exchange. While the companion reports deal with the rationale and the content of the recommended actions, this report looks in detail at which policies and regulation have to be adjusted or newly created to implement the intended actions at the three levels of strategic policy documents, national laws and specific regulations.

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



3. Requirements of Green Financial System

3.1 National Climate and Green Economy Policies

Kazakhstan has many of the needed national and international policies, commitments and strategies in place to promote its green economy. It has ratified the Paris Agreement and became a party to it in December 2015. It submitted its **National Determined Contribution (NDC)** under the Paris Agreement committing to unconditionally reduce its emissions by 15% from 1990 level by 2030, and by 25% subject to international support to national climate actions subject to additional international investments, such as access to a low-carbon technologies transfer mechanism, green climate funds and a flexible mechanism for countries with an economy in transition. The NDC includes all six greenhouse gases and all five IPCC sectors, The document explicitly mentions the Energy, Agricultural, Waste, and LULUCF sector emissions. By contrast it does not mention the Industrial Processes and Products Use sector. It also does not include adaptation actions.

A central national level document is the **Development Strategy – “Kazakhstan 2050”**. Which is further implemented through ten-year strategic plans. The Development Strategy “Kazakhstan 2050” defines two important long-term strategic goals related to the greening of the economy. First, the transition to a low-carbon economy and, second, the generation of power from alternative and renewable sources. The latter goal is further elaborated as a target to achieve at least a 50% share for alternative and renewable energy as part of Kazakhstan’s total final energy consumption mix. By contrast, the transition to a low-carbon economy has not been further elaborated with quantified targets. The current **Strategic Plan for Development until the Year 2020** includes specific targets for (1) Environmental protection and the transition to a “green economy”, (2) Management of water resources, and (3) Municipal services as shown in Table 1:

Table 1. Strategic targets in the Strategic Plan for Development until the Year 2020

Strategic direction	Strategic targets
Environmental protection and transition to a “green economy”	<ul style="list-style-type: none"> • 25% reduction of energy intensity per unit of GDP compared with 2008; • at least 3% share of renewables in total power generation; • total switch from coal to natural gas in power generation of two regions (Karaganda and Akmola); • at least 20% share of gas-fired power plants in total power generation; • reducing CO₂ emissions in power generation to the 2012 level.
Management of water resources	<ul style="list-style-type: none"> • 100% of the population have access to centralized drinking water supply systems; • 20% of the rural settlements have access to centralized water sanitation systems; • 100% of the urban population have access to centralized water sanitation systems; • supply of water for irrigation on the territory of 1.8 million hectares by development, reconstruction and modernization of irrigation systems; • reduction of national limit of water for irrigation from 9180 cubic meters per hectare 8500 cubic meters per hectare; • application of drip and sprinkler irrigation systems and other water saving technologies on 5% of irrigated lands;

	<ul style="list-style-type: none"> • maintenance 30% of irrigation and drainage systems by modern hydroposts, water measurement devices and automated systems of management.
Municipal services	<ul style="list-style-type: none"> • limit transmission and distribution losses in heating to 17%; • limit transmission and distribution losses of water to 15%; • limit transmission and distribution losses of electricity to 12%; • achieve 70% consumer satisfaction with the quality of municipal services in each region

As can be seen the Strategic Plan for Development until the Year 2020 sets measurable targets for most of the important environmental and climate-critical sectors: transition from fossil fuels to renewable energy, transition from coal to gas, improvement of energy efficiency as well as water and waste-water sector targets aiming to reduce the environmental burden of these sectors.

Further quantitative targets are set in the **2013 Long-Term Concept of Transition to "Green Economy"** (Table 2).

Table 2. Specific targets set in the 2013 Long-Term Concept of Transition to "Green Economy".

Sector	Strategic goal	2020	2030	2050
Sustainable water use	Use of water for irrigation, cubic meters per ton of agricultural product	450	330	
Energy	Reducing energy intensity of GDP to the level of the Year 2008, %		30	50
	Share of wind and solar energy in total power generation, %	3	30	50
	Total switching from coal to natural gas in power generation		Northern and eastern regions	
	Reducing CO ₂ emissions in power generation to the 2012 level, %		15	40
Air protection	Reducing air emissions of SO _x and NO _x		EU levels of emission	
Waste management	Collection of solid municipal waste from households, %		100	
	Storage of solid municipal waste in accordance with sanitary rules, %		95	
	Recycling and re-use of waste, %		40	50

3.2 Demand for Green Investment

Achieving Kazakhstan's NDC under the Paris Agreement and the targets embedded in the Green Economy Concept (GEC) will require large-scale mobilisation and intermediation of funding for green investments, particularly from the private sector.

Public resources are finite and dependence on public investment in the long-run must be avoided to ensure sustainable green growth. New mechanisms to raise funds from both domestic and international sources are needed, and companies may need significant new incentives to make green investments profitable.

The total additional investment required to reach Kazakhstan's NDC target is estimated to be between US\$2016 26–179 billion from now until 2030, which is equivalent to 1–5% of GDP. The additional investments required to meet the full suite of GEC targets is expected to be US\$2016 34–60 billion, which is equivalent to 1–2% of GDP.

The Green Financial System should target investments from particular sectors which (a) require the most funding and (b) produce environmental benefits at lowest cost. For example, the GEC estimates that up to 75% of the total green finance needed to meet this suite of targets will be in renewable, fuel switch to gas, and energy efficiency investments. Moreover, a recent study by the Asian Development Bank¹ suggests that the heating, transportation and building sectors offer opportunities for low-cost emission reductions.

¹ Asian Development Bank. Economics of Climate Change Mitigation in Central and West Asia, February 2017. See <https://www.adb.org/sites/default/files/publication/223731/economics-climatechange-cwa.pdf>.

4. Review of Existing Regulatory Framework

4.1 National Bank of Kazakhstan

The National Bank of Kazakhstan performs the typical central bank roles in Kazakhstan, including the implementation of monetary policy, managing the foreign exchange reserves, ensuring financial stability and maintaining the monetary statistics. Beyond this, the National Bank also serves as the chief regulator of financial services, including banking, insurance, securities market and pension funds. In addition, the National Bank also carries out asset management functions by managing the pension fund as well as the National Fund. The pension fund (ENPF) was created in 2013 by consolidating 11 separate pension funds that were previously held in banks and other financial institutions.² The National Fund is a USD 61 billion fund investing in the future development of Kazakhstan.

In the context of green financing, the National Bank currently has no explicit mandate in the context of green financing in Kazakhstan. However, due to its dominant presence in Kazakhstan's financial sector the National Bank can play a key role in supporting the development of the Green Financial System.

Firstly, the role as financial regulator provides the National Bank with a natural role in imposing green regulations and incentives for financial entities in the country, and supervising the implementation of these regulations and incentives. It is therefore relevant to consider adding the role as regulator of the Green Financial System explicitly to the responsibilities and mandate of the National Bank. The types of possible regulations and incentives are discussed separately in the specific chapters on different financing entities.

Secondly, the National Fund, managed by the National Bank, has a clear mandate to promote long-term development of Kazakhstan. Therefore, its mandate is well aligned with green finance, which could be explicitly added as an objective with measurable targets in the mandate of the National Fund. As manager of the pension fund, the National Bank also serves as a major investor. Currently, the pension fund is very restricted in the type of assets it can hold and has no development or green economy mandate. Adding such mandates and investment targets while continuing to exercise its fiduciary duties can be a way to provide a major source of funding for high-quality, low-risk green investments.

Thirdly, as was indicated above, the available data on green investments and financing is currently insufficient in Kazakhstan. It would be recommendable to task the National Bank with developing, implementing, and maintaining statistics and data on green investments in Kazakhstan. These statistics should be carefully and explicitly aligned with the monitoring and reporting requirements in the Paris Agreement and national strategies. In addition to direct policy purposes, the statistics should also provide important market data for public and private sector, foreign and domestic investors and financiers, as well as project developers, technology companies and other relevant market players, enabling them to better analyse, plan and anticipate investment needs, opportunities and trends in Kazakhstan's green investment sectors.

² <http://thediplomat.com/2017/06/pension-fund-problems-in-kazakhstan/>

Finally, the National Bank could play a role in creating currency hedging instruments that could be made available to selected investment projects in key sectors, such as green investments. The hedging instruments could include for example swaps and options that could be used by the investors to reach a currency-match between the project level in- and outflows of cash. There are several development finance institutions and facilities who are providing such solutions, and it could be suggested to seek cooperation with such international financing institutions.

4.2 Banking sector

There are 33 commercial banks operating in Kazakhstan, one of them state-owned, and 15 with significant foreign ownership. However, the banking sector is very shallow and volume of lending in relation to GDP is only 35%, third-lowest in the world, after Gabon and Mexico. This is partly due to the financial crisis in 2008, from which the banking sector is still suffering. In absolute terms, the loan portfolio is roughly 45 billion US dollars, of which about 75% are loans to companies, including SMEs. It is important to note that energy and extractive sectors rely more on international and wholesale finance.

The banking sector is the key source of debt funding in infrastructure project finance, and therefore increasing the volume and liquidity, as well as extending the tenors, of bank debt is an important element in scaling up green finance in Kazakhstan. In Kazakhstan the banking sector relies heavily on short-term deposits, preventing banks from providing long-term debt. Therefore, there is a clear mismatch between what the banking sector in Kazakhstan can offer and what the green investment projects typically need (long-term fixed-price loans in local currency).

One solution to enable and mobilise long-term lending by local banks would be to develop co-lending and on-lending structures with the participation of international financing institutions. In these structures and instruments, the international financing institution will provide a credit line, offer to co-lend, or provide a partial credit guarantee, for local banks when providing loans for certain sectors. Government and the National Bank could play a vital role to enhance such cooperation between local banking sector and development finance institutions. For example, the EBRD has a vast experience in such instruments.

At the level of strategic policy documents, the Strategic Plan for the Development until the Year 2020³ and the 2014 Concept for the Development of the Financial Sector⁴ set the direction of the banking sector. The Strategic Plan sets the following strategic goals to be implemented by 2020:

- to increase bank's investment capabilities;
- to limit the share of international borrowing by the banking sector to 30%;
- to expand the spectrum of services of the banks and to increase the trust and confidence investors and clients of the banks.

The key tasks set by the 2014 Concept include:

³ Ibid, at http://adilet.zan.kz/rus/docs/U100000922_.

⁴ Ibid, at <http://adilet.zan.kz/rus/docs/P1400000954>.

- ensuring the sustainability in cases of potential economic shocks with lesser support from the budget, including by the implementation of the Basel banking supervision Accords;
- increasing efficiency in the conditions of integration and economic globalization (accession to the WTO, establishment of the Single Economic Space within the Eurasian Economic Union);
- improvement of the financial infrastructure and creation of favorable conditions for further development;
- attraction of new resources for the growth, including by the development of new financial products meeting the needs of the economy;
- supporting more balanced economic conditions and reducing credit risks in the economy.

It is notable that at the level of strategic policy documents, there are currently no specific provisions on Green Finance or the responsibility of the banking sector to finance investments in the “Green Economy”. There are also outdated provisions on the Almaty Regional Financial Center as the key institutional platform for the new financial instruments and the regional hub for Islamic financing. In December 2015 these roles were reassigned to the Astana International Financial Center.

The following table summarizes the key provisions of existing laws and regulations and lists potential gaps, barriers and inconsistencies when compared with international best practices in the area of Green Finance for the banking industry. Of particular relevance are the areas of:

- Disclosure of environmental information
- Liability for adverse environmental impacts of their clients
- Evaluation and tracking of natural capital liabilities
- Monitoring and reporting environmental risks and performance
- Inclusion of green criteria into commercial bank lending practices and risk management
- Collection and monitoring of green investment projects

	Legal Instrument	Key Provisions	Gaps, Barriers, Inconsistencies
Legal framework	<p>1995 Law on Banks and Banking Activities⁵</p> <p>2007 Environmental Code⁶</p> <p>2014 Code on Administrative Offences⁷</p> <p>2015 National Bank's regulation on reporting by second-tier banks⁸</p> <p>2014 National Bank regulation on systems of risk management and internal control for second-tier banks⁹</p>	<p>The Law on Banks and Banking Activities sets the core provisions for second-tier banks on liabilities on their activities, confidentiality of banking information and grounds for its disclosure and reporting, systems of risk management.</p> <p>Internal information, disclosure policies of second-tier banks in Kazakhstan are based on the provisions of the Law of Banks and Banking Activities. In general, the provisions on confidentiality do not apply to general terms of banking operations as they are defined by Article 31 of the Law and bank's internal rules. Also the banking information shall be disclosed upon client's consent or in specific cases determined by the Law. The confidentiality provisions apply, inter alia, to all information on provided loans to clients.</p> <p>Article 51-4 of the Environmental Code sets the ban on financing projects by banks and other financial organizations without positive conclusion of state ecological expertise (an EIA permit) when it is required for projects. Article 332 of the Code on Administrative Offences defines the monetary sanction for financing projects without positive conclusion of state ecological expertise which in case of banks amounts to approximately USD 3650. In general, banks can settle up</p>	<p>The current national legislation of Kazakhstan does not set requirements for second-tier banks on:</p> <ul style="list-style-type: none"> • sharing of information on environmental risks and responsibilities of their activities; • monitoring and reporting environmental risks and performance of their activities. <p>Second-tier banks in Kazakhstan can disclose publicly aggregated information on environmental aspects of their lending but they can't do it on individual projects and loan agreements under the current provisions on confidentiality of banking information of the Law on Banks and Banking Activity.</p> <p>Environmental and climate-related risks are not integrated into the current 2014 National Bank regulation on systems of risk management</p> <p>Environmental aspects are not integrated into the current reporting of second-tier banks as defined by the 2014 National Bank's regulation.</p>

⁵ Ibid, at http://adilet.zan.kz/rus/docs/Z950002444_#z0.

⁶ Ibid, at http://adilet.zan.kz/rus/docs/K070000212_.

⁷ Ibid, at <http://adilet.zan.kz/rus/docs/K1400000235#z3239>.

⁸ Ibid, at <http://adilet.zan.kz/rus/docs/V1500011159>. A second-tier bank (STB) is a legal entity that is a commercial organization which, in accordance with the Law of the Republic of Kazakhstan "On Banks and Banking Activity in the Republic of Kazakhstan". It is authorized to conduct banking activities, and also registered in the registration authorities of the Republic of Kazakhstan in as a bank and has a valid license of the National Bank of the Republic of Kazakhstan for conducting banking operations.

⁹ Ibid, at <http://adilet.zan.kz/rus/docs/V1400009322>.

	Legal Instrument	Key Provisions	Gaps, Barriers, Inconsistencies
		<p>liability for adverse environmental impacts of their clients either in the general terms of banking operations or loan agreements with clients.</p> <p>The 2014 National Bank's regulation provides the guidance for the establishment of systems of risk management by second-tier banks.</p> <p>The 2015 National Bank's regulation sets for second-tier banks the timelines and templates for their reporting to the National Bank.</p>	
Regulator	<p>1995 Law on the National Bank of the Republic of Kazakhstan¹⁰</p> <p>2003 Bylaws of the National Bank of Kazakhstan¹¹</p>	<p>The National Bank of Kazakhstan is the national authority that performs state regulation, control and supervision over the banks and their activities and carry out statistics activities in the banking sector. The Department of Research and Statistics, Department of Financial Market Methodology, the Bank Supervision Department are among the key departments of the National Bank that can play the role in the development and implementation of the Green Finance system in Kazakhstan.</p> <p>The activities of all banks in Kazakhstan are subject to the requirements set by the 1995 Law on Banks and Banking Activities and regulations of the National Bank of Kazakhstan. The scope of regulations in relation to the banking activities is defined by Article 8 of the 1995 Law on</p>	<p>According to the current law the National Bank has no assigned role on the Green Finance system development and implementation. However, many financial instruments are subject to the requirements of the regulations of the National Bank.</p> <p>The banking regulations needed for the development of the Green Finance system shall be adopted by the National Bank and in many cases it will be possible only after making the appropriate amendments either to the 1995 Law on Banks and Banking Activities or to the 1995 Law on the National Bank of the Republic of Kazakhstan.</p>

¹⁰ Ibid, at http://adilet.zan.kz/rus/docs/Z950002155_.

¹¹ Ibid, at http://adilet.zan.kz/rus/docs/U030001271_#z18.

	Legal Instrument	Key Provisions	Gaps, Barriers, Inconsistencies
		<p>Banks and Banking Activities and para. 17 of the Bylaws of the National Bank.</p> <p>In accordance with the regulation of 30 May 2016 No. 136¹² banks shall notify the National Bank on the approval of new financial instruments but it is limited to loans and deposits for individuals.</p>	
Internal Bank's Policies	1995 Law on Banks and Banking Activities ¹³	<p>The Law on Banks and Banking Activities requires explicitly the banks to have in place the following internal policy documents: internal credit policy; remuneration policy; risk management and internal control policy and procedures.</p> <p>None of the current regulations of the National Bank contains provisions on environmental aspects of the banking activity.</p> <p>There are no established criteria for green investment projects in Kazakhstan and green banking.</p>	<p>Currently even the largest banks of Kazakhstan (Halyk Bank, Kazkommertsbank, subsidiary bank of the Russian Sberbank in Kazakhstan, ForteBank, Bank CenterCredit do not provide access to their policy documents in the public domain, i.e. on their web sites. It concerns, inter alia, their development strategies, internal policies on information disclosure, environmental and social responsibility. Some Kazakhstan's banks declared the environmental responsibility as a part of their corporate social responsibility policy but only the subsidiary bank of the Russian Sberbank in Kazakhstan provided access to this policy document in the public domain.¹⁴</p> <p>Kazakhstan's banks do not report on environmental aspects of their activity and financed projects. There are such commitments for the banks under the current legislation or voluntary initiatives.</p>

¹² Ibid, <http://adilet.zan.kz/rus/docs/V1600013852#z8>.

¹³ Ibid, at http://adilet.zan.kz/rus/docs/Z950002444_#z0.

¹⁴ See the web site of the Sberbank/Kazakhstan, at <https://www.sberbank.kz/ru/about/category/korporativnaya-socialnaya-otvetstvennost>.

	Legal Instrument	Key Provisions	Gaps, Barriers, Inconsistencies
			Some Kazakhstan's banks consider that they are limited by the nature of their services and the current legislation of Kazakhstan to generate green projects and thus, can finance green projects under relevant Government's programs. ¹⁵

¹⁵ See the web site of the Kazkommertsbank, at <http://www.qazkom.kz/about-kazkom/social-responsibility/society/ecology>.

4.3 Insurance sector

At the level of strategic policy documents the Strategic Plan for the Development until the Year 2020 and the 2014 Concept for the Development of the Financial Sector also set the direction of the insurance sector. The key strategic goals to be implemented by 2020 are to expand the spectrum of services and to increase the trust and confidence of clients of the insurance industry. The 2014 Concept defines the key tasks as strengthening the sustainability of the insurance sector by implementating measures on increasing the capitalization and improving the governance and the risk management systems of insurance companies on the basis of stage-by-stage application of the EU Solvency II Directive.

At the level of strategic policy documents, there are currently no provisions for promoting the assessment of environmental and climate-induced risks as a part of the Green Finance system. The following table summarizes the key provisions of existing laws and regulations and lists potential gaps, barriers and inconsistencies when compared with international best practices in the area of Green Finance for the insurance industry. Of particular relevance are the areas of:

- Disclosure of environmental information
- Sharing of information on environmental risks and responsibilities
- Liability for adverse environmental impacts of their clients
- Monitoring and reporting environmental risks and performance

	Legal Instrument	Key Provisions	Gaps, Barriers, Inconsistencies
Legal framework	<p>2000 Law on Insurance Activities¹⁶ 2005 Law on Mandatory Environmental Insurance¹⁷ 2006 Law on Mandatory Insurance of Bank Deposits¹⁸ 2003 Law on Mandatory Social Insurance¹⁹</p>	<p>The 2000 Law on Insurance Activities provides the common legal framework for activities of all insurance and re-insurance companies, brokers. In addition to this law, all mandatory types of insurance are subject to the requirements of special insurance laws, e.g. the 2005 Law on Mandatory Environmental Insurance and the 2006 Law on Mandatory Insurance of Bank Deposits.</p> <p>The 2000 Law distinguishes voluntary insurance as live insurance and common insurance and the latter includes, inter alia, insurance of loans, insurance of losses of financial organizations and insurance of other financial losses. The insurance of deposits by second-tier banks is a mandatory type of insurance and subject to the provisions of the 2006 Law.</p> <p>According to paragraph 2 of Article 11-1 of the 2000 Law on Insurance Activities risk assessment is subject of regulation of internal rules of insurance and re-insurance companies. The 2005 Law on Mandatory Environmental Insurance defines the legal framework for the mandatory insurance of activities of operators of certain dangerous</p>	<p>The current legislation of Kazakhstan does not provide the legal framework for the development of systems of assessment of environmental and climate-induced risks and there is a lack of specialized companies and experts dealing with it.</p> <p>In general, the current provisions of the 2000 Law on Insurance Activities provides the systems of risk assessment at full discretion of insurance and re-insurance companies and it complicates to require them to integrate the assessment of environmental and climate-induced risks.</p>

¹⁶ Ibid, at http://adilet.zan.kz/rus/docs/Z000000126_#z10.

¹⁷ Ibid, at http://adilet.zan.kz/rus/docs/Z050000093_.

¹⁸ Idem, at http://adilet.zan.kz/rus/docs/Z060000169_.

¹⁹ Idem, at http://adilet.zan.kz/rus/docs/Z030000405_.

	Legal Instrument	Key Provisions	Gaps, Barriers, Inconsistencies
		activities for the environment and it does deal with assessment environmental and climate-induced risks in other sectors of the economy. The Law does not contain provisions on assessment of environmental risks and it provides to involve independent experts or environmental auditors for the assessment of incurred environmental harm. There is information in the public domain on the practical application of mandatory environmental insurance in Kazakhstan.	
Regulator	1995 Law on the National Bank of the Republic of Kazakhstan 2003 Law on Mandatory Social Insurance ²⁰	The National Bank of Kazakhstan serves as the regulator of private insurance companies while the Government and competent ministries (labor and social protection of the population, healthcare) regulate accordingly the systems of mandatory social and medical insurance, including the assets management.	
Internal policies of insurance companies	2003 Law on Mandatory Social Insurance 2004 Regulation on financial instruments for investments by the State Fund of Social Insurance ²¹ 2007 List of financial instruments for investment of	The largest company in this sector is the State Fund of Social Insurance. According to the 2004 Government's regulation, the State Fund can make investments by using the determined financial instruments included in the list approved by the resolution of the Government of 13 November 2007. It concerns government securities, including infrastructure bonds, certain corporate bonds, equities, deposits of the National Bank and second-tier banks, certain foreign currencies and deposits in foreign	No established practice of public information disclosure in the insurance sector, even in the case of the State Fund of Social Insurance the information on investments is very limited.

²⁰ Idem, at http://adilet.zan.kz/rus/docs/Z030000405_.

²¹ Idem, at http://adilet.zan.kz/rus/docs/P040000878_.

	Legal Instrument	Key Provisions	Gaps, Barriers, Inconsistencies
	the assets of the State Fund of Social Insurance ²²	<p>currencies and thresholds are set for the each type of financial instrument.</p> <p>There are no provisions on disclosure of information related to environmental aspects of the insurance companies and their investments.</p> <p>The website of the State Fund of Social Insurance provides aggregated information on its investments.²³</p>	

²² Idem, at http://adilet.zan.kz/rus/docs/P070001081_

²³ See at www.gfcc.kz.

4.4 Securities Market

At the level of strategic policy documents the Strategic Plan for the Development until the Year 2020 and the 2014 Concept for the Development of the Financial Sector also set the direction for the securities market. The key strategic goals to be implemented by 2020 are:

- to expand the institutional framework of the financial sector and the investment capacity;
- to expand the spectrum of financial instruments and increase the trust and confidence of investors;.

The key tasks set by the 2014 Concept includes, inter alia, strengthening the market for corporate bonds and attracting foreign issuers to the Kazakhstan's equity market.

At the level of strategic policy documents, there are currently no specific provisions on Green Finance and the needs for the securities market to attract investments for the "Green Economy". There are also outdated provisions on the Almaty Regional Financial Center as the key institutional platform for the new financial instruments in the securities market. In December 2015 this role was reassigned to the Astana International Financial Center.

The following table summarizes the key provisions of existing laws and regulations and lists potential gaps, barriers and inconsistencies when compared with international best practices in the area of Green Finance for the securities market. Of particular relevance are the areas of:

- Development of a green bond market
- Requirements by stock exchanges to make green disclosures

	Legal Instrument	Key Provisions	Gaps, Barriers, Inconsistencies
Legal framework	<p>2003 Law on the Securities Market²⁴</p> <p>2006 Law on Project Financing and Securitization²⁵</p> <p>2016 National Bank regulation on corporate bonds²⁶</p> <p>2009 Government's regulation on government bonds²⁷</p>	<p>Chapter 19 of the Law on the Securities Market provides the detailed legal provisions on disclosure of information for issuers, licensed participants of the securities market, listed companies as well as on reporting to the National Bank. For instance, issuers shall disclose the information for all potential investors as contained in the prospectus of an issue of securities, in an internal document that establishes the conditions and procedure for conducting of auctions and subscription to securities of a joint stock company and reports submitted to the National Bank in accordance with legislation, referred to in their financial statements as well as other information subject to disclosure in accordance with the legislation and internal documents of an issuer. In general, the current legislation provides flexible framework for mandatory disclosure of additional information, including on green investment projects and green bonds.</p> <p>The 2006 Law on Project Financing and Securitization provides the legal framework for project financing by concession through the establishment of a special financial company and issuance of bonds. The law does contain</p>	<p>Currently there are no legal provisions or domestic standards for identification of green projects and setting appropriate criteria.</p> <p>Currently there is no secondary regulation in Kazakhstan to enable municipalities to issue bonds, including green bonds.</p>

²⁴ Ibid, http://adilet.zan.kz/rus/docs/Z030000461_.

²⁵ Ibid, at http://adilet.zan.kz/rus/docs/Z060000126_.

²⁶ Ibid, at <http://adilet.zan.kz/rus/docs/V1600013789>.

²⁷ Ibid, at http://adilet.zan.kz/rus/docs/P090000466_.

	Legal Instrument	Key Provisions	Gaps, Barriers, Inconsistencies
		<p>specific provisions on green projects but it does not limit the scope of the project financing and can cover green projects. In accordance with Article 6-10 a prospectus on the issuance of bonds of a special financial company shall include, inter alia, the information on the purpose of investments attracted by the issuance of bonds.</p> <p>The Government and the National Bank set the detailed regulations on issuance, reporting on issuance, placement, redemption and annulment of government and corporate bonds. The Law on the Securities Market enables the Government, the National Bank and municipalities to issue bonds.</p> <p>The Kazakhstan Stock Exchange is entitled to monitor compliance by the listed companies with legal requirement on the disclosure of information. However, there are no legally defined criteria for green projects and green bonds.</p>	
Regulator	<p>1995 Law on the National Bank of the Republic of Kazakhstan</p> <p>2003 Bylaws of the National Bank of Kazakhstan</p>	<p>The National Bank of Kazakhstan is the national authority that performs state regulation, control and supervision over the securities market and carry out statistics activities in this area. The Department of Research and Statistics, Department of Financial Market Methodology, the Securities Market Department are among the key departments of the National Bank that can play the role in the development and implementation of the green bond market in Kazakhstan.</p> <p>The National Bank sets the list of bonds permitted for purchases and sales by second-tier banks with the</p>	<p>According to the current law the National Bank has no assigned role on the Green Finance system development and implementation. However, corporate bonds are subject to the requirements of the regulations of the National Bank.</p> <p>Green bonds shall meet the requirements set by the 2013 National Bank regulation to be a permitted financial instrument for operations by second-tier banks, namely the set ratings by Standard & Poor's, Fitch and Moody's Investors Service.</p>

	Legal Instrument	Key Provisions	Gaps, Barriers, Inconsistencies
	2013 National Bank regulation on bonds permitted for banks ²⁸	requirements on their ratings according to Standard & Poor's, Fitch and Moody's Investors Service.	

²⁸ Ibid, at <http://adilet.zan.kz/rus/docs/V1300008594>.

4.5 Pension Fund

Pension funds in Kazakhstan are currently consolidated under one single pension fund “Unified Accumulative Pension Fund” (UAPF), which is managed by the National Bank but are likely to be deconsolidated and privatised in near future. The capitalisation of pension funds in Kazakhstan was approximately US\$ 16 billion in 2016.²⁹

Pension funds can have at least two specific potential roles in the context of green finance. Firstly, pension funds’ typical allocations include a large portion of long-term, liquid, fixed-income securities, such as governmental or corporate bonds. Since many green investments are typically infrastructure-like investments with potentially stable and long-term cash flows with relatively long payback times, there is a natural match with pension funds’ long-dated liabilities. However, their green investment financing is often limited due to the risks (real or perceived) involved with such projects, and also the illiquid nature of these assets. Such risks could be addressed by the risk-sharing facilities mentioned in the context of Baiterek (see above). Baiterek could be capitalised by the public (and possibly IFI) funding therefore enabling it to offer mezzanine finance, guarantee instruments and/or grants to de-risk investment projects, and thus pave a way for risk-averse but long-term investors like pension funds to provide affordable long-term financing for projects. In addition to fixed-income instruments this kind of long-term investment could happen also in the form of equities, directly or through specialist infrastructure funds. In Europe, for example, it can be seen that many institutional investors prefer investing in renewable energy through specialist funds managed by specialist fund managers, but some of them have been able to develop in-house expertise and are also investing in projects directly. In addition to de-risking, another important measure to facilitate pension funds’ green investment is to create liquidity for the debt securities offered by these investment projects. This will be further discussed in the capital markets section below.

Secondly, to a much smaller extent, pension funds invest in less liquid and more risky private equity and venture capital funds. This share of pension funds’ allocation could be incentivised to be directed partly to green investment funds, managed by either public entities or private sector fund managers. Such investment funds could include also funds managed by Baiterek, as mentioned in the previous chapter. Asymmetric public sector and IFI financing and de-risking approaches could be used selectively to enhance such investments.

Pension funds, however, must be managed carefully to ensure the credibility of the pension system. Therefore it is crucial to ensure that pension funds’ role with this respect will remain the priority in their investment decisions, and that they will not be used as a replacement of public funding. Currently some indications of this can be observed: in the beginning of 2017 as much as 57% of the UAPF portfolio consists of government and state-owned company bonds, and only 1.25% of corporate bonds. The pension funds should be expected to make purely commercial investments, therefore de-risking by smaller amounts of development and other public funding could be used to unlock this potentially large source of long-term financing.

At the level of strategic policy documents the Strategic Plan for the Development until the Year 2020 and the 2014 Concept for the Development of the Financial Sector also set the direction for the pension system. The key strategic goal to be implemented by 2020 is ensuring adequate and socially fair levels of pensions. The key tasks set by the 2014 Concept include the following:

- Lowering the risks of investments
- investing pension assets in bank’s financial instruments
- increasing the transfer of pensions assets to the insurance companies

²⁹ <http://www.reuters.com/article/kazakhstan-pensions-idUSL8N15P3KE>

At the level of strategic policy documents, there is no clearly articulated policy for the future development of the pension system in Kazakhstan and the investment of its assets in the Green Economy and thus, there is no policy framework to reflect relevant environmental considerations.

The following table summarizes the key provisions of existing laws and regulations and lists potential gaps, barriers and inconsistencies when compared with international best practices in the area of Green Finance for the pension system. Of particular relevance are the areas of:

- Public investment mandate for green investments
- Environmental information disclosure

	Legal Instrument	Key Provisions	Gaps, Barriers, Inconsistencies
Legal framework	<p>2013 Law on Pensions³⁰</p> <p>2013 National Bank regulation on risks assessment systems for pension funds</p> <p>2013 National Bank regulation on disclosure of information on the investment portfolio of the Single Accumulative Pension Fund.³¹</p>	<p>Article 52 of the Law on Pensions requires pension funds to have in place risk assessments systems in accordance with the 2013 National Bank regulation. The National Bank regulation refers, inter alia, to unforeseen and non-controlled externalities and require internal control services to check for action plans for such situations.</p> <p>Article 34 of the Law on Pensions contain the provision on the disclosure of information by the Single Accumulative Pension Fund on the structure of its investments portfolio. The 2013 National Bank regulation requires to cover the information on quantity, nominal costs and shares of various financial instruments in the investments portfolio. It shall be done through publications in mass media and on the website of the Single Accumulative Pension Fund.</p>	<p>No explicit requirements in the current legislation to consider environmental aspects in the selection, retention and realization of investments of the pension assets.</p>
Regulator	<p>1995 Law on the National Bank of the Republic of Kazakhstan</p> <p>2003 Bylaws of the National Bank of Kazakhstan</p>	<p>According to the Bylaws the competence of the National Bank is entitled to review the compliance with the requirements on the purpose of investment of the pension assets.</p> <p>The National Bank of Kazakhstan also serves as the custodian in respect of pension assets of the Single Accumulative Pension Fund of the country. In doing so it controls over the placement of pension assets and keeps a record of all transactions on the accumulation of pension assets of a single pension fund, their placement, and earned investment income. However, currently there are no requirements to take into consideration of environmental and climate factors while investing pension funds.</p>	<p>The National Bank has no assigned role in relation to the development of the Green Finance system in Kazakhstan but at the same it has broad competence to control the investment of the pension fund.</p>

³⁰ Ibid, at <http://adilet.zan.kz/rus/docs/Z1300000105>.

³¹ Ibid, at <http://adilet.zan.kz/rus/docs/V1300008672/>.

4.6 National Investment Funds

National Fund

The National Fund is a USD 61 billion fund investing in the future development of Kazakhstan. It is managed by the National Bank of Kazakhstan. The National Fund has a clear mandate to promote long-term development of Kazakhstan. Therefore, its mandate is well aligned with green finance, which could be explicitly added as an objective with measurable targets in the mandate of the National Fund.

Samruk-Kazyna

Samruk-Kazyna is a Sovereign Wealth Fund, a state investment holding company. It has a very central role in the national economy, as it holds assets with a combined value of more than 66 billion US dollars (September 2016), or roughly 50% of the country's GDP. Most of the assets are in the oil and gas, mining and transportation sectors.

Although Samruk-Kazyna's activities currently do not contain explicit green investment considerations, plans or targets, its long term strategy (2012-2022) contains mandates and directions that are potentially relevant from a green financing point of view. These include:

- Increase of company assets as a long-term perspective
- Participation in the diversification and modernization of the national economy
- Social responsibility

The portfolio of Samruk-Kazyna includes several large and relevant companies, who could act as project sponsors in many types of green investment projects. Therefore, Samruk-Kazyna could be mandated to promote the development and deployment of renewable energy, energy efficiency and other technologies through its portfolio of companies.

For example, with a view towards Samruk-Kazyna's long-term asset value as well as towards diversification and modernization of the national economy, Samruk-Kazyna could be provided with regulations and/or incentives to promote the use of biofuels, electric transportation, smart transport solutions and other efficient use of energy and resources in the transport sector, and therefore provide both demand and financing for projects using green and modern technologies.

As a comparison, the oil producing and exporting countries in the Gulf region (Saudi-Arabia, UAE, Oman, Kuwait, Qatar, Bahrain) are facing to some extent similar challenges. These countries are actively deploying their state energy and water utilities to develop, and their sovereign wealth funds to invest in, renewable energy projects in order to reduce the countries' dependence of fossil fuels, and to diversify and modernize their economies. Many countries in the region have started with state-owned and state-funded projects, and gradually increased the participation of private sector (including foreign) companies in the ownership of the projects. In many countries projects were initially developed as state-owned projects, with the private sector acting on an EPC (turnkey construction contract) basis only. However, the countries are gradually moving towards a market-based IPP (Independent Power Producers) model whereby the state owned-utilities act as off-takers only, and the responsibility of development, ownership and operation of the renewable energy projects is increasingly with private sector companies and investors.

Finally, Samruk-Kazyna could be incentivised to require environmental disclosure by its portfolio companies. These companies represent a remarkable share of Kazakhstan's carbon-intensive or environmentally-sensitive economic activities and could therefore set a benchmark for other companies in this regard. International standards and guidelines such as the Carbon Disclosure Project (CDP), the Global Reporting

Initiative (GRI) or other industry-oriented guidelines could be adopted in order to improve the transparency also from the perspective of international investors.

Currently, Samruk-Kazyna is a strictly performance-oriented organisation. Therefore, clear mandates, measurable key performance indicators, as well as related incentives, should be provided to the fund in order to enable an orientation towards financing green investments. Such performance indicators, targets and incentives should be explicitly linked to the achievement of relevant national strategies, including the NDC, and with the concrete action plans created to achieve these targets.

It has to be pointed out that although some of the investments under the green finance mandate could have demonstration (or otherwise semi-commercial) nature, it is important to make sure that Samruk-Kazyna remains a commercially oriented entity, aiming to make commercially viable investments. Its role should not be to support or subsidize green investments with preferential financing terms. Where required, e.g. for projects with poor financial performance but high environmental benefits, separate catalyst finance should be provided from public sources in order to make investment opportunities bankable and investable so that commercial entities such as Samruk-Kazyna portfolio companies can be in a position to invest in such opportunities. For example, in case of high-risk demonstration projects, de-risking should be offered to make it feasible for Samruk-Kazyna portfolio companies to invest. In long-term more routine investments, on the other hand, solid off-take arrangements, feed-in tariffs etc. should be sufficient to enable long-term investing and holding by commercial investors.

Baiterek National Management Holding

Compared with Samruk-Kazyna, Baiterek National Management Holding (“Baiterek”) is a smaller entity in financial terms. However, it has an explicit development and innovation mandate, making it therefore a potentially very relevant financing entity in the field of green finance. Baiterek manages approximately 3.2 billion US dollar in assets (2.4% of GDP), and had 11 subsidiary entities, mostly joint stock companies, as shown in Table 1.

Table 3. Baiterek's subsidiary organisations and their key functions.

<i>Type of functions</i>	<i>Organization</i>	<i>Key functions</i>
Development institutions	Development Bank of Kazakhstan	Assessment and financing of large-scale infrastructure and industrial projects
	Investment Fund of Kazakhstan	Capital investments and co-financing of projects in the sectors of production of construction materials, metallurgy, engineering, wood-working industry, processing of agricultural products, chemical and petrochemical and pharmaceutical industries
	Kazyna Capital Management	Attraction of large institutional investors to Kazakhstan and making incentives for domestic investors for joint financing of non-extractive sectors of the economy through promotion of private equity funds
	KazExportGarant Insurance Corporation	Insurance services for promotion of products of the Kazakhstan manufacturing sector to foreign markets
	Center for State and Private Partnership Projects Support	Provision of funding, advice for feasibility studies and development of project documentation for investment and infrastructure projects, including public-private partnership projects
Support of innovations and small and medium enterprises	National Agency for Technological Development	Provision of government support measures for innovations, including grants
	Damu Entrepreneurship Development Fund	Providing funds for loans to small and medium-sized businesses, subsidies for rates of remuneration, granting

Type of functions	Organization	Key functions
		of guarantees to banks, as well as capacity building of entrepreneurs
Financing and implementation of projects in the area of real estate, housing construction savings, municipal infrastructure	Housing Construction Savings Bank of Kazakhstan (Zhilstroysberbank)	Providing loans for house construction under the state programs
	Baiterek Development	Implementation of investment projects in the non-oil sectors: real estate sector, building materials production and processing industry; Return of the funds allocated for anti-crisis measures, completion of financing of unfinished shared-equity construction projects.
	Kazakhstan Mortgage Company	Serving as a financial operator of the secondary mortgage market by providing rental housing
	Kazakhstan Mortgage Guarantee Fund	Reduction of risks in the construction industry by securing completion of construction of buildings

Although Baiterek is currently not explicitly prioritising green economy investments and development, the strategic directions of its development strategy for 2014-2023 are well aligned with potential green financing goals and targets that could be implemented:

- Sustainable development of the economy of Kazakhstan by financial support of the priority sectors
- Support of SMEs
- Support of new and modern sectors of the economy and innovation development
- Support of export activity by Kazakhstan companies
- Assistance with social-oriented goals of the Government

As can be seen, compared to Samruk-Kazyna, although considerably smaller in size, Baiterek performs more development-, support- and subsidy-oriented activities. It also manages several governmental fiscal stimulus and development programs. This role makes Baiterek a suitable organisation to promote several important activities to facilitate green investments. Baiterek could therefore become a hub for development- and support-oriented governmental actions to promote green business and finance in Kazakhstan, and be a central actor to channel governmental (and possibly international financing institutions) catalyst finance for green investments. These actions and instruments could include for example:

- Grant and risk financing facilities for new technologies and innovations
- Risk financing facilities / venture capital funds for new cleantech / low-carbon businesses
- Fund-of-funds investing in private sector fund managers' green investment funds (European Investment Fund EIF as an example)
- Demonstration project finance for new green / low-carbon infrastructure and industrial projects (NER 300 and Innovation Fund linked to the EU ETS as examples) Project development grant, risk financing and/or risk-sharing facility for renewable energy, energy efficiency and other low-carbon sector project developers
- Co-financing and risk-sharing instruments for renewable energy, energy efficiency and other green investment sectors
- Management of other governmental programs promoting green investment in Kazakhstan (such as in the fields of district heating generation and efficiency, building energy efficiency, transport sector, etc.)
- Capacity building and awareness raising activities to make financing institutions, companies and regulators aware of new technologies and other solutions

Some of these financing activities would need to be publicly funded by the government, for example grant facilities. However, Baiterek could play a crucial role in designing, implementing and managing blending

facilities, which combine domestic public funding, private sector funding and also IFI financing. Many of the above mentioned potential financial instruments could be implemented as blending facilities, therefore using public funding to leverage private finance also on the financial instrument level, not only on the project level. There are examples in other countries (such as Denmark) where pension funds have been successfully mobilised by establishing so called “asymmetric” funds, where public funding is used as junior tranche (a buffer) in a fund to enable more senior and risk-averse (but possibly longer-term and cheaper) financing from commercial investors like pension funds.

Strategic Policy Documents

In terms of steering public investment towards the Green Economy the only strategic policy document is the 2013 Long-term Concept on Transition to a “Green Economy”. The Strategic Plan for Development for the until the Year 2020 and 2014 Concept for the Development of the Financial Sector do not set targets or provide a mandate for allocating public funds towards green finance.

	Legal Instrument	Key Provisions	Gaps, Barriers, Inconsistencies
Legal framework	2008 Budgetary Code ³² 2009 Government regulation on permitted financial instruments for investment from the National Fund ³³	<p>The areas for budgetary expenditures are defined by Chapter 9 of the Budgetary Code and they include, inter alia, energy efficiency measures. The financing of the current expenditures of the public authorities is based on their strategic plans, operational plans and budgetary programs.</p> <p>According to Article 151 of the Budgetary Code, the budgetary investments is based on the implementation of state, government programs and programs of development of territories. The Holding Baiterek is assigned as the operator of key state development programs.</p> <p>As regards the assets management of the National Fund it is assigned to the National Bank. The list of permitted financial instruments for the investment of the assets of the National is determined by the resolution of the Government and includes certain foreign and international financial instruments and corporate bonds of the Samruk-Kazyna, Kazmunaigaz and Baiterek Holding.</p>	Currently the Budgetary Code does not define budget lines for measures and projects on renewables, climate mitigation an adaptation.

³² Ibid, at http://adilet.zan.kz/rus/docs/K080000095_.

³³ Ibid, at http://adilet.zan.kz/rus/docs/P090000066_.

4.7 Astana International Financial Center

At the level of strategic policy documents the 2015 Joint Action Plan of the Government and the National Bank³⁴ sets the direction for the Astana International Financial Center. It defines 69 measures on the following strategic areas for the AIFC development:

- capital investments market;
- market and expertise for assets management;
- private banking;
- Islamic financing.

One of the planned measures requires the transfer from the National Bank to the AIFC the competence on the policy development in relation to the AIFC on regulation and financial oversight of its activity, strategy, coordination of public authorities, management of its property and infrastructure. Therefore, the planned policy measures are aimed at full autonomy of the AIFC from the National Bank.

It is notable that there are no provisions on green finance in the 2015 Joint Action Plan. Moreover, previous policy documents on the development of the financial sector in Kazakhstan, including the Strategic Plan for the Development until the Year 2020 and the 2014 Concept for the Development of the Financial Sector, refer to the Regional Financial Center of Almaty as the key institutional platform. For many areas, this responsibility was reassigned in December 2015 to the Astana International Financial Center.

The following table summarizes the key provisions of existing laws and regulations and lists potential gaps, barriers and inconsistencies when compared with international best practices in the area of Green Finance for the Astana International Financial Center. Of particular relevance are the areas of:

- Disclosure of environmental information
- Liability for adverse environmental impacts of their clients
- Evaluation and tracking of natural capital liabilities
- Monitoring and reporting environmental risks and performance
- Inclusion of green criteria into commercial bank lending practices and risk management
- Collection and monitoring of green investment projects

³⁴ See the AIFC website, at http://www.aifc.kz/index_ru.html.

	Legal Instrument	Key Provisions	Gaps, Barriers, Inconsistencies
Legal framework	<p>2015 Constitutional Law on AIFC³⁵</p> <p>2015 Decree of the President of Kazakhstan on the Borders of the AIFC territory³⁶</p>	<p>The 2015 Constitutional Law provides for the registered AIFC participants autonomous regulatory, foreign currency, tax and foreign currency regimes on the AIFC territory.</p> <p>Article 2 of the Constitutional Law on AIFC defines the following tasks of its activity:</p> <ul style="list-style-type: none"> • attraction of investment into the economy through the establishment of an attractive environment for investment in the financial services sphere; • the development of capital markets by ensuring their integration with the international capital markets; • development of the markets for insurance and banking services and for Islamic financing; • development of financial and professional services based on the principals of international best practice; and • achieving international recognition as a financial center. <p>The AIFC is entitled to develop and to adopt regulations in accordance with its own rules of procedure. The AIFC regulations can cover civil, civil procedural, administrative procedural and financial aspect of relations of its participants.</p>	<p>The Constitutional Law on AIFC does not contain provisions on the development of the Green Finance system, including the green banking and green bonds market.</p> <p>Currently there are rules of procedure for development, adoption, publication and amending the AIFC regulations.</p> <p>The AIFC has no competence for the development of the carbon market since the carbon units are a commodity according to the existing legislation of Kazakhstan.</p> <p>The AIFC has no competence to set its own regulatory regime and shall follow the National Bank regulations, <i>mutatis mutandis</i>, in relation while developing the criteria for the green banking and green bonds at its territory.</p> <p>There is no AIFC regulation on the list of other financial services exempted from corporate income tax. It is very unlikely that such financial services will be exempted from the corporate income tax under the Constitutional Law on AIFC unless they will be referred to explicitly in the Tax Code.</p>

³⁵ Ibid.

³⁶ Ibid.

		<p>The AIFC is entitled to establish a stock exchange on its territory.</p> <p>Article 6 provides the AIFC participants and their staff certain tax exemptions on corporate and individual income taxes. For instance, the tax exemption on corporate income tax is provided for the AIFC participants on the following financial services:</p> <ul style="list-style-type: none"> • banking services of the Islamic bank; • reinsurance and insurance brokerage services; • investment management of assets of the investment funds services, their register and storage, as well as services related to issuance, placement, trading, purchase and redemption of securities of the investment funds; • brokerage and /or dealer, underwriter services; • other financial services determined by the regulation of the Center. 	<p>The Constitutional Law on AIFC does not the define the AIFC competence on the assets management of the investment funds but provides certain tax exemptions for relevant services and securities. It implies that some investment funds shall become participants of the AIFC to be eligible for the tax exemptions.</p> <p>The current legislation on the AIFC does not address to the issues of disclosure of information by the Center and its participants, including on environmental aspects of their activities and liability for adverse environmental impacts.</p>
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5. Recommendations for Enhanced Regulatory Framework

5.1 Recommendations to promote the Green Financial System (GFS) within the AIFC territory

Area of legal and regulatory requirements	Enhanced Legal or Regulatory Provisions	Policy or Legal Instrument
Policy framework to promote the GFS	Exclusion of outdated policy provisions on the Regional Financial Center of Almaty	Strategic Plan for the Development until the Year 2020 2014 Concept for the Development of the Financial Sector
	Strategic goals and targets on the promotion of the Green Finance system and the role of the AIFC as the platform for its promotion	Development Strategy of the AIFC
Competence of the AIFC	Explicit provisions on the AIFC competence on promotion of the Green Finance system, including in the glossary and objectives	Articles 1 and 2 of the 2015 Constitutional Law on the AIFC
	Provisions enabling the AIFC to develop regulations in accordance with its own procedure	Procedure for rule-making as set in para. 2 Article 4 of the 2015 Constitutional Law on the AIFC
	Provisions enabling to apply the international standards related to green financing on the AIFC territory	Article 4 of the 2015 Constitutional Law on the AIFC
Financial instruments for green financing	Expanding the scope of the AIFC rule-making competence to green financing	Article 4 of the 2015 Constitutional Law on the AIFC
	List of green finance instruments applicable within the AIFC and eligible for relevant tax exemptions	AIFC Regulation on the list of financial instruments applicable on its territory
	Specific provisions for certain green finance instruments, including green bonds, green banking	AIFC Regulation on the issuance, placement, trading, purchase and redemption of securities AIFC Regulation on green finance instruments

Area of legal and regulatory requirements	Enhanced Legal or Regulatory Provisions	Policy or Legal Instrument
Operational framework for green financing	Requirements on disclosure of information on environmental aspects, reporting on environmental performance for the AIFC and its participants	AIFC Regulation on disclosure of
	Requirements on assessment and monitoring of environmental and climate-related risks	AIFC Regulation on risk management systems
	Provisions on liability for adverse environmental impacts for the AIFC and its participants	AIFC Regulation
Determination of activities and projects falling under the green finance requirements	Criteria and procedure for determination of green projects	AIFC Regulation on green investment projects
	Procedure for collection and monitoring of green investment projects	

5.2 Recommendations to promote the Green Financial System (GFS) nationwide

Area of legal and regulatory requirements	Enhanced Legal or Regulatory Provisions	Policy or Legal Instrument
Policy framework to promote the GFS	Strategic goals and targets on the promotion of the Green Finance system, role of the AIFC and other institutions	Strategic Plan for the Development until the Year 2020
	Policy document on the Green Financial system	Government's regulation
Competences of the public authorities	Glossary of terms related to the Green Financial system	2008 Budgetary Code, 2007 Environmental Code, 1995 Law on Banking and Banking Activities, 1995 Law on the National Bank, 2003 Law on the Securities Market, 2000 Law on Insurance Activities, 2013 Law on Pensions Bylaws of the National Bank, the Baiterek Holding, other relevant public authorities.
	Relevant amendments to the laws and bylaws of the public authorities on the promotion of the Green Financial system	
Financial instruments for green financing	Enabling regulators to develop new financial instruments for green finance	Government and National bank regulations
	Enabling public green investments from the national and local budgets	2008 Budgetary Code
	Integration of legal requirements on green bonds	2003 Law on the Securities Market, National Bank regulations on bonds
	Integration of legal requirements on green banking and possibly the establishment of a green bank	1995 Law on Banks and Banking Activities New Decree of the President and the Government

Area of legal and regulatory requirements	Enhanced Legal or Regulatory Provisions	Policy or Legal Instrument
	Strengthening the legal framework for carbon market, setting provisions for carbon market oversight and carbon pricing	2007 Environmental Code, new Government's regulation on carbon trade
Operational framework for green financing	Requirements on disclosure of information on environmental aspects, reporting on environmental performance by the financial sector organizations	1995 Law on Bank and Banking Activities, relevant National Bank regulations
	Requirements on assessment and monitoring of environmental and climate-related risks	2000 Law on Insurance Activities, National Bank regulation on risk management systems and internal control
	Provisions on liability for adverse environmental impacts for the AIFC and its participants	1995 Law on Banks and Banking Activities
Determination and monitoring of activities and projects falling under the green finance requirements	Criteria for determination of green projects additional to domestic carbon reduction offset projects	New Government regulation
	Procedure for collection and monitoring of green investment projects	New Government regulation