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Second Party Opinion

Kyrgyz Investment and Credit Bank Sustainable Finance Framework

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Location: Kyrgyzstan

Sector: Bank

Alignment Summary

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2025
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2025
- ✓ Sustainability Bond Guidelines ICMA, 2021

See [Alignment Assessment](#) for more detail.

Strengths

Eligible projects aim to tackle a wide range of social and environmental issues in Kyrgyzstan. Proceeds are mainly expected to be allocated to social projects, including lending to micro, small, and midsize enterprises (MSMEs), particularly those owned by women or focused on creating employment for women, which may support social and economic development and reduce inequalities. Successful implementation of green projects could help reduce exposure to environmental and climate risks for customers.

Weaknesses

Buildings financed under the framework might use natural gas for heating. Such investments can lead to carbon lock-in. Furthermore, eligible green projects include buildings with in-use certifications. Such certifications might help reduce energy consumption, but they do not necessarily specify minimum energy-saving thresholds. This limits our insight into the projects' overall environmental benefit.

Areas to watch

Climate strategy remains nascent. The bank is currently calculating its operational emissions, but is yet to estimate financed emissions and set greenhouse gas emission reduction targets. Additionally, the bank's physical risk considerations are limited. At present, its environmental and social risk management policy does not clearly outline how it assesses and manages physical climate risks. Positively, the bank has considered its current exposure to risks, such as flooding, at the portfolio level.

Project categories may introduce environmental and social risks that are important to manage. Construction across project categories can introduce social risks including impacts on communities. Also, some environmental projects, such as livestock farming, carry risks of increased greenhouse gas emissions and land use change if not managed properly.

Shades of Green Projects Assessment Summary

Over the three years following issuance of the financing, Kyrgyz Investment and Credit Bank (KICB) expects the majority of proceeds will be allocated to social projects, particularly related to MSMEs, including those that are either women owned or focused on creating employment for women. At least 10% of the proceeds is expected to be allocated to green projects.

KICB expects approximately 30% of the proceeds to be allocated to refinancing projects, and about 70% to finance new projects.

Climate change mitigation – Energy efficiency

 Medium to Light green

Refurbishment, rehabilitation, and/or renovation investments, which improve the efficiency of energy consumption by at least 20% and/or reduce greenhouse gas emissions by at least 20%.

Climate change mitigation - Renewable energy

 Dark green

Renewable energy projects such as wind, solar, geothermal, and green hydrogen.

Infrastructure to support renewable energy.

Climate change mitigation – Green buildings

 Light green

Financing of buildings with internationally recognized certifications.

Renovations or upgrades of existing buildings leading to at least 30% improvement in energy efficiency.

Climate change mitigation – Clean transportation

 Medium green

Clean transportation products and services for vehicles, public transport, and freight services.

Sustainable water and wastewater management – water and wastewater management

 Light green

Construction, operation and maintenance of sustainable water and wastewater management projects, facilities, and related infrastructure.

Pollution prevention and control - Monitoring and reduction of consumption and pollutant generation – waste management

 Medium to Light green

Waste management activities, including collection, transport, and transfer of nonhazardous waste, waste sorting, and recycling.

Environmentally sustainable management of living natural resources and land use – resilient agriculture

Medium to Light green

Projects related to increasing climate resilience in the agricultural practices.

See [Analysis Of Eligible Projects](#) for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Kyrgyz Investment and Credit Bank (KICB), established in 2001 and headquartered in Bishkek, Kyrgyzstan, offers a range of banking services to retail, corporate, and MSME customers. As of Dec. 31, 2024, KICB's gross customer loans amounted to about \$ 269.7 million. The bank's loan portfolio consists of loans to retail customers (45%), corporate customers (22%), and small and midsize enterprises (SMEs; 33%).

The bank's total loans to corporate customers, small business loans, and retail loans comprise trade (27%), consumer loans (25%), mortgage loans (14%), agriculture (13%), manufacturing (6%), transport and communication (3%), construction (2%), and financial and credit institutions (<1%), among others.

The shareholding structure of KICB as of Feb. 28, 2024, includes Aga Khan Fund for Economic Development (72%), which is an international development agency that promotes entrepreneurship in Africa, Central and South Asia. Other shareholders are Habib Bank Ltd. (18%), a Pakistani commercial bank, and the government of the Kyrgyzstan (10%).

Material Sustainability Factors

Access and affordability

Banks' large impact on society and the economy stems from their role in enabling access to financial services for individuals and businesses, and in ensuring the correct functioning of payment systems, which are cornerstones of economic development and stability. In most countries, unbanked and underserved population segments are still meaningful, although the access gap is most acute in emerging economies. Kyrgyzstan's 2022-2026 National Financial Inclusion Strategy aims to enhance access to affordable financial services for underserved individuals and businesses, focusing on digital solutions, financial literacy, and skills development in line with its Integrated National Financing Framework.

Impact on communities

As financial enablers, banks have the capacity to affect a wide range of community issues by providing economically vulnerable groups with access to essential services. This may help alleviate income inequality and foster upward social mobility and also plays a vital role in the country's economic development by financing MSMEs, which are important for job creation and economic resilience. Banks also play a crucial role in financing essential health care services, enhancing accessibility, and promoting health equity. Their targeted investments not only enhance health outcomes but also bolster the economic stability of communities by demonstrating the interconnectedness of finance and social well-being. Rural communities, which account for 66% of

Kyrgyzstan's total population, face challenges in accessing health care services, according to the United Nations Development Program. The impact of financed projects on communities is a material consideration, especially for large infrastructure and construction, such as the construction of renewable energy assets. Such projects may not only generate air pollution during their construction, but also have longer-term impacts on communities, such as changes in water flow.

Physical climate risks

Physical climate risks will affect many economic activities as climate change increases the frequency and severity of extreme weather events. Banks finance a wide array of business sectors that are exposed to physical climate risks. However, although climate change is a global issue, weather-related events are typically localized, so the magnitude of banks' exposure is linked to the geographic locations of the activities and assets they finance. Kyrgyzstan is exposed to heat waves, drought, and floods, which damage agriculture, forests, and even the hydrological system. This creates social, economic, and health risks. Banks can help mitigate the effects of physical climate risks by financing adaptation projects and climate-resilient infrastructure, as well as by investing in solutions that support business continuity in exposed geographies.

Climate transition risks

Banks are highly exposed to climate transition risk through their financing of economic activities that impact the environment. Their direct environmental impacts are small compared to financed emissions. Policies and rules to reduce emissions could raise credit, legal, and reputational risks for banks with large exposures to high-emitting sectors, such as real estate construction and transportation. These medium- to long-term risks are significant and will be proportional to the impact of climate change on the economy. Positively, financing the climate transition offers a growth avenue for banks through lending, debt structuring, and other capital market activities. As per Kyrgyzstan's Nationally Determined Contribution, the country has set conditional emissions reduction targets of 36.61% by 2025 and 43.62% by 2030, and unconditional targets of 16.63% by 2025 and 15.97% by 2030, all relative to business-as-usual scenarios.

Issuer And Context Analysis

KICB's eligible project categories aim to address the bank's material sustainability factors.

The social categories--such as employment generation, financial inclusion, and affordable housing--seek to widen access to financial services and contribute to the financial inclusion and economic development of targeted groups such as low-income individuals, women, and vulnerable groups. Other social project categories such as access to essential services, affordable basic infrastructure, as well as food security and sustainable food systems, also support the health of communities, for example through financing of health care facilities, educational institutions, and projects that support water accessibility and sanitation. Furthermore, the investments in climate change mitigation projects--such as energy efficiency products and services, renewable energy, clean transportation, and green buildings--directly address climate transition risk. Meanwhile, the resilient agriculture project category may address physical climate risks through climate change adaptation measures. However, the financing also introduces risks such as biodiversity impacts and effects on communities.

The social project categories are broadly in line with the country's national strategy, such as lending to MSMEs, which improves access to credit and generates employment opportunities.

According to the World Bank, the employment rate in Kyrgyzstan was 63% in 2023, which is about 13% lower than the EU average; therefore the financing of MSMEs may support employment generation and enhance living standards in the country. Furthermore, lending to MSMEs includes a focus on businesses with a high participation of women. KICB has introduced its Mykty Ayim KICB loan to support women's entrepreneurship. This follows the Women in Business program launched in 2021 as a part of the bank's partnership with the European Bank for Reconstruction and Development (EBRD). Through this program, the bank conducts seminars and training sessions for women entrepreneurs on various topics, including business promotion, financial literacy, and tax code changes.

Additionally, the KICB collaborates with the Roza Otunbaeva Foundation to enhance financial literacy. On the other hand, KICB’s lending activities may introduce social risks, including from construction of infrastructure. However, the bank partly manages the risk of impacts on communities from construction by explicitly excluding forced evictions from activities the framework finances.

Physical climate risk is an increasing sustainability risk for banks. According to the United Nations Disaster Risk Reduction risk spotlight, Kyrgyzstan is susceptible to wildfire, heatwaves, drought, and floods. Currently, the bank assesses physical climate risks such as flooding at the portfolio level. However, this does not include scenario analysis and the bank is yet to develop a comprehensive policy to assess physical climate risks during the underwriting process. This is particularly relevant for KICB, given its exposure to the agriculture and real estate sectors.

KICB’s climate strategy is in a nascent stage. Although the bank is currently measuring its operational emissions, it is yet to estimate its financed emissions and set emission reduction targets. To manage and mitigate climate transitional risks, KICB relies on its environmental, social, and governance policy and its Environmental and Social Risk Management System (ESMS), along with an exclusion list. The ESMS acts as a risk management framework and helps the bank to identify, assess, and mitigate environmental and social risks associated with its lending activities. However, the bank is in the process of developing a dedicated climate risk assessment procedure for existing and new customers, which we view as highly relevant given its exposure to climate-sensitive sectors. Nevertheless, the bank offers green loans to SMEs to improve energy efficiency in their business operations, which could contribute to reducing greenhouse gas emissions, as well as the bank’s and its customers’ exposure to climate transition risk.

Alignment Assessment

This section provides an analysis of the framework’s alignment to the Social and Green Bond/Loan principles and the Sustainability Bond Guidelines.

Alignment Summary Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

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✓ Use of proceeds

We assess all the framework’s green project categories as having a green shade and consider all social project categories to have a positive social impact and be aligned with the respective principles. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental and social benefits of the expected use of proceeds.

KICB commits to allocating an amount equal to the net proceeds of any sustainable instrument issued under the framework to finance or refinance eligible green and social projects. In addition, the bank will disclose the share of financing versus refinancing in its allocation of proceeds. The look-back period is 24 months, better than the market practice of 36 months.

✓ Process for project evaluation and selection

The framework outlines a process that KICB has developed to evaluate and select potential projects. The Management Credit Committee (MCC) approves eligible green and social projects in accordance with its Delegation Arrangements Manual, depending on the loan amount. The MCC consists of four Management members overseeing lending, underwriting, legal, and banking activities, along with the CEO, who acts as the chairman of the committee. All decisions are made through a voting system. The potential environmental and social risks associated with the projects are identified and managed through KICB's ESMS. The framework has a detailed list of exclusions, in line with market practice, including activities that relate to upstream oil exploration and development projects, thermal coal mining or coal-fired electricity generation capacity, export of mercury and mercury compounds, production or trade in radioactive materials, and forced evictions, among others.

✓ Management of proceeds

Net proceeds from the issuance will be credited to a sub-account and managed on a portfolio basis. We understand that KICB will not issue a facility that includes non-green tranches. Eligible projects will be monitored for compliance with the eligibility criteria, at least annually, and will be removed if they no longer meet them. Furthermore, the bank strives to ensure that the value of green and social loans matches or exceeds the value of outstanding sustainable finance instruments, within 24 months from the time of issuance of each instrument. Unallocated proceeds will be held in cash or other short-term, liquid marketable investments.

✓ Reporting

KICB commits to reporting annually on the allocation of proceeds and the impact of the sustainable finance instruments on a portfolio basis within its annual report or via a separate sustainable finance reporting document on its website, as long as sustainable financing instruments are outstanding. Allocation reporting will include the total amount of net proceeds allocated to each project category, the proportion of net proceeds used for financing versus refinancing, balance of unallocated proceeds and geographic location of the assets at country level. Meanwhile, where feasible, KICB will report on the environmental and social output for green and social projects. We note as positive that KICB aligns its reporting with International Capital Market Association (ICMA)'s Harmonized Framework for Impact Reporting.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "[Analytical Approach: Shades Of Green Assessments](#)," as well as our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Social project categories

Employment generation and financial inclusion -- MSME financing; diversity and equal opportunity

Projects that finance or refinance SMEs and micro enterprises that qualify for at least one of the following:

- Operates in developing and underdeveloped regions of Kyrgyzstan; or is
- Owned and/or operated by migrants, youth (up to 30 years old), or other vulnerable groups.

Financing and refinancing businesses owned by women and/or focusing on creating employment for women that:

- Are owned (at least 51%) or led by women;
- Where female ownership is below 51%, women to assume at least one of the managerial roles at the company and at least 20% female ownership; or

- Have a workforce of at least 51% women or the overall operational management responsibility is held by a woman (or women).

Analytical considerations

- Financing MSMEs in Kyrgyzstan is key to job creation and fostering economic growth, since they make up about 42% of the country's GDP. Targeting businesses owned by women, on the other hand, may promote diversity and equal opportunities by creating a more inclusive job market.
- Aligned with the principles, KICB has clearly outlined the target population in the framework. It includes MSMEs in areas with high unemployment or low income, youth-owned businesses, and female-owned businesses, irrespective of their location and socioeconomic level.
- KICB's internal classification of MSMEs follows the National Statistical Agency's methodology and Basic Scheme of the classifier of types of enterprises approved by the resolution of Kyrgyzstan's government. Specifically, the classification is based on two key criteria: the average number of paid employees and the total turnover (production, work, and services). Micro and small enterprises are defined as those with up to 15 and 50 employees and a turnover of up to Kyrgyzstani som (KGS) 500,000 (about €5,465). Midsize enterprises have between 51 and 200 employees, with turnovers ranging from KGS500,000 to KGS2 million (€5,465 to €21,860). The selected classification of MSMEs, based on employee count and turnover, is broadly aligned with international standards, such as the EU definition, but the specific thresholds vary, reflecting the different economic conditions and structures between regions. In addition, the bank is capping the amount of credit obligation at KGS 36 million (about €390,000) or its equivalent in other currencies. This amount may serve as a benchmark for the size of the business and its credit needs.
- Financing MSMEs is in line with Kyrgyzstan's national development strategy for 2018-2040, under which the country is committed to expanding financing programs and mitigating the conditions of lending to SMEs. Despite their economic importance, MSMEs in Kyrgyzstan face challenges, such as limited access to affordable credit, short-term loan structures, and stringent collateral requirements. Although international organizations and the government have introduced programs to support MSMEs, improving access to long-term, affordable credit remains essential to fostering economic stability in the country.
- The proceeds under this project category will contribute to addressing material social issues in Kyrgyzstan, given that, according to the World Bank, the employment rate was 63% in 2023, which is about 13% lower than the EU average. The unemployment rate, on the other hand, has been decreasing since 2020, accounting for 4% of the total labor force in 2023. We view as positive that KICB will target women and youth because the labor force participation rate among females in Kyrgyzstan stood at 53.5% in 2023, which is 25.5% lower than male participation. Moreover, only 35% of MSMEs are owned by women, while about 34% of firms have female participation in ownership and only 21% have a female top manager. Other groups, including youth, also face challenges in the labor market and business ownerships. For example, many individuals in underserved regions struggle to secure funding due to a lack of collateral and credit history. Therefore, proceeds will help mitigate these issues, in our view.
- Although financing MSMEs can be essential for their growth and promote employment generation, the process often comes with inherent risks associated with high interest rates, increased debt burdens, and the potential for bankruptcy. KICB has informed us that to mitigate such risks, it will offer lower interest rates for the target population, along with providing consulting services and setting up regular follow-ups with customers to offer guidance and track the financial health of the business.
- The bank is also committed to ensuring the target MSMEs remain eligible for loans during their tenure by financial monitoring and regular contacts with clients.

Access to essential services – Education, health care

Funding educational institutions, including primary and secondary schools, universities, and tertiary education centers, as well as technical/vocational training centers and programs

Financing the construction, refurbishment, and modernization of health care facilities and medical equipment, and health care technology

Analytical considerations

- Promoting access to essential services such as education and health care is key to enhancing the social well-being, economic growth, and improving overall quality of life in Kyrgyzstan.
- The target population is clearly outlined in the framework. It includes the general public, and the aging population in lower socioeconomically developed areas. Low-income regions in Kyrgyzstan are often defined by the National Statistics Committee based on the gross regional product per capita (GRP). As of 2023, the GRP per capita in Kyrgyzstan stood at KGS187,900 (about €2,059).
- The proceeds raised under this project category address one of Kyrgyzstan's material social issues, since many schools are outdated, with insufficient infrastructure and resources, such as modern educational technology. According to the Asian Development Bank, about 10% of the country's public schools cannot be repaired, and 25% require significant rehabilitation, with the majority operating without water and sanitation facilities. Moreover, schools rarely receive new furniture and science laboratory equipment and only 42.1% of schools meet the minimum requirement for computer access set by the Ministry of Education and Science of Kyrgyzstan. In addition, many school buildings are not constructed to withstand seismic activity, posing significant risks to students' safety during earthquakes.
- Kyrgyzstan's Education Development Program (2021–2040) and its National Development Strategy (2018–2040) both emphasize the importance of improving the quality of education and increasing access to higher education and vocational training. Key objectives include improving school infrastructure, enhancing digital literacy, and upgrading technology. The proceeds will contribute to achieving these objectives, in our view.
- Financing also aims at improving access to health care, which is a major social issue in Kyrgyzstan. Despite improvements, there are still marked disparities in provision of health care services between rural and urban areas, as well as barriers linked to cost and gaps in mandatory health insurance coverage. According to the World Health Organization (WHO), most hospitals (85%) are over 50 years old, national resources for maintaining and renewing equipment are insufficient, and most modern diagnostic and treatment technologies, including MRI and CT scans, are only available in private health facilities in big cities, such as Bishkek or Osh. In addition, the health care infrastructure has seen dramatic downscaling, with the number of hospitals decreasing by 70% over 1997–2020, according to the WHO.
- We note that physical assets under financing are exposed to physical climate risks, such as heatwaves, heavy rainfall, or intense storms. By adhering to the EBRD's standards, such risks will be partly considered.

Affordable basic infrastructure

Financing of projects related to the creation and development of the basic infrastructure related to clean drinking water and sanitation

Analytical considerations

- Access to affordable basic infrastructure such as water and sanitation is key to improve public health and promote social well-being in developing countries. This also holds significance in Kyrgyz context, as following the collapse of Soviet Union, the country inherited outdated infrastructure systems that require modernization and maintenance.
- The issuer clearly outlined the target population in the framework, which covers low-income, vulnerable groups, excluded and/or marginalized populations and/or communities.
- The proceeds address material social issue as the country's growing population, especially in rural and remote areas, places increased demand on existing water resources. According to the World Health Organizations, around 24% of population does not have access to safe drinking water and 7% to safe sanitation. Furthermore, Kyrgyzstan's mountainous terrain and variable climate make water availability inconsistent, with some regions facing droughts or reduced access during certain times of the year. The poor water and sanitation infrastructure has also led to the spread of waterborne diseases, which is a major public health problem in the country. Therefore, financing water and sanitation-related projects, such as modern wells, mini drinking

water systems, treatment plants, and storage can contribute to reliable and safe supply of water to the target population, in our view.

- Proceeds under this project category will support one of the goals of the National Development Strategy of Kyrgyz Republic 2018-2040 and the Strategy for the Development of water Supply and Sewerage systems for Settlements (SDWSSS) for 2016-2026. These strategies both aim at providing the population with inclusive and reliable access to safe and high-quality water supply and sanitation.
- While enhanced access to clean drinking water and sanitation provides clear social benefits, the environmental risks associated with such projects can be material, if not addressed properly. For example, greater water withdrawal can cause habitat destruction and biodiversity loss, while construction processes will be associated with the embodied emissions. To address environmental risks caused by social projects, the bank will apply its Environmental and Social Management System (ESMS), which is aligned with the International Finance Corp. (IFC)'s and EBRD's standards. By complying with these international guidelines, companies can identify potential risks early, implement mitigation strategies, and reduce the likelihood of negative environmental outcomes.

Affordable housing

Financing affordable housing and construction of homes for low-income individuals

Analytical considerations

- Mortgage financing plays a crucial role in providing low-income individuals in Kyrgyzstan with the opportunity to transition from renting to homeownership. Financing related to construction of homes, on the other hand, is key to addressing the country's housing challenges, improving living conditions, and promoting social equity.
- The target population includes low-income individuals, which is defined in accordance with the National Statistic Agency of the Kyrgyz Republic and the government-supported affordable housing mortgage financing scheme.
- Under this project category, KICB will finance mortgage loans under affordable housing schemes that follow the standards established by the government of Kyrgyzstan. This will address housing affordability issues, which are relevant in the context of the country's high interest rates and lack of long-term financing options that hinder many individuals from purchasing homes. Based on the government's standards, affordability is defined by size limits per square meter (m²) and price caps. Specifically, apartments with a total area of no more than 100 m² and houses with a total area of no more than 200 m² are eligible. The price per square meter is capped at €874, with the total property price not exceeding €43,000 (or its equivalent in KGS). The eligible property must be located outside major cities, such as Bishkek and Osh, and the maximum loan amount available for purchase is €38,700 (or its equivalent in KGS). Low-income families are defined as those with a monthly income not exceeding €850 (or its equivalent in KGS) per month. As of 2023, the average monthly salary in the country was KGS31,604 (about €345). Eligible clients and their families must not own any real estate in Kyrgyzstan and must not have engaged in any real estate transactions over the previous three years.
- The proceeds will also finance the construction of homes for low-income families. This is material because rapid urbanization, population growth, and limited resources have led to a significant gap between the demand for affordable housing and its availability. Many people struggle to find adequate housing due to high costs, outdated infrastructure, and insufficient new housing development. This shortage is often worsened by the lack of financing options for low-income families and the prevalence of informal settlements, where people live in substandard conditions. Moreover, according to the U.N.'s social standards, housing for one person should be at least 30 m². In Kyrgyzstan, as of 2023, the housing space per person amounted to 12.7 m². While Kyrgyzstan is making strides in addressing its housing shortage, current construction efforts are still insufficient to fully meet the demand.
- We note a lack of consideration for buildings' energy use, construction materials, and other environmental risks associated with residential construction. In addition, physical assets under financing are exposed to physical climate risks. While compliance with IFC and EBRD standards can help mitigate these risks, their broad criteria and limited stringency may allow the bank to meet requirements without making significant environmental improvements.

Food security and sustainable food systems

Funding for projects that provide physical, social, and economic access to safe, nutritious, and adequate nutrition that meets dietary needs and requirements

Financing or refinancing of farmers in low-income areas

Analytical considerations

- Food security and access to safe, nutritious, and adequate food are vital for individuals' health and societal stability. They prevent malnutrition, support a productive workforce, reduce health care costs, and enhance economic resilience. By improving food security, communities in Kyrgyzstan can become more resilient to food price fluctuations, promoting social equity and reducing poverty.
- KICB has clearly outlined the target population in its framework, which covers low-income and vulnerable groups and small farmers.
- The proceeds address a material social issue, since food security is a significant concern in Kyrgyzstan, particularly in rural and remote areas where access to quality food can be limited due to factors such as geographical isolation, low incomes, and underdeveloped infrastructure. According to the latest assessment carried out by the World Food Program, about 15% of the country's population is acutely food insecure. Yet, 54% of the population is only marginally food secure, implying that although the population is not immediately at risk of hunger, they may still experience vulnerability or limited access to a diverse and nutritious diet. The highest food insecurity was found in underserved regions such as the Talas (28%), Jalal-Abad (22%), and Naryn provinces (20%).
- In addition, malnutrition remains a public health issue in Kyrgyzstan, particularly among children. According to the Global Nutrition Report, 11.8% of children under five years of age in Kyrgyzstan are affected by stunting, which is lower than the regional average of 21.8%. Despite significant progress in addressing childhood malnutrition in the past decade, poor households in Kyrgyzstan continue to struggle with basic food and nutrition security. In total, according to the Global Hunger Index, 6.1% of Kyrgyzstan's population is undernourished. As a result of poor diets, they also face malnutrition, with individuals across all socioeconomic groups suffering from micronutrient deficiencies, overweight, and noncommunicable diseases, according to the World Food Program. Thus, funding projects to enhance food security, and increase access to safe and nutritious food, will contribute to mitigating these issues, in our view.
- Financing or refinancing farmers in low-income areas of Kyrgyzstan is relevant because many rural households depend on farming for their livelihoods. However, farmers in these areas often face challenges such as limited access to credit, outdated farming techniques, and vulnerability to climate change impacts. Providing financial support will help improve agricultural productivity, enhance food security, and improve the economic well-being of farmers.
- Similar to other projects, the bank will adhere to IFC and EBRD standards to address environmental risks. However, the broad criteria and limited stringency of these standards may enable adherence to these standards without driving substantial environmental improvements.

Green project categories

Climate change mitigation – Energy efficiency products and services

Assessment	Description
Medium to Light green	Refurbishment, rehabilitation and/or renovation investments that improve the efficiency of energy consumption by at least 20% and/or reduce greenhouse gas emissions by at least 20%.

Analytical considerations

- Improvements in energy efficiency are important across the economy, with the potential to reduce greenhouse gas emissions through reduced energy use, improving alignment with a low carbon, climate resilient future. That said, when

improving energy efficiency, there is the risk of rebound effects where improved efficiency can lead to increased demand, reducing the achieved energy savings.

- This category includes a broad range of project types, which are not detailed in the framework and could have varying potential climate benefits. It is however positive that the issuer outlines a specific improvement threshold of 20% in terms of either increasing energy efficiency or reducing greenhouse gas emissions. Nevertheless, it is a limitation that the baseline is not clearly outlined. As such, we assess the overall project category as Light to Medium green.
- Examples of projects financed under this category include increasing the insulation of buildings, which can help reduce heat loss and improve overall energy efficiency. Improving the efficiency of electricity networks may also be financed, which is key to supporting the decarbonization of electricity generation. In Kyrgyzstan, most electricity is generated from hydropower (85.9%), which supports the climate benefits of these investments. Furthermore, according to the International Energy Agency (IEA), the age of the country’s infrastructure reduces its reliability and energy efficiency, with network losses high by international standards, reinforcing the importance of improving and increasing the energy efficiency of these assets.
- Digital solutions are expected to be an important enabling technology for climate mitigation strategies, and could be financed under this project category. These digital solutions could include AI, IoT (Internet of things) analytics, and smart monitoring systems, among others. However, the extent of material climate benefits from digitalization is still disputed and difficult to quantify, including because of the potential parallel increase in energy-intensive end uses (such as streaming, AI, and virtual reality) and rebound effects.
- KICB will not finance the energy efficiency measures of fossil-fuel-related industries or equipment under this category.
- Projects financed under this category could face physical climate risk due to the fixed nature of the assets. KICB is still in the process of developing its approach to assess and manage physical climate risks, please see the issuer sustainability context for more details.

Climate change mitigation - Renewable energy

Assessment	Description
 Dark green	Renewable energy generation sources: • Wind power: Wind energy generation facilities and other emerging technologies, such as wind tunnels and cubes • Solar power: Photovoltaic (PV), concentrated solar power, and solar thermal facilities • Geothermal: Energy projects with life cycle emissions of less than 100 grams of carbon dioxide equivalent per kilowatt hour (gCO2e/kWh) • Green hydrogen: ◦ Storage and refueling infrastructure and fuel production by electrolysis power (100% powered by renewable energy). Infrastructure to support renewable energy • Projects related to energy transmission infrastructure to connect one or more of the renewable technologies defined above

Analytical considerations

- Renewable energy projects such as solar PV, wind, and geothermal are key to limiting global warming to well-below 2 C, provided their negative impacts on the local environment, and physical risks, are sufficiently mitigated.
- We assess the overall project category as Dark green, reflecting that underlying projects in this category are considered Dark green, such as wind, solar and geothermal, as well infrastructure to support renewable energy and green hydrogen. Both existing assets and construction of new assets are eligible.

- KICB has confirmed that no renewable energy generation will directly power fossil-fuel-related industries.
- Production of hydrogen is energy intensive. KICB will only finance hydrogen produced from electrolysis using renewable energy (green hydrogen). However, the environmental impacts of potential leakages should also be carefully managed, given the complexity of the value chain.
- Reliable and efficient electricity transmission and distribution networks are important in supporting electrification and achieving a low carbon economy. According to the IEA, 85.9% of electricity production in Kyrgyzstan was from hydropower in 2022. However, in recent years, consumption has reached generation capacity and Kyrgyzstan has become a net importer of electricity. As part of the Central Asian Power System, which connects Uzbekistan, Kyrgyzstan, Tajikistan, and Kazakhstan, Kyrgyzstan imports electricity from Kazakhstan as well as Tajikistan in small quantities. Because electricity production in Kazakhstan relies heavily on fossil fuels, mainly coal and natural gas, electricity imports are associated with high greenhouse gases compared to local electricity production. Tajikistan, on the other hand, mainly generates electricity from hydro sources, like Kyrgyzstan. Overall investments supporting the integration of renewable energy in the grid in Kyrgyzstan, are therefore important to help decarbonize the country's electricity use.
- Projects financed under this category could face physical climate risk due to the fixed nature of the assets. KICB is still in the process of developing its approach to assess and manage physical climate risks, please see the issuer sustainability context for more details.

Climate change mitigation – Green buildings

Assessment

 Light green

Description

- Financing related to the construction or acquisition of nationally or internationally recognized energy certified buildings:
 - Buildings that achieved A certification of energy-efficient buildings in the correspondent local market, as determined via an energy performance certificate issued in accordance with Kyrgyzstan's regulation
 - LEED (Gold and above) or similar recognized standard
 - BREEAM (Very Good and above) or similar recognized standard
- Renovations or upgrades of existing buildings that lead to at least 30% improvement in energy efficiency and achieved at least the A energy performance class in accordance with Kyrgyzstan's regulation

Use of onsite fossil fuel heating is strictly prohibited except for natural gas. In addition, all projects must meet a minimum energy efficiency threshold to ensure that they achieve a high level of energy performance in line with recognized green building standards (e.g., Class A certification or equivalent).

Analytical considerations

- The IEA emphasizes that achieving net-zero emissions in buildings demands major energy efficiency strides and fossil fuel abandonment. All properties must achieve high energy performance. New properties should also cut emissions from building materials and construction. Addressing physical climate risks is key to strengthening climate resilience across all buildings.
- The split of proceeds between acquisition, new construction, and renovation is not yet known. However, a focus on renovation is expected, given that the building stock in Kyrgyzstan is generally older, constructed in the Soviet period when there were few efficiency standards, according to the IEA. In our view, the eligibility criteria for new and existing buildings ensure that buildings that promote sustainable practices are financed, focusing on some of the most material issues in this sector, such as energy performance. Nevertheless, these criteria do not necessarily ensure these buildings represent the highest environmental ambitions. As such, we assess activities related to acquisitions and new construction as Light green. We could consider renovation and energy efficiency measures to be Medium green on a stand-alone basis.

However, absent information on the expected split between renovation and other building activities, we assign the overall project category a Light green shade.

- Both new and existing properties are exposed to physical climate risks. KICB is still in the process of developing its approach to assessing and managing physical climate risks, please see the issuer sustainability context for more details.
- KICB will use green building certifications or energy performance certificates (EPCs) to identify eligible new and existing buildings. Green building certifications cover a broad set of environmental issues; however, they differ considerably in their requirements for energy efficiency, embodied emissions of construction materials, and climate resilience. Often, their point-based systems do not guarantee low-carbon new construction or highly energy efficient existing buildings. Their robustness depends on a variety of factors, such as levels achieved and the type of certification. For example, design-phase certifications are generally more robust than “in-use” certifications. The latter can be a solid way of enabling a continued improvement in energy performance through proper management, but seldom includes specific energy-efficiency thresholds.
- EPC categories in Kyrgyzstan range from A to G, with A being the highest. The EPC assessment considers the thermal performance of the building in addition to its heating and hot water supply systems. Regulation in Kyrgyzstan requires new buildings to at least meet the boundary of EPC category B, meaning that new buildings that KICB finances should be more energy efficient than required by regulation. Following concerns about a lack of quality control in EPC calculations in the country, the EU’s Sustainable Energy Connectivity in Central Asia project has worked with the local government in recent years to build a framework to improve quality control.
- For new construction, although embodied emissions in building materials are significant, the framework does not include criteria to systematically seek to reduce them.
- Increasing the energy efficiency of existing buildings has clear environmental benefits. It is positive that energy efficiency improvements are clearly defined.
- Buildings with fossil-fuel heating are excluded from financing under the framework, with the exception of natural gas. This is relevant since coal remains a common source of heating in Kyrgyzstan, with about 40% of urban households using coal-fired stoves or boilers, according to the World Bank. However, although natural gas is less emissions-intensive compared to coal, it still constitutes greenhouse gas emissions and represents a potential carbon lock-in risk.

Climate change mitigation – Clean transportation

Assessment	Description
 Medium green	Clean transportation products and services for vehicles, public transport, and freight services: • Fully electric vehicles and components • Green hydrogen vehicles and components • Hybrid electric vehicles (passenger transport), below the threshold of 50gCO₂e per passenger kilometer (km) for passenger vehicles and 25g CO₂e per ton km for freight vehicles Infrastructure to support electric vehicles charging stations Freight transport dedicated to transporting fossil fuels are excluded

Analytical considerations

- Electric and hydrogen vehicles are seen as key technologies to decarbonize road transportation, alongside electric vehicle charging points that are essential for their operation. On the other hand, hybrids can be seen as a transition technology, given that they can have lower emissions than internal combustion engine vehicles and can contribute to the development of charging infrastructure.
- Due to uncertainty about the expected allocation of proceeds within the project category, we assign a Medium green shade. Hydrogen and electric vehicles, as well as the latter’s charging stations, are considered Dark green. Meanwhile

hybrid vehicles are considered Light green. Some proceeds will be allocated toward investment in public transportation, which has the additional benefit of being much more resource efficient than private vehicles.

- Hybrid vehicles continue to run, in part, on fossil fuels, leading to carbon lock-in risks. However, the framework clearly outlines that hybrid vehicles must meet an emissions threshold of 50 gCO₂/km, consistent with the EU Taxonomy's SCC, with freight vehicles expected to meet 25 gCO₂/km.
- Value chain emissions for electric vehicles depend on the grid's energy mix and upstream supply chain. Although the majority of Kyrgyzstan's electricity generation is from hydropower, the country continues to rely on imported electricity, which may be from fossil-fuel-dependent grids. The government expects that hydro and solar will be the least-cost medium- and longer-term solutions, which could help decarbonize electricity use in the longer term. Battery packs in vehicles and charging stations are subject to supply chain risks, namely from the extraction of minerals (lithium and cobalt).
- Vehicles will not be used for the transportation or storage of fossil fuels.

Sustainable water and wastewater management – Water and wastewater management

Assessment	Description
 Light green	Projects that reduce water withdrawal, consumption, recycling and/or improve the efficiency of resources, that include: • Water recovery, recycling, reuse, saving technologies, and water metering • Water recovery systems and water efficient sanitary installations Water treatment plants: • Drinking water treatment, storage, and sustainable supply systems Wastewater treatment and sewage treatment plants: • Anaerobic digestion of sewage sludge • Wastewater recycling/reuse • Construction, extension, and operation of domestic wastewater collection and treatment systems Sustainable water and wastewater treatment powered by fossil fuels are excluded

Analytical considerations

- Financing sustainable water and wastewater management projects can result in positive environmental benefits in terms of water consumption and water security, and is necessary to achieve the Paris Agreement's 2050 objectives. Water infrastructure in Kyrgyzstan is often underdeveloped, particularly in rural regions. Although urban areas typically have centralized water supply systems, rural areas rely on wells and springs. Furthermore, wastewater facilities are somewhat limited, posing pollution and health risks, and the country's water stress is expected to be exacerbated by climate change.
- The framework's criteria include a range of potential projects and do not include specific thresholds related to key environmental considerations such as loss-ratio improvements and operational emissions for the different types of projects, limiting comparability of benefits. Although it is positive that treatment plants financed will not be powered by fossil fuels, they may not go beyond regulatory requirements. As such, we assign a Light green shade to this category.
- Improvements in water efficiency help reduce demands on natural capital and greenhouse gas emissions associated with water treatment and conveyance, thereby helping to achieve a low carbon climate resilient future. Water supply systems are key to achieving reliable access to sufficient water of adequate quality, for all stakeholders. That said, these systems are energy intensive and can generate significant waste, exacerbate water stress for other stakeholders, and cause disruptions to hydrology and aquatic ecosystems, if not sufficiently mitigated.

- Wastewater systems reduce pollution, enable resource recovery, and enhance ecosystem and public health; as a result, they are a key component of a low-carbon, climate-resilient future. KICB will finance wastewater treatment plants that mainly support domestic wastewater treatment. The primary benefits they provide include improving water quality, which has important cumulative effects on a watershed; relieving water stress; and, depending on the system, providing a source of nutrient and energy recovery. However, these systems are energy intensive and, if not sufficiently managed, can produce significant solid waste and methane emissions.
- Anaerobic digestion of sewage sludge produces biogas (methane), which can be used as an energy source. However, leakages are important to manage since methane is a potent greenhouse gas.

Pollution prevention and control - Monitoring and reduction of consumption and pollutant generation

Assessment	Description
 Medium to Light green	• Collection, transport, and transfer of nonhazardous waste, including municipal solid waste and commercial and industrial waste linked to recycling projects • Development, construction, installation, and/or maintenance of waste sorting and processing (and related infrastructure) linked to recycling projects

Analytical considerations

- Waste management is an important pollution prevention measure that can prevent harm to human health and local ecosystems from waste streams. Recycling, if done properly, increases the useful life of materials, thereby reducing carbon and other air pollutants’ emissions, energy, and natural-resource use.
- This project category is broadly defined, and waste management activities may support a variety of sectors, leading us to assess it as Medium to Light green.
- We view as positive that the issuer abides by the waste hierarchy. Other than waste prevention, reuse and recycling activities are preferred solutions under the waste management hierarchy because they have the lowest negative environmental impact among other waste management options.

Environmentally sustainable management of living natural resources and land use – resilient agriculture

Assessment	Description
 Medium to Light green	Adoption of modern technologies related to sustainable agriculture and agronomic practices, environmentally sustainable animal husbandry, soil and water management, hydroponic farming/organic farming methods, drip irrigation, terracing, swales for return agricultural irrigation flow, digital sensors, and biotechnology projects such as biological crop protection

Analytical considerations

- Agriculture is highly sensitive to physical climate risks, including changes in rainfall and temperatures, highlighting the importance of increasing resilience of such practices. Furthermore, agricultural practices that reduce climate emissions from crop farming and enhance soil health, water quality, and ecosystem integrity are central to a low carbon climate resilient future.
- KICB will finance a variety of agricultural projects, each with varying climate benefits. As such, we assign a Light to Medium green shade to the project category.
- Agronomic practices, such as precision agriculture, can help improve soil and plant health, increasing crop yields while reducing pesticide use. Furthermore, hydroponic farming typically uses less land, water, and pesticides compared to traditional farming. However, it can have high energy use, meaning the source of energy is important for actual sustainability outcomes.

- Terracing can provide resiliency benefits, such as providing protection against soil erosion and stormwater management. Similarly, swales can slow down the flow of water and reduce the impacts of soil erosion, while artificial wetlands can serve as a nature-based solution to retain water from rainfall to be used for irrigation when needed. Drip irrigation projects can have some climate adaptation benefits, in particular, by using less water compared to other traditional irrigation methods.
- Biological crop protection products support the reduction of pesticide use and can improve crop quality. Such products are derived from naturally occurring plants, bacterial, viral, and fungal sources and protect crops against pests.
- The proceeds will also finance organic farming initiatives. Organic farming has broad environmental benefits, including reduced use of fertilizers and pesticides, reduced water use, and improved soil organic content. However, we assign a Light green shade because the initiatives' overall impacts on greenhouse gas emissions remain uncertain, and organic farming often requires more land area than nonorganic farming practices.
- Livestock farming is a significant contributor to climate emissions through animals' digestion and manure, and KICB's investments in such activities are considered Light green. Land conversion for both animal farming and feed crops can drive emissions and harm biodiversity, with further risks related to overgrazing and pasture degradation. According to the Global Forest Watch, nearly half of tree cover loss in Kyrgyzstan in 2023 was driven by shifting agriculture. Sustainable livestock initiatives will be required to be in line with Law of the Kyrgyz Republic No. 66 of 23 March 2023 "On Organic Production." This law outlines requirements, including that animals must be fed on organic feed and have constant access to open areas under appropriate weather and soil conditions, among others. According to KICB, it will only finance high yielding breeds, which will reduce livestock numbers and increase productivity. However, there remains uncertainty on the overall impact on greenhouse gas emissions and potential land use change.

S&P Global Ratings' Shades of Green

Assessments					
 Dark green	 Medium green	 Light green	 Yellow	 Orange	 Red
Description					
Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects					
 Solar power plants	 Energy efficient buildings	 Hybrid road vehicles	 Health care services	 Conventional steel production	 New oil exploration

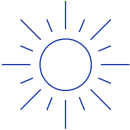
Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

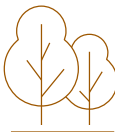
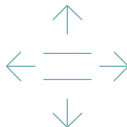
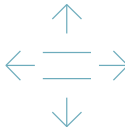
LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Mapping To The U.N.'s Sustainable Development Goals

Where the financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not affect our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs	
Climate change mitigation- Energy efficiency	 11. Sustainable cities and communities	 13. Climate action
Climate change mitigation- Renewable energy	 7. Affordable and clean energy*	 13. Climate action
Climate change mitigation- Green buildings	 11. Sustainable cities and communities*	
Climate change mitigation- Clean transportation	 13. Climate action	

11. Sustainable cities and communities*				
Sustainable water and wastewater management- Water and wastewater management				
	6. Clean water and sanitation*	12. Responsible consumption and production*		
Pollution prevention and control – Waste management				
	11. Sustainable cities and communities*	12. Responsible consumption and production*		
Environmentally sustainable management of living natural resources and land use – Resilient agriculture				
	15. Life on land*			
Employment generation and financial inclusion				
	1. No poverty	5. Gender equality	8. Decent work and economic growth*	10. Reduced inequalities
Access to essential services				
	3. Good health and well-being*	4. Quality education*	10. Reduced inequalities*	

Affordable basic infrastructure

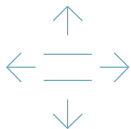


6. Clean water and sanitation*



11. Sustainable cities and communities*

Affordable housing



10. Reduced inequalities

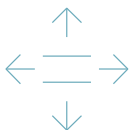
Food security and sustainable food systems



2. Zero hunger*



8. Decent work and economic growth



10. Reduced inequalities



15. Life on land

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- [Sustainable Finance Spotlight: Climate Transition Assessments And Second Party Opinions](#), March 25, 2025
- [Analytical Approach: Second Party Opinions: Use of Proceeds](#), July 27, 2023
- [FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions](#), July 27, 2023
- [Analytical Approach: Shades of Green Assessments](#), July 27, 2023
- [S&P Global Ratings ESG Materiality Maps](#), July 20, 2022

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Second Party Opinion: Kyrgyz Investment and Credit Bank Sustainable Finance Framework

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