TERMS OF REFERENCE

Policy Design and Recommendations for Green Capital Market Incentives for Sustainable Development: Kazakhstan and Mongolia

I. Background

The Technical Cooperation (TC) project is led by the Local Currency and Capital Markets Development (LC2) team and the Energy Efficiency and Climate Change (E2C2) team within the European Bank for Reconstruction and Development (the "EBRD" or the "Bank").

One of the main functions of capital markets is to connect companies seeking capital with investors who are willing to invest into various types of securities such as debt and equity. However, it is questionable if capital markets have fully recognised the value of sustainability yet and allocate capital where it is most needed for long-term sustainable growth. Currently, capital markets do not fully reflect environmental considerations, thus the environmental impact of economic activity does not sufficiently influence the cost of capital for companies investing in sustainable technologies and businesses. From a capital market perspective, this is caused by two related reasons: market inefficiency and market failure. Market inefficiency refers to the situation where investors do not value highly enough companies' efforts to be sustainable until they see concrete results or benefits. Market failure refers to a situation where the financial performance of unsustainable companies is not corrected by external factors such as tax.

In order to re-orient more investments towards sustainable activities with a long-term perspective, a number of countries have already started to implement the sustainability agenda and taken steps to align their financial systems with sustainable development. For example, the Financial Stability Board's (FSB) Task Force has been developing recommendations for voluntary climate related financial disclosures that help lenders, insurers and investors make informed investment decisions since 2016. The Indonesian financial regulatory authority published a Green Finance Roadmap in 2014 and the French government introduced mandatory climate-change-related reporting for institutional investors starting in January 2016, just to name a few among many other countries.

At international level, the EU has just recently finalised (December 2019) the Taxonomy Regulation that sets out categories of economic activities that are considered environmentally sustainable. The regulation is the cornerstone of the European commissions' Sustainable Finance Action plan and includes obligations on 'large public-interest entities', funds and pension products to disclose information about the sustainability of their operations and investments. The Bank for International Settlements (BIS) recently published a report (January 2020) examining how central banks can address the new climate related risks within a their financial stability mandate. The European Central Bank (ECB) also emphasises that the climate change consideration should be part of the ECB's remit when it conducts its monetary policy.

However, the level of related efforts vary significantly among EBRD Countries of Operations (COOs) to date, especially in non-European countries both in terms of climate targets and policies, as well as the development of green capital markets. For instance, Morocco has targets to increase the share of electricity generating capacity from renewables to 42% by 2020 and 52% by 2030 as well as targets for reducing energy consumption by 12% by 2020 and 15% by 2030 through energy efficiency. Turkey has not yet ratified the Paris Agreement (as of March 2020), but its National Energy Efficiency Action Plan (NEEAP), adopted in 2018, outlines an investment plan of USD 11 billion in energy efficiency measures and presents a business case of USD 30.2 billion in energy savings by 2033. The Kazakh government set a target to reduce 25% greenhouse gas emissions by 2030 compared to 1990 in its Green Economy Concept (GEC) and Nationally Determined Contributions (NDC). The GEC, adopted in 2013, also outlines targets of reaching 30% of power generation by renewables by 2030, and reducing energy intensity by 30% by 2030 compared to 2008.

In particular, EBRD COOs are at varying stages of green capital market development. While countries such Poland, Estonia, and Latvia, for instance, saw some major green bond issuances, such markets are almost non-existence in other COOs. The Green Finance Platform database also illustrates the great disparities in terms of policy development to enable green finance.[1]

The 2020 coronavirus pandemic shows that a public health threat can create huge socio-economic impacts if it hits globally. Labour markets are experiencing a huge deterioration worldwide and a number of sectors face a sudden stop of all economic activity. Supporting green activities during crisis can help with the recovery of the economy while simultaneously correcting the market failures of the past. For example, instead of opting to invest in high-carbon sectors, investments in areas like energy efficiency retrofits and clean energy infrastructure construction can create more jobs that make the future economy more sustainable. It also allows retraining workers in the declining high-carbon sectors to equip them for jobs in the rapidly growing clean economy or other growing economic sectors.

Equally, the climate crisis, the biggest threat to health security of the century, will post significant social and economic risks slowly and gradually if a dramatic change of the current system is not made today to prevent irreversible damage. Therefore, economic recovery policies need to include both short and long-term perspectives that combine economic and environmental policies.

In this context, the EBRD is seeking to engage a firm to design a set of recommended capital market incentives for Kazakhstan and Mongolia as a pilot to support the Agency for Regulation and Development of Financial Market of the Republic of Kazakhstan and the Astana International Financial Centre and the Ministry of Environment and Tourism of Mongolia and/or the Financial Regulatory Commision. Kazakhstan and Mongolia are part of the priority countries among the EBRD's non-European COOs for green capital market activities in the next 5 years (2021-2025) along with Egypt, Morocco and Turkey. These countries have shown their commitment towards sustainability with various measures and initiatives, having a sizable (Egypt,

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[1] https://www.greenfinanceplatform.org/financial-measures/browse

Kazakhstan, Morocco and Turkey) or functional (Mongolia) local capital market. **The consultant will analyse the selected two countries' needs, commitments, geopolitical situations and other considerations, and provide actionable policy recommendations that policy makers, central banks, capital market exchanges and other capital market players can consider implementing for environmentally sustainable economic development.** The report will also identify the expected barriers and suggest the implementation roadmap for each capital market incentive.

II. Objective

Overall objective

The overall objective of this project is to address the important role of capital markets in sustainable development and urging policy makers to create an enabling environment where green companies and projects can flourish and access capital markets at cheaper costs.

Specific objective

The specific objective of this project is to analyse how capital markets can narrow the existing financing gaps faced by sustainable businesses and projects with a set of various incentives. The incentives will include various policies, regulations and market practices that will facilitate and encourage more capital market investments into sustainable business. The consultant, therefore, will need to explore how financial market players, including central bank, banks, issuers, investors, intermediaries, insurers, rating agencies, stock exchanges and others, can be incentivised and incentivise others to increase the amount and efficiency of finance for sustainable growth. The public report will include the expected barriers, high-level roadmaps for implementation of each incentive and the expected quantitative results / outcomes. The study will cover Kazakhstan and Mongolia.

III. Scope of Services

In order to achieve the objectives mentioned above, the Consultant is expected to fulfil the following tasks.

- Activity 1: Provide a stock-take on the emerging local and international initiatives, policies and practices in greening the financial market world wide. Present a set of various capital market incentives and policies that will successfully incentivise financial market participants to better and more support the growth of sustainable companies and projects via debt and equity instruments including chosen case studies. Conduct a review of past and present economic recovery plans that had green policy/market incentive measures with the aim of creating more jobs and stimulate greener growth. The importance of capital markets' role in financing sustainable growth will be highlighted and a number of case studies from other countries will be included.
- Activity 2: For each country, 1) develop a precise definition of sustainable growth and set quantitative sustainable growth targets that should be achieved by local capital

markets including foreign investors ("Green Capital Market Targets") compared to the status quo. 2) Analyse the current barriers in relation to capital market access faced by sustainable businesses from both quantitative and qualitative aspects. 3) Conduct a gap analysis, comparing the required financing needs based on Green Capital Market Targets and what can be achieved in the current capital market set-ups and overall financial sector environment. The Consultant will take into consideration other on-going development in Kazakhstan and Mongolia to avoid any unnecessary duplication of the efforts. 4) Suggest a set of country-specific capital market initiatives and policies. For each incentive and policy, the Consultant will identify the expected quantitative/ qualitative results, potential challenges, solutions, risks and possible mitigation methods. The consultant will examine the expected impacts on foreign investments with capital market incentives and propose new types of equity and debt instruments for sustainable growth for each country.

- Activity 3: The Consultant will prepare a high-level roadmap for each country that describes the type, category, priority, cost, ease of implementation, urgency of each proposed measure and select the top three to five that can be and/or should be implemented immediately.
- Activity 4: Prepare a public report based on the deliverables from Activities 1-3. The report will present an overview of various green capital market incentives and include country specific analyses and recommendations. The report should be professionally edited according to EBRD style and published in British English, Russian and Mongolian. To promote the report and its key recommendations the Consultant will prepare visibility measures, including an infographic and a short video clip (up to maximum 2 minutes)[2]. The consultant will co-organise a public presentation of the report with the EBRD. The Consultant has to cover the costs for proof reading for all three languages, printing of the report, visibility measures and organisation of the public presentation including catering. It is planned to hold the public event on the premises of the EBRD Headquarters in London.

IV. Project Counterpart and Implementation Arrangements

1. The Consultant will be contracted by the EBRD and project oversight will be provided by the EBRD's Operation Leader (OL). The Consultant will report directly to the EBRD and will work closely with the OL. The Consultant will have overall responsibility for delivering the assignment according to the agreed work plan and will as such manage the project implementation and actively monitor the progress achieved. The Consultant shall carry out the tasks stated herein through coordination and management provided by the EBRD's OL and any other person explicitly authorised by the OL.

[2] The infographics should be available in British English, Russian and Mongolia. The short video clip can be recorded in English with subtitles in Russian and Mongolian.

2. The Consultant will nominate a Consultant Team Leader (CTL), who will have overall responsibility for delivering the assignment according to the agreed work plan and will as such manage the project implementation and actively monitor the quality and progress achieved. The CTL will also be responsible for communication between the EBRD and the Consultant. The CTL should cooperate closely and liaise regularly with the OL nominated by the EBRD. The CLT will report to the OL on the progress of the assignment, deliverables produced, and performance of the assignment against the agreed project timetable.
3. The Consultant will support the EBRD for the creation and coordination of an official Working Group that is dedicated to this project in each country.
4. The Consultant will be required to have the necessary administrative capacity for the implementation of this assignment. The Consultant should not expect the EBRD to provide logistical and interpretation/translation support. Therefore, the Consultant should provide their own office, communications and other assignment-related logistical support.
5. The Consultant is expected to travel to each country for extensive in-person interviews and research with or without EBRD team members subject to guidance regarding international travel and health and safety guidelines applicable. Should international travel and in-person meetings be against applicable EBRD guidance at the time of intended travel, in-person meetings will be replaced by remote teleconference meetings.
6. The main project language is English and the final deliverables from Activity 4 should be professionally edited and published in British English, Russian and Mongolian. The Consultant will also be responsible for the professional layout of the Report in strict adherence to the corporate identity and visibility requirements of the EBRD.
7. The duration of the Project is expected to be 8 months and the indicative start date is Q4 2020.

V. Reports and Deliverables

The Consultant will provide the following reports and deliverables to EBRD:

#	Deliverable(s)	Indicative Timing
1	Project kick-off meeting	At project commencement
2	Inception report	Within two weeks of project commencement, specifying the implementation approach, timing submission dates for the deliverables
3	Bi-weekly short progress reports	Bi-weekly discussion with EBRD and working groups with the progress reports
4	Final report from Activity 1	Within 8 weeks of project commencement.
5	Final report from Activity 2	Within 16 weeks of project commencement
6	Final report from Activity 3	Within 20 weeks of project commencement
7	Final report and visibility materials from Activity 4	Within 26 weeks of project commencement

#	Deliverable(s)	Indicative Timing
8	Public Presentation	Within 30 weeks of project commencement

The exact timing of the deliverables will be set in the Inception Report as agreed with the EBRD. Other deliverables may become relevant as the project progresses. These will be included as agreed with the Consultant. All deliverables will be produced in English and submitted to the EBRD's Operation Leader in hard copies and/or electronic format as agreed with the EBRD. All deliverables should be in form and substance satisfactory to the EBRD.

To ensure that critical milestones are being met, disbursement of funds will be phased and contingent upon certain implementation criteria being satisfied. The payment schedule will be agreed during contract negotiations.

VI. Donor Visibility

The donor of the technical assistance supporting the project requires adequate visibility of their contribution. The Consultant will be required to ensure the donor visibility aspects during the project implementation.

The potential donor visibility measures are:

- All documents produced by the Consultant should indicate the source of donor funding and bear the logo of the donor, when appropriate;
- Donor support to the project should be acknowledged in any public communication (press releases, launch of facilities);
- Local representatives of donors should be invited to any public event organised to promote the project (press conferences, inaugurations, possibly stakeholder participation programmes).

More detailed donor visibility guidelines can be provided by the Bank to the Consultant at the start of the Assignment, if required.