

Executive Summary

1. Project P000964 proposes a sovereign-backed loan of USD50 million (JPY equivalent) to Kyrgyzstan to support the Developing a Sustainable Finance Market for Micro-, Small-, or Medium Enterprises (MSMEs) Project. The Project objective is to help the green and sustainable transition and climate resilience of MSMEs by mobilizing private capital for sustainable investments and strengthening financial intermediaries to facilitate their low-carbon transition.

2. The Project, co-financed with the World Bank (International Development Association) for USD120 million, aims to support the climate resilience of MSMEs and the development of a sustainable finance market by mobilizing private capital for green investments and strengthening financial institutions. The Project comprises:

2.1. Green and Sustainable Finance, including wholesale financing to Participating Financial Institutions (PFIs) operated by the State Development Bank (SDB), and a financing contribution to the Green Finance Fund (GFF).

2.2. Green Guarantees through a Portfolio Risk Sharing Facility and individual guarantees.

2.3. Implementation and Capacity Building.

AIIB financing will support Component 1.

3. Implementation will be carried out by the Kyrgyzstan Ministry of Finance through the Credit Line Management Unit, with SDB serving as the implementation bank for AIIB-financed activities. The Project is expected to increase access to long-term sustainable finance, strengthen the institutional capacity of SDB and PFIs, and help mobilize private capital.

4. The Project is categorized as FI for Environmental and Social (ES) risk. The World Bank's Environmental and Social Framework will apply, and SDB and PFIs will develop and maintain an ES Management System aligned with relevant ES standards. Activities with high or substantial ES risks, including those involving land acquisition and involuntary resettlement, are excluded from financing.

Project No. and Name	P000964 Developing a Sustainable Finance Market for Micro -, Small -, or Medium Enterprises (MSMEs)		
AIIB Member	Kyrgyz Republic		
Borrower	Kyrgyz Republic		
Guarantor	Kyrgyz Republic		
Project Implementation Entity	Ministry of Finance, Kyrgyz Republic		
Proposed Amount of AIIB Financing (USDm)	USD50.00	Instrument type (Instrument subtype)	Loan (Direct Sovereign)
		Currency of financing requested	Yen
Sector (Subsector)	Multi-sector (Multi-subsector)	E&S Category and Comments (if any)	FI, Since the Project will provide financing to PFIs through an FI, i.e., SDB, this Project has been categorized as an FI Operation. AIIB delegates to the FI (SDB), the selection assessment, approval and monitoring of AIIB-supported activities. The World Bank assigned a Moderate ES risk classification because the Project involves localized and manageable impacts, such as those from renewable energy installations. Potential social risks, including the exclusion of

			vulnerable groups, are addressed through stakeholder engagement, clear eligibility criteria and grievance mechanisms, with high-risk activities excluded from project financing.
Project Objective	To support the green and sustainable transition and climate resilience of micro, small and medium-sized enterprises (MSMEs) by mobilizing private capital for sustainable investments and strengthening financial intermediaries to facilitate their low-carbon transition.		
Project Description	<p>The Project, co-financed with the World Bank (International Development Association), aims to support the climate resilience of MSMEs and the development of a sustainable finance market for MSMEs by mobilizing private capital for green investments and strengthening financial institutions.</p> <p>It comprises three main components:</p> <ol style="list-style-type: none"> 1. Green and Sustainable Finance (USD110.0 million): Provides wholesale financing to Participating Financial Institutions (PFIs) through the State Development Bank (SDB) and contributes to the Green Finance Fund (GFF), targeting MSMEs. 2. Green Guarantees (USD59.0 million): Introduces green guarantee products through a Portfolio Risk Sharing Facility (PRSF) and individual guarantees for larger green MSME projects. 3. Implementation and Capacity Building (USD1.0 million): Enhances project management and builds capacity within the sustainable finance ecosystem, supported by multilateral development banks (MDBs) and other partners. <p>AIIB's proposed loan is expected to finance Component 1 (up to USD50 million).</p>		
Implementation Period	Start Date: June 30, 2025 End Date: June 30, 2030	Expected Loan Closing Date	December 31, 2030
Co-financing type	Co-financing led by another financier	Following other Financier's E&S Policy?	Yes
Lead financier	World Bank	Following other Financier's Procurement Policy?	Yes

Financing Plan	Total Project cost: USD 170 million-AIIB: USD 50 million-World Bank: USD 120 million
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that the proposed Bank financing complies with the applicable Bank operational policies.

Risk	
Key Risks	Mitigation Measures
E&S: limited direct environmental and social risks as the Project will finance MSMEs whose operations are classified as having moderate or low ES risks.	<ul style="list-style-type: none"> - These risks are anticipated to be temporary, site-specific and can be addressed through standard mitigation measures and compliance with national laws, as well as stakeholder engagement. - PFIs will be required to develop and implement ESMS aligned with WB's ESS relevant to the Project.
Implementation capacity: CLMU and Implementation Bank (SDB)'s Capacity to implement the Project.	<ul style="list-style-type: none"> - The CLMU of the MoF, which is acting as the PIU, has extensive experience in implementing WB-funded projects spanning the past two decades. - The SDB is a newly established development bank and the WB is currently providing technical assistance for its initial operational phase.
Procurement: the overall procurement environment is generally unstable, with frequent changes to the Procurement Procedures Law (PPL) and a high level of corruption, as indicated by Transparency International's measurements.	<ul style="list-style-type: none"> - Meticulous procurement planning, current cost estimates and precise scheduling are imperative. The Private Entity Recipients will use appropriate procurement methods that ensure a sound selection of goods and services at fair market prices. - Procurement undertaken by the Private Entity Recipients should also stringently follow the WB's Anti-Corruption Guidelines, with the WB staff conducting close supervision.
Economic Capital (ECap) Consumption	19.75USDm 39.50%

Strategic Alignment				
Alignment with AIIB's thematic priorities		Green infrastructure; Technology-enabled Infrastructure; Private Capital Mobilization		
Alignment with AIIB's strategies		Strategy on Mobilizing Private Capital for Infrastructure; Sustainable Cities Strategy; Water Strategy; Sustainable Energy for Tomorrow Strategy		
Key Outcomes	Indicator	Unit of measure	Baseline (Year)	Target (Year)
Mobilized green and sustainable finance	Mobilized green and sustainable finance: An increased share of sustainable finance for MSMEs in the financial sector	Percentage	0 (2025)	5 (2030)
Green and Sustainable Finance	Businesses using debt financing	Number	0 (2025)	2500 (2030)
Green and Sustainable Finance	Total private capital mobilized	USD	0 (2025)	30000000 (2030)

Other Key Financing Requirements	
Conditions of Effectiveness	Draft Loan Agreement, Article V, Section 5.01. (a) Adoption of the Project Operations Manual (POM) in a form and substance satisfactory to the Bank; and (b) Execution of the Project Co-lenders' Agreement on behalf of the Bank and the Co-financier.
Key Conditions for 1st Disbursement	The conditions for disbursement are expected to include, inter alia, the following: For MSME Sub-loans under Part 1.1 of the Project: <ul style="list-style-type: none">Adoption of the Sustainable Finance Procedural Manual by the SDB in a form and substance satisfactory to the Bank.Due execution of the Subsidiary Loan Agreement for Part 1.1 by Borrower and SDB. For Green Financing under Part 1.2 of the Project: <ul style="list-style-type: none">Establishment of the GFF.Selection of the fund manager.Adoption of the GFF Manual.Due execution of the Subsidiary Loan Agreement for Part 1.2 by Borrower and SDB.
Key Covenants	The key covenants to be included in the AIIB's draft Loan Agreement include, inter alia, the following:

	<ul style="list-style-type: none">• Borrower to establish within 60 days of Effectiveness and thereafter maintain a Steering Committee, to serve as the oversight and approval body.• Borrower to maintain during Project implementation the CLMU with composition, functions, qualified staffing and resources satisfactory to the Bank and as set out in the POM.• Borrower to enter into a Subsidiary Loan Agreement with SDB with terms and conditions approved by the Bank.• Borrower to cause SDB to make Sub-loans available only to PFIs selected in accordance with the eligibility criteria acceptable to the Bank as set forth in the Project Manuals.• Borrower to cause SDB to enter into a PFI Agreement under terms and conditions acceptable to the Bank with each eligible PFI to receive PFI Sub-loans for on-lending to Eligible MSMEs under Part 1.1 of the Project.• Borrower to cause SDB to ensure that each MSME selected by SDB and by the PFIs meets the eligibility criteria acceptable to the Bank as set out in the Project Manuals.• Borrower to cause SDB to require PFIs to include in each MSME Agreement with Eligible MSMEs the terms and conditions acceptable to the Bank.• Borrower to ensure all MSME Sub-loans extended under Part 1.1 of the Project through PFIs shall be subject to ex-post review by the Bank to verify compliance with the requirements set forth in the Loan Agreement and the Sustainable Finance Procedural Manual.• Borrower to ensure that the GFF is established and maintained with the appropriate legal form and domicile and the relevant licenses, permits and approvals required for its operation, fully compliant with the Borrower's applicable laws and regulations, and the GFF, including the terms of its governing instruments, are fully satisfactory to the Bank, as set forth in the Draft Loan Agreement and as detailed in the GFF Manual.• Borrower to ensure the preparation and adoption of a GFF Manual for the management and operation of the GFF, acceptable to the Bank.• Borrower, upon the establishment of the GFF, to ensure that: (a) selection of and thereafter maintenance of a fund manager, with experience, qualifications and terms of reference acceptable to the Bank and (b) establishment of and thereafter maintenance of a Board of Directors with composition, qualifications and governance arrangements acceptable to the Bank.• Borrower to ensure SDB to enter into a GFF Sub-loan Agreement with GFF to make available to GFF a part of the Loan for GFF to provide Green Financing to Eligible MSMEs
--	--

	<p>under terms and conditions acceptable to the Bank.</p> <ul style="list-style-type: none"> • Borrower to ensure that the initial direct on-lending and equity investments, proposed for approval under the GFF shall be subject to the prior review and approval of the Bank in accordance with the specifications in the GFF Manual. • Borrower to ensure that all on-lending and equity investments extended under the GFF may be subject to ex-post review by the Bank. • Borrower to adopt, and thereafter maintain the POM; and to (a) cause SDB to adopt, and thereafter, maintain and carry out the Project in accordance with the Sustainable Finance Procedural Manual and (b) ensure GFF adopts, and thereafter, maintains and manages and implements the GFF projects in accordance with the GFF Manual; all as acceptable to the Bank.
--	---

President	Liqun Jin
Chief Investment Officer	Konstantin Limitovskiy
Director General	Xiaohong Yang
Manager	Evren Dilekli
Project Team Leader	Mehek Marwaha, Senior Investment Officer
Back-up Team Leader	Han Wang, Investment Officer
Project Team Members	<p>Alisher Kuchiev, Investment Analyst Eleni Petri, Climate Specialist Mengmeng He, Finance Officer, Loan Management David Hartcher, Senior Finance Officer, Loan Management Yuning Chen, Project Counsel Liu Yang, Alternate Counsel Rashmi Ramanath, Legal Associate Bo Shi, Procurement Associate Shodi Nazarov, Financial Management Specialist Vladimir Hecl, Senior Environment Specialist Xiaojun Zhou, Social Development Specialist Jiaming Yu, Project Assistant</p>
Credit Officers	Wei Zhang, Senior Credit Risk Officer



ASIAN INFRASTRUCTURE
INVESTMENT BANK

Sovereign-backed Financings

Approved Project Document

P000964 Kyrgyz Republic:

**Developing a Sustainable Finance Market for Micro-, Small-, or Medium Enterprises
(MSMEs) Project**

Currency Equivalents

As of May 30, 2025

Currency Unit – Kyrgyzstani Som (KGS)

USD1.00 = KGS87.45

KGS1.00 = USD0.011

Fiscal Year

January 1 – December 31

Abbreviations

AIIB	Asian Infrastructure Investment Bank
CLMU	Credit Line Management Unit
DA	Designated Account
ES	Environmental and Social
ESCP	Environmental and Social Commitment Plan
ESF	Environmental and Social Framework
ESG	Environmental and Social Governance
ESMS	Environmental and Social Management Systems
ESP	Environmental and Social Policy
ESS	Environmental and Social Standards
FM	Financial Management
GDP	Gross Domestic Product
GF	Open Joint Stock Company Guarantee Fund
GFF	Green Finance Fund
GRM	Grievance Redress Mechanism
IFR	Interim Unaudited Financial Reports
M&E	Monitoring and Evaluation
MDB	Multilateral Development Bank
MoF	Ministry of Finance
MSME	Micro, Small and Medium-sized Enterprises
NBKR	National Bank of the Kyrgyz Republic
NDCs	Nationally Determined Contributions
PFI	Participating Financial Institution
PIU	Project Implementation Unit
POM	Project Operations Manual
PP	Procurement Plan
PRSF	Portfolio Risk Sharing Facility
SDB	State Development Bank
SDG	Sustainable Development Goal
SEA/SH	Abuse/Sexual Harassment
SEP	Stakeholder Engagement Plan
ToR	Terms of Reference
UNDP	United Nations Development Programme
WB	World Bank
WMSME	Women-led Micro, Small and Medium-sized Enterprises

Table of Contents

1. Context	1
2. Rationale	4
3. Project Description	8
4. Project Assessment	16
A. Technical	16
B. Economic and Financial Analysis	16
C. Fiduciary and Governance	17
D. Environmental and Social	20
E. Climate Change	23
F. Operational Policy on International Relations	23
G. Risks and Mitigants	24
Annex 1: Results Monitoring Framework	26
Annex 2: Economic and Financial Analysis	27
Annex 3: Country Credit Fact Sheet – Kyrgyz Republic	30
Annex 4: Implementation Readiness Checklist	32
Annex 5: Eligibility Criteria Applicable to PFIs	35
Annex 6: Eligibility Criteria Applicable to MSMEs	39
Annex 7. State Development Bank	42
Annex 8: Paris Agreement Alignment and Climate Finance	46
Annex 9: Description of World Bank-Supported Components	48

1. Context

1.1 Country and Macroeconomic Overview. The Kyrgyz Republic (Kyrgyzstan) is a lower-middle-income, landlocked economy in Central Asia that is highly vulnerable to external economic shocks. Despite this, the economy has shown resilience, bouncing back from a 7.1% gross domestic product (GDP) contraction in 2020 to an average growth rate of 6.8% in subsequent years. However, structural challenges persist, including a narrow economic base, heavy reliance on remittances (over 30% of GDP) and exposure to geopolitical risks. The fiscal situation is relatively stable, with the March 2024 Debt Sustainability Analysis of the International Monetary Fund (IMF) assessing Kyrgyzstan's public and external debt as sustainable, despite moderate risk of debt distress.

1.2 Climate Change. Kyrgyzstan faces high vulnerability to climate change and natural disasters, with key sectors such as water, energy, agriculture and infrastructure at significant risk.¹ While it is not a major greenhouse gas (GHG) emitter, the Government of the Kyrgyz Republic has committed to reducing emissions by 16.63% by 2025 and 15.97% by 2030 under its Nationally Determined Contributions (NDCs).² The NDC also prioritizes adaptation measures to address increasing physical risks, including floods, landslides and droughts. In support of these goals, the government presented a draft National Adaptation Plan (NAP)³ on March 19, 2025, focusing on six key sectors: agriculture and irrigation, health, emergency management, biodiversity conservation, energy and the development of climate-resilient green cities. Given its exposure to climate-related disasters and reliance on high-emission sectors, sustainable finance is essential for driving the green transition and strengthening climate resilience.

1.3 Sector Overview. The financial sector remains shallow and credit availability is limited, particularly for micro, small and medium-sized enterprises (MSMEs). Kyrgyzstan's National Development Strategy (2018-2040) prioritizes economic diversification and the deepening of the financial sector to achieve sustainable growth. The economy is making efforts toward the adoption of regulatory frameworks to promote green finance, including a national green taxonomy, green budgeting policies and the potential establishment of the Green Finance Fund (GFF). Access to finance is a critical constraint for private sector development in Kyrgyzstan, particularly for MSMEs, which contribute 43% of GDP and 90% of employment. Despite the banking sector's high liquidity, sustainable finance remains underdeveloped, with only USD10 million (0.038%) of the total banking credit portfolio allocated to green finance as of February 2024. The maturity profile of available financing is also misaligned with green investment needs, as 70% of loans have tenors of three years or less, while green investments require longer-term funding.

1.4 Establishing an Enabling Environment for Sustainable Finance. Recognizing the need to scale sustainable finance, the government approved a national green taxonomy on April 30, 2025, is finalizing green budgeting and establishing the GFF. In September 2023, the National Bank of the Kyrgyz Republic (NBKR) launched the Environmental and Social

¹ World Bank Climate Change Knowledge Portal. [Kyrgyz Republic](#).

² Government of Kyrgyzstan. 2021. [Kyrgyzstan First NDC \(Updated submission\)](#).

³ United Nations Development Programme (UNDP). 2025. [Kyrgyzstan Has Presented a Key Plan for Adaptation to Climate Change](#). April 2.

Governance (ESG) Risk Assessment Guidelines⁴ for the banking sector to integrate ESG principles and enhance climate risk management. Additionally, in October 2023, the Kyrgyz Stock Exchange implemented Sustainable Reporting Guidelines⁵ for listed companies. In December 2024, NBKR introduced the Roadmap for Sustainable Finance Development (2024-2026),⁶ which outlines strategic measures to strengthen regulations and create an enabling environment for sustainable finance. On March 19, 2025, the Ministry of Natural Resources, Environment and Technical Supervision of Kyrgyzstan held a roundtable discussion on the draft NAP which is expected to include specific measures for six key sectors: agriculture and irrigation, health, emergency management, biodiversity conservation, energy and the development of climate-resilient green cities. However, financial institutions still face capacity gaps and limited incentives to expand green financing at scale.

1.5 Key Development Challenges. Kyrgyzstan faces several structural barriers that hinder the growth of its sustainable finance sector and the broader economic development of MSMEs. These challenges include:

- 1.5.1 Limited Access to Sustainable Finance. MSMEs, particularly those in industrial sectors, struggle to obtain financing for green investments due to a lack of tailored financial products, high compliance costs and weak credit histories.
- 1.5.2 Underdeveloped Financial Intermediation for Green Investments. The State Development Bank (SDB) and Open Joint Stock Company Guarantee Fund (GF), mandated to support MSME financing, are still in the early stages of adopting green finance strategies and lack the necessary capital to scale up their operations.
- 1.5.3 Regulatory and Market Barriers. The government is finalizing the national green taxonomy and regulation for the GFF, which will play a crucial role in mobilizing funding for sustainable projects. However, its operational framework is still under development and requires additional support. Operationalizing the taxonomy will require improved systems and greater awareness among financial institutions (FIs) and the real sector. Many FIs lack the technical capacity and Environmental and Social Management Systems (ESMS) to fully implement ESG and climate risk assessments, while low awareness and high compliance costs further constrain green finance growth.
- 1.5.4 Limited Awareness of Sustainable Finance Opportunities. Another challenge is limited expertise and awareness of sustainable finance opportunities among enterprises in the real sector and financial institutions, which leads to an inadequate supply of relevant financial products.
- 1.5.5 Sovereign and Credit Risks. Kyrgyzstan is rated 'B3' (Stable) by Moody's and is not rated by S&P or Fitch. Its credit quality is constrained by a small, low-income economy, external vulnerabilities and reliance on concessional financing, although debt servicing remains manageable due to its current, largely concessional debt structure.

⁴ NBKR. [ESG Risk Assessment Guidelines](#).

⁵ Kyrgyz Stock Exchange. 2023. [Sustainable Reporting Guidelines](#).

⁶ NBKR. [Roadmap for Sustainable Finance Development \(2024-2026\)](#).

1.6 These challenges highlight the need for targeted interventions to strengthen financial intermediation, expand access to sustainable finance and enhance regulatory frameworks to support green investments for MSMEs.

1.7 Addressing Key Development Challenges – Project Contributions. This Project is designed to tackle the identified development challenges by enhancing access to sustainable finance, strengthening financial intermediation for green investments and improving the regulatory and institutional environment for climate finance. The Project's approach is structured to achieve these objectives through the following key contributions:

- 1.7.1 Improved Access to Sustainable Finance for MSMEs. By providing wholesale financing to Participating Financial Institutions (PFIs), the Project will enable PFIs to extend long-term financing for green projects, addressing the funding gap that MSMEs currently face. This will increase the volume of green investments in renewable energy, energy efficiency and climate-resilient infrastructure.
- 1.7.2 Strengthened Financial Intermediation and Risk-Sharing Mechanisms. The establishment of a Portfolio Risk-Sharing Facility (PRSF) and individual green guarantees will incentivize PFIs to extend financing to MSMEs engaged in green and sustainable initiatives, reducing credit risks and increasing lending confidence. The Asian Infrastructure Investment Bank (AIIB) will not be financing this component of the Project.
- 1.7.3 Institutional Capacity Building and Regulatory Support. The Project will strengthen the capacity of SDB, GF and PFIs to develop environmental and social (ES) risk management frameworks, improving their ability to finance low-carbon, climate-resilient investments. Additionally, it will enhance their capability to design and implement sustainable finance products tailored to green and climate-aligned investments. AIIB will not be financing this component of the Project.
- 1.7.4 Strengthening the Green Finance Ecosystem. Contributions to the GFF will help catalyze private sector investments, ensuring the scalability and sustainability of green finance mechanisms beyond the Project period.

1.8 By leveraging AIIB's co-financing with the World Bank (WB), the Project adopts a comprehensive approach to tackling financial, institutional and regulatory barriers to sustainable finance, laying the groundwork for a self-sustaining green finance ecosystem in Kyrgyzstan.

2. Rationale

2.1 Project Objective. The Project aims to support the green and sustainable transition and climate resilience of micro, small and medium-sized enterprises (MSMEs) by mobilizing private capital for sustainable investments and strengthening financial intermediaries to facilitate their low-carbon transition. This initiative will contribute to the long-term resilience of Kyrgyzstan's financial sector and facilitate private sector involvement in climate-focused investments.

2.2 Expected Beneficiaries. The Project is expected to benefit MSMEs, particularly those in sectors that require green financing solutions, such as renewable energy, energy efficiency, green buildings and climate-smart agriculture. Other beneficiaries include FIs that will expand their capacity for green lending and the broader economy through job creation, increased investment and improved financial resilience. The Project will create tangible outcomes that directly benefit key stakeholders:

- 2.2.1 **For MSMEs:** Improved access to sustainable financing will enable them to invest in energy-efficient, low-carbon and climate-resilient technologies and enhance business competitiveness.
- 2.2.2 **For PFIs:** Strengthened risk-sharing mechanisms and technical support will reduce the barriers to lending for green projects, encouraging broader financial sector participation in sustainable finance.
- 2.2.3 **For Regulators and Policymakers:** Capacity building and regulatory alignment efforts will enhance the policy framework for green finance, contributing to a more resilient and transparent financial sector.
- 2.2.4 **For Kyrgyzstan's Economy:** By increasing private capital mobilization and expanding green investment opportunities, the Project will foster sustainable economic growth and job creation while advancing Kyrgyzstan's climate commitments.

2.3 Expected Results.⁷ The Project is designed to generate tangible and measurable outcomes contributing to sustainable financial market development for and green investment expansion by MSMEs in Kyrgyzstan. As per preliminary analysis, the key expected results are:

- 2.3.1 Increased volume of green financing extended to MSMEs.
- 2.3.2 Strengthened capacity of PFIs⁸ to assess and manage green finance projects.
- 2.3.3 Expanded private sector participation in green finance, reducing reliance on public funding.

2.4 Strategic Fit for AIIB. The Project aligns with AIIB's sector strategies and thematic priorities, as explained hereunder:

⁷ As per the Co-Financing Framework Agreement between the two institutions, our results framework shall be aligned with the version submitted by the WB to their Board. As it is still undergoing changes, the same shall be revised on receipt of the updated Project Appraisal Document from the WB.

⁸ Measured by the number of FIs that offer sustainable finance products to MSMEs.

- 2.4.1 Corporate Strategy Alignment. Supports AIIB's focus on mobilizing private capital for infrastructure development.
- 2.4.2 Sector Strategies. The Project will support activities such as the installation of water conservation technologies, rainwater harvesting systems, wastewater recycling infrastructure and energy-efficient water treatment facilities, as well as the construction of energy-efficient buildings, deployment of efficient lighting and modernization of public utilities and heating systems. These interventions align with not only AIIB's Sustainable Cities Strategy and Water Strategy, which emphasize climate resilience, sustainable energy and infrastructure financing, but also the National Green Taxonomy approved by the government on April 30, 2025.
- 2.4.3 Thematic Priorities. Contributes to AIIB's thematic priorities of Green Infrastructure, Private Capital Mobilization and Technology-enabled Infrastructure. The Project will support smart energy systems, including grids, meters and storage, as well as energy-efficient building technologies through automation. It will incorporate digital monitoring in water and wastewater management and promote clean transport through smart mobility and smart agriculture. Additionally, digital tools such as remote sensing will be used to enhance waste management and renewable energy.
- 2.4.4 Sustainable Development Goals (SDGs). Supports SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation and Infrastructure) and SDG 13 (Climate Action).

2.5 Paris Agreement Alignment (PAA) and Climate Finance. The Project is aligned with the mitigation and adaptation goals of the Paris Agreement, following the Joint MDB Methodology for intermediated finance. It supports climate-aligned MSME activities, including investments in renewable energy, energy efficiency, green buildings, sustainable agriculture, clean transport and water and waste management sectors. It also meets adaptation objectives (BB2), with funds directed toward low-risk sectors and climate-resilient practices in Kyrgyzstan, a region vulnerable to climate-induced hazards. These activities include climate-smart agriculture, water conservation and ecosystem restoration. Component 1 of the Project is expected to contribute 100% of its total financing toward climate-related activities, with an estimated 90% contributing to mitigation and 10% to adaptation. Please refer to the detailed analysis provided in Annex 7.

2.6 Value Addition by AIIB. Beyond the provision of financing, AIIB's participation will strengthen the Project by enhancing the credibility and scalability of sustainable finance initiatives in Kyrgyzstan. AIIB's involvement, built on its experiences of previous projects providing support to MSMEs, (paragraph 3.8), will support the adoption of best practices in ESG, financial risk management and green infrastructure financing, which will help local financial institutions align with global sustainability standards. AIIB's involvement with the WB's concessional funding brings a complementary value-add through its institutional commitment to sustainability. AIIB's engagement will enhance gender-focused interventions and strengthen the capacity of local financial institutions by encouraging the adoption of green financing and institutional learning, thereby increasing the Project's scalability and systemic impact across the MSME sector.

2.7 Value Addition to AIIB. AIIB will benefit from this Project by deepening its engagement in the green finance sector within Central Asia, reinforcing its strategic objective of mobilizing private capital for sustainable infrastructure. The Project strengthens AIIB's relationships with regional financial institutions, contributing to institutional learning and expanding its green finance portfolio. To date, only one project to support MSMEs in Kyrgyzstan was financed by AIIB in 2020 in response to and during the recovery from the coronavirus disease (COVID-19) crisis. The current project will build on proven successes, address ongoing credit gaps and align with the Bank's strategic priorities related to climate finance. Additionally, this Project will strengthen AIIB's collaboration with the WB, particularly in the Europe and Central Asian (ECA) region, and scale up AIIB's development impact.

2.8 Lessons Learned. The Project's design is informed by experiences from previous AIIB- and World Bank-funded financial intermediation projects, particularly the Kyrgyz Emergency Support for Private and Financial Sector Project (P000423)⁹ co-financed with the WB Emergency Support for MSMEs Project¹⁰ focusing on enhancing MSME access to finance. Key lessons drawn from AIIB's previous project implementation assessments include:

- 2.8.1 Importance of Rapid Implementation Mechanisms. Previous projects, including AIIB-WB co-financed initiatives, demonstrated that streamlined disbursement processes and flexible eligibility criteria for MSMEs enhance project efficiency and impact. The current Project incorporates simplified procedures to facilitate quick access to financing.
- 2.8.2 Gender-inclusive Financing Approaches. AIIB's experience in past projects showed that targeted measures, such as setting quotas for women-led enterprises, have significantly increased financial inclusion. This Project will advance gender inclusion by expanding access to sustainable finance for women-led micro, small and medium-sized enterprises (WMSMEs).
- 2.8.3 Effective Risk-Mitigation Strategies for MSME Lending. The WB's experience with credit guarantee facilities highlighted that partial portfolio risk-sharing mechanisms reduce lender hesitancy. The PRSF in this Project follows this model, ensuring financial institutions extend credit to riskier MSMEs while mitigating default risks.
- 2.8.4 Need for Institutional Capacity Building. Past initiatives¹¹ revealed that financial intermediaries require training in ESG standards and sustainable finance assessment. Therefore, the Project includes capacity-building efforts for PFIs to improve their ability to manage and evaluate green finance opportunities.
- 2.8.5 Sub-project pipeline projection and retroactive financing. The development of a solid investable subproject pipeline requires substantial work and calls for flexibility regarding the timing of sub-project funding. Building on the experience of a previous FI facility,¹² the Bank discussed with the client and the co-financier about the potential use of the full retroactive finance window (12 months), in line with the limits of the Bank's Directives for sovereign-backed financings. However, given the current status of the project, retroactive financing is not needed.

⁹ AIIB. [Kyrgyzstan: Kyrgyz Emergency Support for Private and Financial Sector Project](#).

¹⁰ WB. [Project Information Document - Emergency Support for MSMEs Project - P174028 \(English\)](#).

¹¹ AIIB. [Türkiye: COVID-19 Credit Line Project; Rwanda: Private-Sector Access to Finance for Post-COVID Recovery and Resilience](#).

¹² AIIB. [Türkiye: TSKB Sustainable Energy and Infrastructure On-Lending Facility](#).

2.8.6 Benefitting from past co-financings with the WB. Previous jointly co-financed projects with the WB offered many valuable lessons from the co-financiers, particularly in identifying and implementing more effective approaches to establish essential policy groundwork, tackle complex implementation challenges and enhance the ES-related institutional systems of supported financial institutions. The Project Team will engage actively in high-level interactions, increase our direct involvement with the SDB and continue ongoing coordination with the Client and co-financier throughout project preparation, implementation, monitoring and evaluation, which is essential for building and strengthening trust.

2.9 These insights have been integrated into the Project structure to ensure effective implementation and long-term impact. Key lessons include the importance of strong regulatory frameworks, capacity-building initiatives and risk-sharing mechanisms to scale up green finance successfully.

3. Project Description

3.1 Components

3.1.1 **Component 1: Green and Sustainable Finance.** Sub-component 1.1: Wholesale co-financing to Participating Financial Institutions. This sub-component provides wholesale financing, operated by the SDB, to PFIs to extend sustainable finance products to MSMEs. Sub-Component 1.2: Financing Contribution to the Green Finance Fund. The funding under this sub-component will contribute to the GFF to support targeted sustainable investments. The GFF is being established by the Government of the Kyrgyz Republic, with support from the United Nations Development Programme (UNDP), to promote sustainable economic development. The relevant eligibility criteria for PFIs and MSMEs are detailed in Annex 5.

3.1.2 **Component 2: Green Guarantees.** This component introduces green guarantee products, including a PRSF and individual guarantees for larger green MSME projects, to mitigate credit risks and encourage financial institutions to scale up lending for sustainable initiatives.

3.1.3 **Component 3: Implementation and Capacity Building.** This component enhances project management and strengthens the institutional capacity of PFIs, the SDB and the GF. It includes technical assistance, training programs and policy alignment efforts to improve the regulatory framework for green finance.

3.2 Cost and Financing Plan

Item	Project Cost (USD million)	Share of Financing (USD million and %)			
		AIIB Share	%	WB Share	%
Component 1	110.0	50.0	45.0	60.0	55.0
Sub-component 1.1	100.0	45.0	45.0	55.0	55.0
Sub-component 1.2	10.0	5.0	50.0	5.0	50.0
Component 2	59.0	0.0	0.0	59.0	100.0
Component 3	1.0	0.0	0.0	1.0	100.0
Grand Total	170.0	50.0	29.4	120.0	70.6

3.3 Component 1 is comprised of two subcomponents:

3.3.1 **Subcomponent 1.1. Wholesale co-financing to Participating Financial Institutions.** The availability of green and sustainable finance remains limited in Kyrgyzstan, with only a few financial institutions currently offering dedicated green financing products. This subcomponent will establish a wholesale facility, managed by the SDB, to provide eligible PFIs with access to long-term financing for sustainable investments. The facility is expected to primarily support MSMEs operating in sectors such as renewable energy and energy efficiency, green

buildings, sustainable forest management and conservation of biodiversity and ecosystems, as well as businesses along the value chains of major mining and energy companies who are seeking to integrate low-carbon and climate resilient practices into their operations. The expected primary financial products to support MSMEs include:

- (a) Loans for MSMEs adopting renewable energy, energy efficiency measures green building practices and clean transport solutions.
- (b) Loans for MSMEs adopting climate adaptation and resilience activities, including sustainable agriculture, water and waste management and biodiversity conservation.

- 3.3.2 PFIs will be required to co-finance 20%-50% of the loans, ensuring risk-sharing and commercial viability.
- 3.3.3 The pricing structure for PFIs will reflect the cost of AIIB financing, a risk margin to cover exchange rate volatility, operational costs and additional risk premiums charged by SDB. The final lending rates to MSMEs will be determined based on full cost recovery principles, covering:
 - (a) Cost of funds.
 - (b) Operational and regulatory expenses.
 - (c) Provisioning and risk-based pricing mechanisms.
- 3.3.4 The reference rate, pricing formula and margins will be periodically reviewed in collaboration with WB, the Ministry of Finance (MoF), SDB and PFIs, with flexibility for adjustments when necessary.
- 3.3.5 **Subcomponent 1.2. Financing Contribution to the Green Finance Fund.** The GFF is being established by the Government of the Kyrgyz Republic, with support from the UNDP,¹³ to promote sustainable economic development. The GFF will be a key instrument for mobilizing domestic and international capital to finance green investments, providing debt and equity financing for sustainable projects. The fund is expected to attract development partners, private investors and climate finance institutions, serving as a vehicle to expand sustainable financing in Kyrgyzstan. The GFF is expected to have two core financing windows:
 - (a) **Support for MSMEs.** Provide debt and equity financing for both existing businesses and startups engaged in green projects.
 - (b) **Infrastructure Investments.** Finance climate-resilient infrastructure projects to support Kyrgyzstan's sustainable development goals. Under the current Project, neither AIIB nor WB will finance the second window of the GFF.
- 3.3.6 The private equity and mezzanine finance markets in Kyrgyzstan remain underdeveloped, with very few active participants. Highland Capital, the largest

¹³ Post the UNDP's initial involvement in the preparatory Concept Stage of the GFF, the Ministry of Economy and Commerce is expected to manage the resources of the fund.

private equity fund in Kyrgyzstan, has managed only USD23 million in capital commitments since 2014. Introducing GFF-backed financing instruments will provide a critical foundation for scaling private sector investments in climate-aligned and sustainable businesses.

3.4 Components 2 and 3 are WB-supported activities (for detailed description refer to Annex 9):

- Subcomponent 2.1: Green PRSF for MSMEs.
- Subcomponent 2.2: Individual Green Guarantees.
- Component 3: Project Implementation and Sustainable Finance Capacity Building.

3.5 Implementation Arrangements. The Project will be implemented through a structured institutional framework involving key stakeholders to ensure effective execution and oversight. The Credit Line Management Unit (CLMU) under the MoF of Kyrgyzstan will serve as the project implementation unit (PIU), responsible for overall project coordination, financial management and reporting.

3.6 Project Implementation Unit. The CLMU within the MoF will oversee daily operations, monitor project progress, and coordinate with AIIB, the WB and other stakeholders.

3.7 Given its development mandate and strategic role in financial sector deepening, SDB is the most suitable entity to act as the Implementation Bank for Component 1, which will be supported by AIIB. Established in 2022, SDB officially commenced operations in 2023, with a clear mandate to promote long-term financing solutions for priority economic sectors. SDB has a clear mandate by the government to provide financing to MSMEs. SDB's governance structure includes:

- A Board of Directors with a majority of independent members.
- 12 departments reporting directly to management, along with three additional units dedicated to risk, audit and compliance, which report directly to the Board of Directors.

3.8 Since its launch, SDB has demonstrated institutional capacity by expanding its lending operations: to date, SDB has approved loans amounting to approximately USD178 million to nine commercial banks (USD10.5 million disbursed) and USD23.9 million to large corporations.

3.9 While SDB's acquisition of Alfa Telecom in 2023 resulted in significant single-exposure risk (88.1% of capital), SDB and government authorities have committed to reducing this exposure to 45% by the end of 2025 and further lowering it thereafter. The current exposure is 75% of the share capital and 70% of total capital.

3.10 SDB is currently under the oversight of the Cabinet of Ministers with the shareholder function delegated to the Ministry of Finance, but the World Bank Group (WBG)'s technical assistance is helping SDB to prepare to come under the regulations governing state owned enterprises. AIIB will closely monitor this transition to ensure compliance with best practices in development banking governance and risk management.

3.11 SDB operates under a risk-based pricing framework, as mandated by its enabling legislation. This requires that the pricing incorporates cost of funds raised, including hedging risks, operating expenses, costs of creating a reserve to cover potential losses and damages on loans, taxes and net margin, ensuring long-term financial sustainability.

3.12 By leveraging AIIB's and WB's financing, SDB and the eligible PFIs will be empowered to expand sustainable finance markets, strengthen private sector resilience and promote inclusive and climate-aligned economic growth in Kyrgyzstan.

3.13 The GFF under Subcomponent 1.2 will be owned by the government. The regulatory framework governing the GFF is still under development and its structure is being designed to align with international best practices for green finance mechanisms. Since the GFF is still being established, AIIB and WB financing under this subcomponent will be contingent upon fulfilling key conditions to ensure proper governance and risk management. The disbursement conditions for this sub-component require that:

- (a) The GFF is formally established under a clear regulatory framework.
- (b) A qualified fund manager is appointed in a manner satisfactory to AIIB and WB.¹⁴
- (c) the GFF Manual has been adopted by GFF.
- (d) The Subsidiary Loan Agreement for Part 1.2 of the Project has been duly executed by the Borrower and the SDB.

3.14 AIIB will closely monitor the fund establishment process to ensure alignment with global sustainability standards and financial governance principles, thereby enhancing the GFF's credibility and effectiveness as a vehicle for sustainable finance expansion in Kyrgyzstan.

3.15 Component 2 will be implemented by GF, which has a proven track record in implementing credit guarantee programs and managed USD12.2 million from AIIB under Emergency Support for Private and Financial Sector Project (P000423)¹⁵ and USD19.5 million from the International Development Association (IDA) (WB). Since its inception in January 2022, the PRSF has demonstrated strong demand and operational success:

- (a) 4,672 MSMEs have received guaranteed loans under the PRSF, with 1,483 female-led businesses benefitting.
- (b) The total cumulative volume of PRSF-registered loans reached USD44.0 million, of which USD20.6 million is covered by the guarantee.
- (c) GF has independently mobilized an additional USD26.7 million, supporting 5,852 MSMEs beyond the IDA-financed PRSF.

3.16 The success of this initiative highlights GF's capacity to manage risk-sharing mechanisms, positioning it as the ideal institution to implement.

3.17 The MoF CLMU will implement Component 3, ensuring effective project management, coordination and capacity building to strengthen the sustainable finance ecosystem in

¹⁴ To be further clarified in the Procedural Manuals.

¹⁵ AIIB. [Kyrgyzstan: Kyrgyz Emergency Support for Private and Financial Sector Project](#).

Kyrgyzstan. The CLMU at the MoF will manage the Project's overall coordination, implementation and monitoring, ensuring compliance with fiduciary and ES safeguards. The Project will finance incremental implementation costs, covering:

- (a) Staffing and Operating Expenses. Supporting CLMU personnel and administrative costs, including:
 - (1) Office equipment and supplies.
 - (2) Travel and communication expenses.
 - (3) Audit services.
 - (4) Printing and translation services.
 - (5) Transportation and logistics for project oversight.
- (b) Fiduciary and Safeguard Compliance. Ensuring the Project meets financial management, procurement and ES safeguards in alignment with WB and national regulations.
- (c) Public Awareness and Stakeholder Engagement. Conducting outreach and information-sharing activities to promote the Project's objectives and benefits.
- (d) Monitoring, Evaluation and Reporting. Establishing a robust monitoring and evaluation (M&E) framework to track Project progress, measure outcomes and report on key performance indicators (KPIs).
- (e) Beneficiary Feedback and Grievance Redress Mechanism (GRM). The Project will establish a Beneficiary Feedback Mechanism, including a GRM to ensure transparency and accountability in Project implementation.

3.18 Procurement Arrangements. Component 1 of the Project will be co-financed with the WB on a joint basis and with the WB being the lead co-financier. The WB's Procurement Policy (November 2017) and Procurement Regulations for Investment Project Financing (IPF) Borrowers – Procurement in Investment Project Financing Goods, Works, Non-Consulting and Consulting Services, dated September 2023 (Regulations) are materially consistent with AIIB's Core Procurement Principles and Procurement Standards. Therefore, as per the Co-financing Framework Agreement (CFA) between AIIB and the WB, the WB's Procurement Policy and Regulations shall apply to the Project. While the WB's Procurement Policy and Regulations apply to the Project, this is not the case for Component 1 because the WB's Procurement Policy and Regulations do not govern the procurement of Goods, Works, Non-consulting Services and Consulting Services financed by the WB through loans made by eligible financial intermediaries to private borrowers, i.e., the MSMEs which will be private entities based on the eligibility criteria set for the Project. By referring to the Project Procurement Strategy for Development (PPSD) and Procurement Plan (PP) developed for the Project, there are no procurement packages/contracts envisaged under Component 1.

3.19 Financial Management (FM). CLMU will be responsible for maintaining the Project's financial management system under components co-financed by AIIB with the WB. The WB has conducted an FM assessment focusing on a review of funds flow, staffing, accounting policies and procedures, financial reporting and monitoring and audits. AIIB is satisfied with

the WB's FM assessment capacity and process. AIIB's assessment and results are mainly based on the WB's findings.

3.20 The WB will provide FM and disbursement-related services as a lead co-financier per the WB-AIIB CFA's standard terms. Such services will include sharing the results of periodic financial report reviews, annual audits of project financial statements, review of withdrawal applications and any other FM-related activities.

3.21 **ES Arrangements.** The Project will follow WB ES guidelines, ensuring transparency and compliance with ES safeguards. A dedicated ESMS will be implemented to monitor and mitigate social and environmental risks.

3.22 **Implementation Period.** The Project is expected to be implemented over five years (2025-2030). Implementation will follow a phased approach:

- (a) Phase 1 (2025-2026): Finalizing arrangements within the existing CLMU under MoF, finalizing on-lending agreements with PFIs and initiating the first cycle of loan disbursements.
- (b) Phase 2 (2027-2028): Scaling up financing operations, expanding guarantee coverage and strengthening institutional capacity.
- (c) Phase 3 (2029-2030): Monitoring Project impact, refining regulatory frameworks and ensuring financial sustainability beyond the Project timeline.

3.23 **Implementation Readiness.** Status of feasibility studies, procurement, land acquisition: Not applicable under this Project. Refer to Annex 4 on Implementation Readiness.

3.24 Required Clearances/Approvals for Project Implementation.

3.24.1 Responsibility for Statutory and Regulatory Clearances:

- (a) All statutory approvals and permits (e.g., for construction or environmental compliance) required by MSMEs under the Project are the sole responsibility of the beneficiary MSMEs themselves.
- (b) No assistance in obtaining these clearances is provided by the CLMU or other layers of project implementation, such as SDB or PFIs.
- (c) MSMEs are expected to secure these approvals in line with applicable national legislations and routine administrative procedures.

3.24.2 Environmental and Social Management Systems:

- (a) All PFIs participating in the credit line are required to develop and maintain ESMS aligned with WB standards.
- (b) The SDB is responsible for ensuring PFIs are informed of these obligations and will support them in setting up ESMS where such systems are not yet in place.
- (c) The ESMS must include:
 - (1) Screening mechanisms.

- (2) Exclusion list compliance.
- (3) GRM, which must be publicly disclosed and available.
- (4) Monitoring and reporting provisions.

3.24.3 Project Manuals:

- (a) The Borrower shall, through MoF, adopt the Project Operations Manual (POM). For the AIIB credit line under Component 1, a Sustainable and Financing Procedural Manual shall be adopted for Component 1.1 and a GFF Manual shall be adopted for Component 1.2, detailing:
 - (1) Eligibility criteria for MSMEs and PFIs.
 - (2) Purpose and scope of eligible financing.
 - (3) Monitoring requirements.
- (b) For: (i) Component 1.1, the template PFI agreements and template MSME Agreements will be included in the Sustainable and Financing Procedural Manual and (ii) Component 1.2, the template GFF Sub-loan Agreement and the template MSME Agreements will be included in the GFF Manual.
- (c) The adoption and approval of the POM is an effectiveness condition to AIIB's Loan Agreement. In addition, for (i) component 1.1, the adoption and approval of the Sustainable Finance Procedural Manual is a disbursement condition and (ii) component 1.2, the adoption and approval of the GFF Manual is a disbursement condition.

3.24.4 The CLMU is responsible for coordinating with relevant agencies to develop a multi-year implementation and disbursement plan, which includes obtaining necessary internal governmental approvals (e.g., three-year budgets with quarterly breakdowns submitted to the MoF).

3.24.5 Regulatory Framework for the Green Finance Facility:

- (a) The establishment of the GFF (Component 1.2) is flagged as the only area with regulatory uncertainty at this stage.
- (b) Unlike SDB and the GF (which already operate under established frameworks), the GFF lacks:
 - (1) Finalized regulatory architecture.
 - (2) Appointed fund manager.
 - (3) Defined operational procedures.
- (c) AIIB expressed willingness to actively support the regulatory development and design of sustainable standards for GFF.

3.25 Monitoring and Evaluation.

An M&E framework will be established to ensure effective Project tracking, performance measurement and decision-making. The M&E system will be designed to meet Project's Results Monitoring Framework (RMF) requirements while aligning with national reporting standards.

3.26 The CLMU will oversee data collection, analysis and reporting in collaboration with PFIs, the SDB and the GF.

3.27 The CLMU will serve as the central M&E coordination body, ensuring all data collection, validation and reporting processes meet AIIB's standards. The CLMU will also:

- (a) Conduct regular selective field visits to verify implementation progress and ensure compliance with Project objectives.
- (b) Engage with independent auditors and evaluators for third-party validation of results.
- (c) Work with AIIB, WB and other development partners to improve M&E capacity at PFIs, SDB and GF.

3.28 Indicators and monitoring arrangements for the Project's Objective and components financed by AIIB focus on the increased share of sustainable finance in the financial sector, the number of FIs offering new sustainable finance products to MSMEs, the number of MSMEs/WMSMEs that will receive sustainable financing, total private capital mobilized and the number of PFIs (Annex 1).

3.29 **AIIB's Implementation Support.** Concessional lending terms have been requested by the MoF for the current Project. Special Fund Window (SFW) funds were utilized for the previous project in Kyrgyzstan under the COVID-19 Crisis Recovery Facility to ensure that the loan met the concessional threshold, achieving a grant element of over 35%. This was necessary to comply with Kyrgyzstan's national policy, which prohibits external borrowings that do not meet this criterion. The SFW funds were specifically applied as an interest-rate buy-down mechanism. During the appraisal mission, it was discussed that even if the Borrower opts for the CNY denominated loans, an interest buydown of 37 basis points will still be needed to bridge the gap for achievement of the 35% grant element. Therefore, in June 2025, the MoF has decided to select JPY as the loan currency, with a longer final maturity and longer grace period. With the revised currency choice, such buydown will not be needed in the currently prevailing interest rate scenario.

4. Project Assessment

A. Technical

4.1 Project Design. The Project design is based on lessons learned from previous AIIB- and WB-financed MSME support programs, ensuring an efficient and structured approach to sustainable financial market development. Alternatives considered included direct lending through a government fund versus the current financial intermediation model through PFIs. The intermediation model was selected to ensure greater outreach, sustainability and market-driven credit allocation. Additionally, this model leverages existing financial infrastructure, enhancing financial inclusion and risk mitigation. The technical design aligns with the institutional capacity of PFIs, incorporating risk-sharing mechanisms, regulatory compliance frameworks and capacity-building programs to facilitate the adoption of green finance products. No land acquisition is required and legal frameworks have been assessed for alignment with financial sector policies.

4.2 Operational Sustainability. Ensuring the Project's sustainability is a key priority. The design incorporates mechanisms for ongoing operational and financial sustainability beyond AIIB's financing period.

- 4.2.1 **Revenue Flows & Cost Recovery:** PFIs will generate revenue through interest margins and guarantee fees, ensuring long-term financial viability.
- 4.2.2 **Institutional Strengthening:** Continuous training and technical assistance for PFIs will enhance financial sector resilience and capacity for climate-focused MSME financing.
- 4.2.3 **Governance & Legal Compliance:** The Project is designed within the national financial sector development framework, ensuring integration with domestic budget cycles and governance constraints.
- 4.2.4 **Monitoring & Data Collection:** A robust M&E framework will track performance indicators, ensuring adaptive management and alignment with the AIIB RMF.

B. Economic and Financial Analysis

4.3 Economic Analysis. The Project is expected to play a critical role in kick-starting sustainable finance markets in Kyrgyzstan. Currently, Kyrgyzstan faces a host of challenges in developing a sustainable finance market, especially for the MSME segment. These include (a) limited awareness of sustainable finance, (b) inadequate supply of sustainable finance products, (c) high cost of certifications and compliance and (d) limited government support and incentives to promote the sustainable finance market. The Project will help establish the setting up of the market for climate and sustainable finance for MSMEs and startups by enhancing the provision of sustainable finance and mobilization of private capital through PFIs. In particular, the Project would help (a) operationalize the GFF, (b) introduce Green Guarantee Products in the Kyrgyzstan market and (c) in wholesale co-financing sustainable and green finance.

4.4 The Project will directly benefit the MSMEs as they will have better access to sustainable finance to transition to a green economy. It will also benefit the PFIs by developing their capacity to design sustainable finance operations and products. Detailed economic analysis is placed at Annex 2.

4.5 **Financial Analysis.** The financial profile of SDB demonstrates a shift from a traditional investment mandate to a more proactive development financing role, consistent with its evolving mandate and the objectives of the proposed Project. Recent growth in on-lending activities reflects the introduction of new financing modalities, including direct lending, on-lending to PFIs and leasing arrangements targeted toward national priority sectors.

4.6 This lending expansion has been accompanied by a corresponding reduction in holdings of passive, interest-bearing securities. The institution has redirected financial resources toward productive sectors with higher development impact, in alignment with the Project's results framework. Substantial equity investments remain concentrated in key strategic subsidiaries, particularly in the telecommunications sector. AIIB and other development partners are engaged in ongoing dialogue to ensure these exposures are progressively aligned with international norms for state-backed financial institutions.

4.7 The institution's liquidity position has improved, supporting its capacity to meet disbursement obligations under the proposed credit line. Its capital structure remains strong, underpinned by government contributions and characterized by limited liabilities. This provides the financial resilience necessary to support long-term lending operations while maintaining prudent risk exposure.

4.8 On the income side, recent trends reflect a transitional period: while interest income from legacy investments has declined, revenues from newly originated loans are expected to increase over time. Operating costs have risen moderately as the institution undertakes capacity-building measures and implements systems and procedures required for project delivery, fiduciary compliance and ES risk management.

4.9 Overall, these financial results depict a young institution reshaping its balance sheet and operational framework to meet a development-focused mandate. Although the reallocation of resources subdues short-term returns, the ongoing expansion of lending activities and the acquisition of strategic equity stakes position AIIB to realize both economic and social benefits over the long run. For the figures, please refer to Annex 2.

C. Fiduciary and Governance

4.10 **Procurement.** The WB conducted a procurement capacity and risk assessment for the whole Project and assessed the overall Project procurement risk as Moderate (i.e., Medium in AIIB terms). However, AIIB will provide co-financing only for Component 1, under which there will be no procurement activity. Therefore, a Project procurement risk rating is not applicable to the AIIB-funded portion.

4.11 Financial Management. Based on the desk review assessment results at the Appraisal stage, the Project residual FM risk is Medium. The paragraphs below describe the details of the FM arrangements to be applied for the proposed Project.

4.12 Budgeting. CLMU has adequate planning and budgeting capacity regarding the availability of quality information and monitoring. A single budget will be prepared for all project components based on a Procurement Plan and complemented by best estimates of outflows with respect to signed contracts. Significant variances of actual versus budgeted figures should be monitored on a regular basis, appropriately analyzed and followed up. The existing budgeting practice will be followed under the AIIB financing. The budget data will be entered into the accounting software to monitor variances between actual and budgeted expenditures. The budget will be one set of documents and there will be no separate operational budget.

4.13 Staffing. The Project will continue to use the financial staff within the CLMU established to implement the ongoing WB project. A finance officer is assigned to the Project's financial management responsibilities, supported by the disbursement specialists and an assistant. All possess appropriate experience and expertise in accounting and financial management and the finance officer has substantive experience with the WB procedures and requirements.

4.14 Accounting System. The Project will follow the same accounting system and basis of recording transactions as for the current WB project. The existing 1C accounting software will be used for project accounting and reporting. 1C can generate Interim unaudited Financial Reports (IFRs) automatically and accounting data will be backed up regularly. The software will be upgraded by effectiveness to accommodate the records of the new source of financing as well, to the same level of detail as under the ongoing WB project.

4.15 Internal Control. An adequate internal controls and procedures system was instituted as part of the ongoing WB project. Such a system is assessed as reliable and will continue to be applied to the proposed Project as well. The completion of the POM (including an FM section) will be completed as a condition for Loan effectiveness with the arrangements applicable to the new Project, with emphasis on the controls related to the sub-loans. Key internal controls to be applied to the Project include: (a) appropriate authorizations and approvals; (b) segregation of duties (with no single person having the responsibility for all phases of the transaction); (c) regular reconciliations between records and actual balances, as well as with third parties and (d) complete original documentation to support project transactions.

4.16 Financial Reporting. To monitor the Project's progress and financial performance, consolidated IFRs covering each quarter will be prepared under the proposed Project. The consolidation will cover all financing sources under the proposed Project. IFRs will be produced using accounting software. The IFR format will be agreed upon between WB and CLMU. It may include (a) Project Sources and Uses of Funds, (b) Uses of Funds by Project Activities, (c) Project Balance Sheet, (d) Statements of Designated Accounts and (e) Withdrawal Schedule. These financial reports will be submitted to the WB within 45 days of the end of each calendar quarter via the Client Connection system. The WB will promptly share the IFR and, later, the results of its review with AIIB.

4.17 External Audit. The proposed Project audit will be conducted (a) by independent private auditors acceptable to the WB, on the Terms of Reference (ToR) acceptable to the WB and AIIB and selected by the CLMU and (b) according to the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The selection of the auditors is made per the list of eligible auditors. The same audit arrangements shall be followed for the proposed Project. The ToR will include (a) audits of financial statements, (b) assessments of the accounting system and (c) a review of the internal control mechanisms. The audited reports and management letters will be submitted to the WB within six months of the end of each year via the Client Connection system. The WB will promptly share the audit report and management letter and, later, the results of its review with AIIB.

4.18 Disbursements. Considering the joint co-financing approach for the components financed with the WB, the WB will handle all project disbursements under those components according to its disbursement procedures. Disbursements will follow the transaction-based method, including the following procedures: an Advance procedure (through advances to the Designated Account [DA]), a Direct Payment procedure, a Special Commitment procedure and a Reimbursement procedure with full documentation.

4.19 One DA will be under AIIB's loan financing. The currency of the DA will be the United States Dollar and the DA will be opened at a financial institution acceptable to AIIB. CLMU will convert the funds and transfer them to the respective Project Account (PA) in local currency for payments within Kyrgyzstan. CLMU will administer the DA and be accountable and responsible for the proper use of advances to the advance accounts, including any sub-accounts.

4.20 The current practice in Kyrgyzstan is that all WB-financed projects consider domestic taxes as eligible expenses. Without counterpart funding, all relevant domestic taxes will be paid from project financing. This is the case under the ongoing WB-financed project. AIIB is satisfied with the WB's assessment of domestic taxation applicable to the Project and will follow the same approach under the proposed Project.

4.21 Under the co-financed components, the WB will issue the Disbursement and Financial Information Letter (DFIL), describing all required details. For AIIB loan disbursement, CLMU will submit the withdrawal application and copies of supporting documents of both the WB's share and AIIB's share to the WB. The WB will review each withdrawal application and advise AIIB to make the necessary payment, if any, subject to approval by AIIB. The payments for the AIIB portion will be made directly by AIIB after receiving the payment instructions from the WB, along with a copy of the application and the results of the WB's review of that application.

4.22 Financial Crime and Integrity (FCI) and Counterparty Due Diligence/Know Your Counterparty (CDD/KYC). Under applicable AIIB's policies and guidelines, the initial in-house KYC assessment has been completed for the Borrower. The overall risk rating is "medium." No major KYC findings have been reported as on date. No adverse media was reported against any party in relation to money laundering, financing of terrorism, bribery and corruption and tax transparency. The screening of the potential authorized signatories for financing agreements with AIIB on behalf of the Government of the Kyrgyz Republic shall be completed before signing.

4.23 Governance, Anti-corruption and the PPP Policy Application. AIIB is committed to preventing fraud and corruption in the projects it finances. AIIB's 2016 Policy on Prohibited Practices (PPP) will apply. WB's Anti-Corruption Guidelines will also apply. AIIB integrity covenants will be included in all bidding documents. WB will lead the investigation on any violation of prohibited practice related to the Project. AIIB will reserve the right to carry out investigation or audit on the violations and to take necessary measures to prevent and redress any issues in a timely manner, as appropriate. Detailed requirements will be specified in the Loan Agreement, Project Co-lenders' Agreement and the Project tender documents.

4.24 Cybersecurity. The 2019–2023 National Cybersecurity Strategy positioned cybersecurity as a foundation for the “Digital Kyrgyzstan” vision, emphasizing public-private coordination and international engagement. This was operationalized through Decree No. 266 (2020), establishing CERT.KG¹⁶ under the State Committee for National Security, with a mandate for incident response, legal reform and public guidance. Donor-supported efforts, including the World Bank's Digital CASA project, have bolstered institutional capacity and embedded SME-relevant tools into digital upgrades. However, many MSMEs remain vulnerable due to limited resources, low awareness and minimal use of security protocols. Most lack dedicated information technology (IT) staff or regular risk assessments, increasing exposure to phishing, malware and other types of cyber fraud. While CERT.KG provides basic support, tailored interventions are still evolving. A draft resolution of the Parliament on “measures to combat fraudulent crimes in the banking and Internet spheres” announced in May 2025 aims to enhance protections for digital payments and data privacy. Continued coordination among government, private sector and development partners will be essential to building cyber resilience in Kyrgyzstan's MSME sector.

D. Environmental and Social

4.25 Environmental and Social Policy and Categorization. The Project will be co-financed with the WB as the lead co-financier. AIIB will finance subcomponent 1.1 and subcomponent 1.2 (only to finance the window on support for MSMEs). Subcomponent 1.2 will provide financing through the GFF for both existing businesses and startups engaged in green projects. The ES risks and impacts of the Project have been assessed in accordance with the WB's Environmental and Social Framework (ESF) (2016) and its exclusion list. To ensure a harmonized approach to managing the Project's ES risks and impacts and as permitted under AIIB's Environmental and Social Policy (ESP), the WB ESF will apply instead of AIIB's ESP. AIIB has reviewed the WB ESF and is satisfied that: (a) it aligns with AIIB's Articles of Agreement and is materially consistent with the provisions of AIIB's ESP and the relevant ES Standards; and (b) appropriate monitoring procedures are in place for the Project. The Project will only support those MSMEs whose operations fall under moderate or low ES risk categories, as defined in WB Environmental and Social Standard (ESS) 9. The WB has categorized the overall ES risks of this Project as “Moderate.” For this Project, as AIIB delegates to the Financial Intermediary the decision-making on the use of Bank funds and given AIIB's focus on Component 1 of the project, the Project is categorized FI.

¹⁶ [Coordination Centre on Cybersecurity.](#)

4.26 Environmental and Social Instruments. An Environmental and Social Commitment Plan (ESCP) has been developed for the Project and will be updated as needed during the Project implementation, to account for project changes, unforeseen circumstances, or performance-related adjustments. Under the ESCP, SDB, GFF and all PFIs are required to develop, maintain and implement the ESMS in accordance with the WB's ESF. Before participating in the Project, the ESMS of the SDB, GFF and all PFIs must be submitted to AIIB and WB for joint review and approval. In line with the WB's ESCP, finalizing the ESMS of the SDB, GFF and PFIs will constitute a condition precedent for AIIB's disbursement. AIIB's Environmental and Social Exclusion List (ESEL) and AIIB's definition regarding higher risk activities will be incorporated into the applicable Project Manuals. Additionally, the Project will develop and implement a Stakeholder Engagement Plan (SEP) to ensure effective community involvement and a Labor Management Plan (LMP) to address labor rights, workplace safety and other social risks.

4.27 Environmental and Social Capacity and Resources. The Project builds upon and complements the WB-supported Emergency Support for MSMEs Project¹⁷ and its Additional Financing.¹⁸ The ES performance of the two projects is rated Satisfactory by the World Bank, which was achieved through a proportionate approach to ES risk management, continuous capacity building of the staff of the CLMU and PIF and the functioning GRM. AIIB financed-Component 1 will be implemented by SDB. The CLMU will oversee overall Project management, including ES responsibilities. It has demonstrated experience in ES management and executed stakeholder engagement under the existing WB project and is staffed with a dedicated ES Specialist responsible for coordinating ES management. Although the SDB and GFF currently lack experience in operationalizing projects under the WB's ESF, SDB has been staffed with two qualified and experienced ES consultants separately. The ESCP incorporates capacity-building measures for the SDB, GFF and all PFIs, with a focus on trainings related to the World Bank's ESF, preparation of ESMS and other relevant instruments, stakeholder engagement, GRM management and prevention of sexual exploitation and abuse (SEA)/sexual harassment (SH). The SDB also agreed to undertake ES capacity building for all PFIs and the GFF with the support of highly qualified and experienced consultants.

4.28 Environment Aspects. The Project's potential adverse environmental risks are expected to be temporary and site-specific, primarily associated with renewable energy installations, manufacturing/processing line renovations, pesticide use in agriculture, soil loss to agricultural activities. Minor environmental impacts, such as air pollution, water consumption, noise and limited waste generation, will be mitigated in line with national regulations. While certain activities may affect natural habitats, these disturbances are expected to be localized, short-term and manageable through standard mitigation measures. To address these risks systematically, PFIs will be required to implement an ESMS aligned with the WB's ESSs relevant to the Project. The exclusion list for the Project to be included in the POM is in line with the World Bank's definition of High-risk or substantial-risk sub-projects and AIIB's definition of higher risk activities.

¹⁷ World Bank. [Emergency Support for MSMEs Project](#).

¹⁸ World Bank. [Additional Financing for Emergency Support for MSMEs](#).

4.29 Social Aspects. The Project will benefit both MSMEs and PFIs and is not anticipated to generate significant risks related to labor influx, SEA/SH, or community health and safety. Activities with potential for temporary or permanent land acquisition, involuntary resettlement, livelihood impacts, or restriction of access to resources will not be financed under the Project. It is expected that MSMEs will use existing land/facilities in which they currently operate or are locally available. For the newly established MSMEs as well as the business expansion, it is expected that the land will be acquired from the open market through a willing buyer-willing seller situation or by using available state/municipal land allocated through legal procedures. To mitigate risks of possible exclusion, particularly for vulnerable groups, a SEP has been prepared to ensure inclusive access to benefits through targeted consultations and grievance redress mechanisms. An LMP will be developed to address labor-related risks, ensuring safe and fair working conditions for both direct and contracted workers. PFIs will be required to develop and implement ESMS, including a chance find procedure as a precautionary measure, in line with the WB's ESSs relevant to the Project.

4.30 Gender Aspects. Kyrgyzstan faces a gender gap in firm ownership and management, with female participation in ownership and senior leadership roles declining significantly as firm size increases. To address this challenge, the Project will advance gender inclusion by expanding access to sustainable finance for WMSMEs. Building on the proven approach of the WB's Emergency Support for MSMEs Project in 2021, this initiative will tailor financial instruments to meet the specific needs of WMSMEs. The Project will adapt the Women-in-Finance initiative to the Kyrgyzstan context, enhancing the capacity of financial institutions through targeted training programs on sustainable finance, with a focus on addressing barriers faced by WMSMEs. Complementing this effort, the SEP incorporates proactive outreach strategies to ensure WMSMEs' meaningful participation in consultations and decision-making processes. Gender-sensitive aspects are also embedded into the GRM.

4.31 Stakeholder Engagement, Consultation and Information Disclosure. The Project recognizes the importance of effective and inclusive engagement with all relevant stakeholders and beneficiaries. A SEP has been developed to map stakeholders, tailor engagement strategies, establish structured consultation modalities, including a GRM, while ensuring transparent information disclosure throughout the Project lifecycle. To enhance efficiency and leverage existing frameworks, the Project will also adopt the stakeholder engagement mechanism already operational under the WB's Emergency Support for MSMEs Project. This alignment ensures continuity, minimizes duplication and capitalizes on lessons learned from prior engagements. The ESCP and SEP have been disclosed on WB's website.

4.32 Project Grievance Redress Mechanism. The Project's GRM is outlined in the SEP. The GRM specifies detailed procedures, including the identification of designated agencies responsible for receiving, addressing and resolving grievances; multiple accessible channels for submitting grievances; and stipulated timelines for acknowledging, investigating and responding to grievances. SEA/SH considerations have been integrated into the GRM. A Grievance Redress Committee will be established, comprising representatives from SDB, CLMU and PFIs. In terms of the GRM for Project workers, which will be described included in the LMP as part of the POM. The GFF and all PFIs, as well as the subprojects, will be required to establish operational and accessible GRMs. Appropriate GRMs will be established at the FI Project, sub-FIs and relevant subprojects as needed.

4.33 Bank's Project-Affected People's Mechanism. The proposed Project will be co-financed with the WB. AIIB agreed that the WB's ES policies and procedures will apply to this Project. Pursuant to the agreement with the WB, the WB's independent accountability mechanism (IAM), the Inspection Panel, will handle submissions relating to ES issues under the Project. Consequently, in accordance with the Bank's Policy on Project-affected People's Mechanism (PPM), submissions to the PPM under this Project will not be eligible for consideration by the PPM. Information on WB's Inspection Panel is available at <https://www.inspectionpanel.org>.

4.34 Proposed Follow-Up / Monitoring and Supervision Arrangements. The SDB will undertake the annual and semi-annual monitoring and reporting of the ES performance of the PFIs and the GFF until the closure of the Project, supported by independent consultants if and where necessary. The semi-annual and annual monitoring reports will be prepared and submitted by SDB to both the WB and the AIIB. These reports will also include the implementation status of the ESCP and the preparation and execution of all ES-related documentation required under the ESCP. Any incident or accident arising from the Project that has, or could potentially have, a material adverse impact on the environment, affected communities, public safety or worker welfare will be promptly reported to AIIB and the WB. This includes, but is not limited to, incidents of SEA/SIH and occurrences resulting in fatalities, serious injuries or multiple injuries.

E. Climate Change

4.35 Climate Change. According to Kyrgyzstan's National Inventory Report (1990–2020),¹⁹ the main sources of GHG emissions are the energy sector, agriculture, industrial processes and product use (IPPU) and waste management. In addition, Kyrgyzstan is susceptible to various climate-induced extreme events, such as floods, landslides and droughts. For instance, the 2023 World Bank Enterprise Survey²⁰ revealed that nearly 8% of businesses were affected by extreme events, with the resultant losses amounting to approximately 15%-17% of their total annual revenues. Furthermore, the Global Facility for Disaster Reduction and Recovery (GFDRR) assessment indicated that aggregated losses from a one-in-a-hundred-year flood event could reach 7% of GDP.²¹ In the case of specific risks, fluvial floods present a significant risk to both residential and commercial assets in several regions of Kyrgyzstan, including Chuy, Jalal-Abad, Naryn and Talas. The risk is compounded by deforestation, land use changes and inadequate flood management infrastructure. The Project aims to enhance the financial system's capacity to support MSMEs in adopting low-carbon technologies and climate-resilient practices, directly contributing to Kyrgyzstan's climate commitments under its NDCs and aligning with priorities of the forthcoming NAP²² and the Green Economy Development Program, which emphasize private sector engagement, emission reductions and increased resilience to climate-related risks.

F. Operational Policy on International Relations

¹⁹ Government of the Kyrgyz Republic. 2024. [The Kyrgyz Republic National Inventory Report on GHG Emissions by Sources and Removals by Sinks for 1990–2020](#).

²⁰ World Bank. 2023. [Kyrgyz Republic 2023 Country Profile, Enterprise Surveys](#).

²¹ World Bank. GFDRR. 2017. [Disaster Risk Profile: Kyrgyz Republic](#).

²² [UNDP. 2025. Kyrgyzstan Has Presented a Key Plan for Adaptation to Climate Change](#). April 2.

4.36 **Operational Policy on International Relations (OPIR):** The WB's final Project Appraisal document clearly mentions that their Policy on International Waterways OP 7.50 is not triggered. Since the subprojects under this FI Project are not fully identified as on date, the possibility that the OPIR might be applicable in a given case cannot be ruled out. Consequently, AIIB will work with the Borrower and the implementing entities to screen potential subprojects against the OPIR and exclude subprojects that would involve matters covered in the OPIR. This will also be covered in the Project Manuals to be prepared for AIIB's financing.

G. Risks and Mitigants

Table 2: Summary of Risks and Mitigating Measures

Risk Description	Assess ment (H/M/L)	Mitigation Measures
Program/Project Implementation Risks		
Implementation capacity		
<ul style="list-style-type: none"> CLMU and Implementation Bank (SDB)'s Capacity to implement the Project. 	M	<ul style="list-style-type: none"> The CLMU of the MoF, which is acting as the PIU, has extensive experience in implementing WB-funded projects spanning the past two decades. The SDB is a newly established development bank and the WB is currently providing technical assistance for its initial operational phase.
Financial management		
<ul style="list-style-type: none"> The absence of specific Project FM procedures and manual accounting may lead to deficiencies in project accounting and financial reporting. 	M	<ul style="list-style-type: none"> These risks are manageable. Detailed mitigation measures have been agreed upon and described in the FM section's paragraphs.
ES risks and impacts during construction and operation		
<ul style="list-style-type: none"> Limited direct environmental and social risks as the Project will finance MSMEs whose operations are classified as having moderate or low ES risks. Activities with potential for temporary or permanent land acquisition, involuntary resettlement, livelihood impacts or restriction of access to resources have been deemed ineligible for financing under the Project. SDB lacks experience in 	M	<ul style="list-style-type: none"> These risks are anticipated to be temporary, site-specific and can be addressed through standard mitigation measures and compliance with national laws, as well as stakeholder engagement. PIIs will be required to develop and implement ESMS aligned with WB's ESS relevant to the Project. Measures to enhance the SDB's ES

Risk Description	Assess ment (H/M/L)	Mitigation Measures
operationalizing projects under the WB's ESF.		capabilities have been integrated into the ESCP.

Annex 1: Results Monitoring Framework

Project Objective (PO):	To support the green and sustainable transition and climate resilience of micro, small and medium-sized enterprises (MSMEs) by mobilizing private capital for sustainable investments and strengthening financial intermediaries to facilitate their low-carbon transition.									
Indicator Name	Unit of measure	Base-line Data. 2025	Cumulative Target Values				End Target 2030	Data source / Methodology	Responsibility	
			2026	2027	2028	2029				
Project Objective Indicators:										
1. Mobilized green and sustainable finance: An increased share of sustainable finance for MSMEs in the financial sector.	%	0					5	The SDB and GFF. / The agencies responsible for implementing Sub-Component 1.1 and Sub-Component 1.2, in collaboration with the National Bank of the Kyrgyz Republic, will track and monitor the data and provide the data to the CLMU.	MoF CLMU	
Intermediate Results Indicators:										
Component 1 – Green and Sustainable Finance										
1. Businesses using debt financing.	Number of businesses	0					2,500	The SDB and GFF / The agencies responsible for implementing Component 1, in collaboration with the National Bank of the Kyrgyz Republic, will track and monitor the data and provide the data to the CLMU.	The responsible staff at the CLMU.	
1.1. Businesses using debt financing - Women-led.	Number of businesses	0					875	The SDB and GFF / The agencies responsible for implementing Component 1, in collaboration with the National Bank of the Kyrgyz Republic, will track and monitor the data and provide the data to the CLMU.	The responsible staff at the CLMU.	
2. Total private capital mobilized.	Amount (USD)	0					30,000, 000	The SDB and GFF / The agencies responsible for implementing Component 1, in collaboration with the National Bank of the Kyrgyz Republic, will track and monitor the data and provide the data to the CLMU.	The responsible staff at the CLMU.	
3. The number of PFIs.	Number	0					10			

Annex 2: Economic and Financial Analysis

Economic Analysis

1. The Project is expected to play a critical role in kick-starting sustainable finance markets in the Kyrgyz Republic (Kyrgyzstan). Currently, Kyrgyzstan faces a host of challenges in developing a sustainable finance market, especially for the micro, small and medium-sized enterprises (MSMEs) segment. These include (a) limited awareness of sustainable finance, (b) inadequate supply of sustainable finance products, (c) high cost of certifications and compliance and (d) limited government support and incentives to promote the sustainable finance market. The Project will help establish the market for climate and sustainable finance for MSMEs and startups by enhancing the provision of sustainable finance and mobilization of private capital through Participating Financial Institutions (PFIs). In particular, the Project would help (a) operationalize the Green Finance Fund (GFF), (b) introduce Green Guarantee Products in the Kyrgyzstan market and (c) in wholesale co-financing sustainable and green finance.
2. The Project will directly benefit the MSMEs as they will have better access to sustainable finance to transition to a green economy. It will also benefit the PFIs by developing their capacity to design sustainable finance operations and products.
3. The economic and financial analysis led by the World Bank (WB) comprises (a) reduction in greenhouse gas (GHG) emissions resulting from increased utilization of renewable energy and enhancement of energy efficiency among MSMEs and (b) job creation undertaken by climate-friendly investment. In the first five years of the Project, green financing by SDB and GF will reach more than USD150 million. Based on existing literature like Kutlukaya et al. (2003), the direct emission intensity of the manufacturing sector is estimated at 300 tons of carbon dioxide (CO₂) emissions per million USD.¹ Consequently, the greening of loan portfolio in the first five years will result in a reduction of carbon footprint by about 50,000-60,000 tons of CO₂ emissions. In the baseline analysis, the price of carbon is conservatively assumed at USD10 per ton of CO₂ emissions and every USD1 million investment is assumed to result in the creation of 25 new jobs. Under baseline assumptions the net present value (NPV) of the Project is USD19 million at a 13% discount rate.
4. Various studies, including Jaeger et al (2021), highlight climate-friendly investments are more effective at job creation.² For example, investments in building efficiency, industrial efficiency, hydropower and mass transit create about 2.8, 1.8, 1.2 and 1.4 times more jobs compared to fossil fuel. Based on these assumptions the NPV of the Project increases to USD46 million.
5. Next, using the baseline estimates of jobs created but incorporating the mid-point for the carbon price, highlighted in the Report of the High-Level Commission on Carbon Prices, results in the NPV rise to USD24 million.

¹ Kutlukaya, M. et al. 2023. ["Carbon Footprint of Bank Loans—A Measure of Transition Risks for the Financial Sector."](#) In Arslanalp, S., Kostial, K and Quiros-Romero, G. eds. *Data for a Greener World: A Guide for Practitioners and Policymakers*. International Monetary Fund.

² Jaeger, J., et al. 2021. ["The Green Jobs Advantage: How Climate Friendly Investments are Better Job Creators."](#) World Resources Institute Working Paper. October.

6. Finally, allowing for both higher job creation and carbon prices yields an Economic Net Present Value (ENPV) of USD56 million.

7. It may be noted that the valuation of the job creation benefits has been done with a conservative approach, as a higher wage rate assumption, calibrated in line with actual per capita gross domestic product (GDP) levels, would lead to a significant upward adjustment in the project's ENPV estimates.

Financial Analysis

8. The financial statements of the State Development Bank have been prepared and analyzed based on the 2023 IFRS audited report and Q1 2024, 2024 and Q1 2025 use non-audited IFRS figures. The initial reporting currency is KGS, converted into USD using the last available corresponding year's currency exchange rate for the balance sheet (Statement of Financial Position) and the average KGS/USD exchange rate for the income statement (Statement of Profit or Loss and Other Comprehensive Income).

USD million	FY2023	1Q2024	FY2024	1Q2025	24/23Δ	251Q/241QΔ	FY2023	1Q2024	FY2024	1Q2025	Vertical analysis
Statement of financial position											
Cash and cash equivalents	3.36	6.12	14.87	8.51	343%	39%	1%	2%	6%	3.5%	
Loans to customers and Fis	2.20	5.45	23.00	28.26	945%	419%	1%	2%	9%	11.6%	
Provisions for impairment	-	(0.11)	(0.46)	(0.58)		433%	0%	0%	0%	-0.2%	
Net loans	2.20	5.34	22.54	27.68	924%	418%	1%	2%	9%	11.4%	
Investments in securities	133.54	109.77	25.53	27.03	-81%	-75%	44%	38%	10%	11.1%	
Investments in subsidiaries	166.13	170.11	180.48	179.48	9%	6%	54%	58%	74%	73.7%	
<i>State Leasing Company OJSC</i>			-	10.34	10.29						
<i>CJSC Alfa Telecom</i>	166.13	170.11	170.11	169.19							
Property, equipment and intangible assets	0.22	0.24	0.30	0.27	32%	14%	0%	0%	0%	0.1%	
Deferred tax assets	0.01	0.01	0.01	0.00	2%	-39%	0%	0%	0%	0.0%	
Other assets	0.02	0.02	0.55	0.57	3220%	3271%	0%	0%	0%	0.2%	
Total assets	305.48	291.62	244.28	243.55	-20%	-16%	100%	100%	100%	100.0%	
AP on investments in subsidiaries	110.01	88.31	-	-	-100%	-100%	36%	30%	0%	0.0%	
Current income tax liabilities	0.45	0.37	0.04	0.08	-91%	-80%	0%	0%	0%	0.0%	
Other liabilities	0.16	0.12	0.52	0.40	224%	228%	0%	0%	0%	0.2%	
Total liabilities	110.61	88.80	0.56	0.48	-99%	-99%	36%	30%	0%	0.2%	
-	-	-	-	-			0%	0%	0%	0.0%	
Share capital	188.58	193.10	226.44	225.20	20%	17%	62%	66%	93%	92.5%	
Retained earnings	6.28	9.71	17.28	17.87	175%	84%	2%	3%	7%	7.3%	
Total equity	194.87	202.81	243.72	243.07	25%	20%	64%	70%	100%	99.8%	
Total equities and liabilities	305.48	291.62	244.28	243.55	-20%	-16%	100%	100%	100%	100.0%	
Statement of profit or loss											
Interest income	8.04	4.05	10.72	1.33	33%	-67%	100%	100%	100%	100%	
Interest expense	-	-	-	-			0%	0%	0%	0%	
Net interest income before ECL	8.04	4.05	10.72	1.33	33%	-67%	100%	100%	100%	100%	
Accrual of allowance for ECL	(0.05)	(0.06)	(0.43)	(0.12)	846%	103%	-1%	-2%	-4%	-9%	
Net interest income	7.99	3.99	10.29	1.20	29%	-70%	99%	98%	96%	91%	
<i>Net Interest Margin</i>	5.9%	3.5%	21.4%	2.2%							
Net gain from investing operations	0.23	-	5.42	-	2288%		3%	0%	51%	0%	
Commission expenses	(0.00)	(0.00)	(0.00)	(0.00)	354%	2%	0%	0%	0%	0%	
Income from transactions with FX	-	-	0.00	(0.00)			0%	0%	0%	0%	
Net non-interest income	0.23	(0.00)	5.42	(0.00)	2290%	1833%	3%	0%	51%	0%	
Operating expenses	(1.12)	(0.44)	(2.43)	(0.47)	116%	8%	-14%	-11%	-23%	-36%	
Cost-to-income	14.0%	10.8%	22.6%	35.8%							
Profit before income tax	7.10	3.55	13.28	0.73	87%	-80%	88%	88%	124%	55%	
Income tax	(0.73)	(0.36)	(0.85)	(0.08)	17%	-79%	-9%	-9%	-8%	-6%	
Net income	6.37	3.19	12.43	0.65	95%	-80%	79%	79%	116%	49%	
Total comprehensive income	6.37	3.19	12.43	0.65	95%	-80%	79%	79%	116%	49%	
NPLs	0.00	0.00	0.00	0.00							
PaR	0.00	0.00	0.00	0.00							
ROE	3%		5%								
ROA	2%		5%								
Asset turnover	2%		1%	5%	0%						
Equity to assets	64%		70%	100%	100%						

Annex 3: Country Credit Fact Sheet – Kyrgyz Republic

1. **Background:** The Kyrgyz Republic (Kyrgyzstan) is a lower-middle-income economy with a gross domestic product (GDP) per capita of around USD2,800 and a population of 7.2 million in 2025. The region is endowed with abundant natural resources and has the potential to expand its hydroelectricity production and develop its tourism industry. The growth potential of the economy is further supported by a young population, increasing economic ties with China and its strategic geographic position between Asia and Europe. At the same time, the economy remains heavily dependent on trade with, and remittances from, Russia, as well as on the domestic gold sector, which is currently dominated by a single operation. Constraints in human capital and infrastructure, particularly in transportation and power supply, continue to limit Kyrgyzstan's overall competitiveness.

Key Economic Indicators	2020	2021	2022	2023	2024	2025*	2026*	2027*
Real GDP growth 1/	-7.1	5.5	9.0	9.0	9.0	6.8	5.3	5.8
Inflation (CPI, average) 1/	6.3	11.9	13.9	10.8	5.0	7.0	5.7	5.2
Fiscal balance	-3.1	-0.7	-0.3	1.6	1.9	-3.4	-2.8	-3.2
Public debt	63.6	56.2	46.8	42.0	36.6	38.5	39.5	40.3
Gross public financing needs	4.8	3.9	2.4	3.1	5.3	5.4	5.5	5.9
Current account balance	4.5	-8.0	-41.9	-44.9	-31.1	-8.5	-7.5	-8.5
External debt	54.5	46.7	39.5	37.1	34.4	32.5	30.6	29.0
FX reserves (USD million) 2/	2,808	2,978	2,789	3,236	5,088	5,191
Exchange rate, KGS/USD 2/	77.4	84.7	83.2	89.0	85.5	87.5		

Source: IMF WEO April 2025; IMF Country Report 24/64; Press release no. 24/68 in percent of GDP unless indicated otherwise;

** = projections. 1/ = percent change, year-on-year 2/ = end-of-period, most recent data from central bank; as of April 30

2. **Recent Development.** The economic impact due to the geopolitical tensions has been less severe than expected, like in other economies in the region. Following a robust post-pandemic recovery in 2021, growth accelerated further in 2022, fueled by an influx of productive labor and income from Russia, along with a sharp rise in trade. This momentum continued to support economic growth throughout 2023. In 2024, growth remained strong, driven by rapid expansion in the services sector and a notable increase in both foreign and domestic investment, which boosted construction activity.

3. Inflation fell from 10.8% in 2023 to 5.0% in 2024, landing within the central bank's target range of 5.0%–7.0%. The slowdown was broad-based, with significant declines in food prices, thanks to lower import costs, improved supply, currency appreciation and monetary tightening. As a result, the central bank was able to reduce its policy rate by 400 basis points to 9%—the lowest level since early 2022. Inflation is expected to increase to 7% in 2025, driven by robust domestic demand, utility tariff increases and possible currency depreciation.

4. The current account deficit surged to 42% in 2022 and to 45% in 2023, but these figures were significantly overstated due to a sharp increase in unrecorded re-exports of goods to Russia. The current account deficit is expected to gradually decline in the medium term. Meanwhile, high levels of dollarization—common in many economies in the region—have been improving as credit dollarization declines. Non-performing loans (NPLs) remain elevated, accounting for over 10% of total loans, highlighting potential vulnerabilities. However, banks are well-capitalized. Approximately half of the banking system is foreign owned. As of January 2025, gross international reserves hit a record high of USD5.2 billion, marking an increase of

nearly 57% compared to a year earlier. This total includes Kyrgyzstan's substantial non-monetary gold reserves.

5. **Outlook and Risks.** Output is projected to grow by 6.8% this year and between 5% and 6% in the medium term. The main risks to the outlook stem from geopolitical uncertainty, falling gold prices and rising oil prices. Inflation is projected to remain stable. However, inflationary risks persist, driven by volatile global food and energy prices, potential currency depreciation, elevated inflation expectations and strong demand pressures.

6. In 2023, the fiscal position improved with a budget surplus driven by higher tax revenues, particularly from VAT on imports and non-tax income, which offset increased public spending on wages, social transfers, pensions and infrastructure. As a result, public debt declined to 37% of GDP by 2024, down from 42% in 2023. Over the next few years, debt is expected to rise moderately due to a planned Eurobond issuance program. Public debt is assessed as sustainable by the IMF, with moderate risks of debt distress. The economy remains vulnerable to external shocks, particularly due to the high dollarization of debt (80% of total), though much of it is concessional with low debt-servicing costs. Continued support from development partners remains crucial.

7. S&P recently upgraded Kyrgyzstan's credit rating to B+, citing a relatively strong fiscal position and sustained economic growth. Moody's reaffirmed its B3 rating with a stable outlook, while Fitch maintained its B rating, also with a stable outlook.

Annex 4: Implementation Readiness Checklist

Policy and institutional arrangements

- a) Key policy and institutional reforms, if critical to the successful completion of the project, are implemented or being implemented within a realistic timetable.
 - Yes
 - No, provide status quo, time-bound actions: National and SDB-level taxonomies are being harmonized.
- b) Provision of budget/counterpart fund for project implementation in first financial year is confirmed, e.g. in the government's annual budget, written commitments from partners with clear timetable for the fund's availability.
 - Yes
 - No, provide status quo, time-bound actions: Not applicable in the financing plan
- c) The systems of oversight, financial management, fund flow arrangement, auditing arrangement and data collection / monitoring are established.
 - Yes
 - No, provide status quo, time-bound actions:
- d) Institutional structure for project implementation is confirmed between government and AIIB.
 - Yes
 - No, provide status quo, time-bound actions:

Project Implementation Plans and Project Administration Manual.

- a) Overall Implementation Plan, Procurement Plan, Contract Awards & Disbursement Projections of the project are finalized and agreed between government and AIIB.
 - Yes
 - No, provide status quo, time-bound actions:
- b) Project Administration Manual/ Memorandum covering scope, organization and its Terms of Reference (ToR), procurement, budgeting, disbursement, ES monitoring, data collection/reporting and auditing arrangement has been finalized.
 - Yes
 - No, provide status quo, time-bound actions:

Project Management Office (PMO)/Project Implementation Unit (PIU)

- a) Designation of core PMO/PIUs staff have been identified, especially key roles such as project director, procurement and contract, financial management, technical, environment and social (ES), data collection and monitoring, capacity building etc.
 - Yes: MoF CLMU is staffed with dedicated core PMO/PIUs staff. Recruitment of qualified ES specialists for SDB is incorporated into the ESCP.
 - No, provide status quo, time-bound actions:
- b) Request for Proposal (RFP) for all critical consultancy contracts e.g. Project Management consultants (institutional set-up, ES aspects, M&E aspects and capacity building), procurement agency, construction supervision etc. have been issued.
 - Yes

No, provide status quo, time-bound actions: AIIB will not finance Component 3 in terms of Implementation and Capacity Building including four consultancy contracts, i.e., Project Audit, Capacity Building for MoF CLMU, implementing agencies and PFIs, Environmental Safeguard Framework Specialists for State Development Bank and Environmental Safeguard Framework Specialists for the Guarantee Fund). Based on the information provided by the MoF CLMU, the RFPs for the consultancy contracts have not been issued, but the ToRs are under preparation.

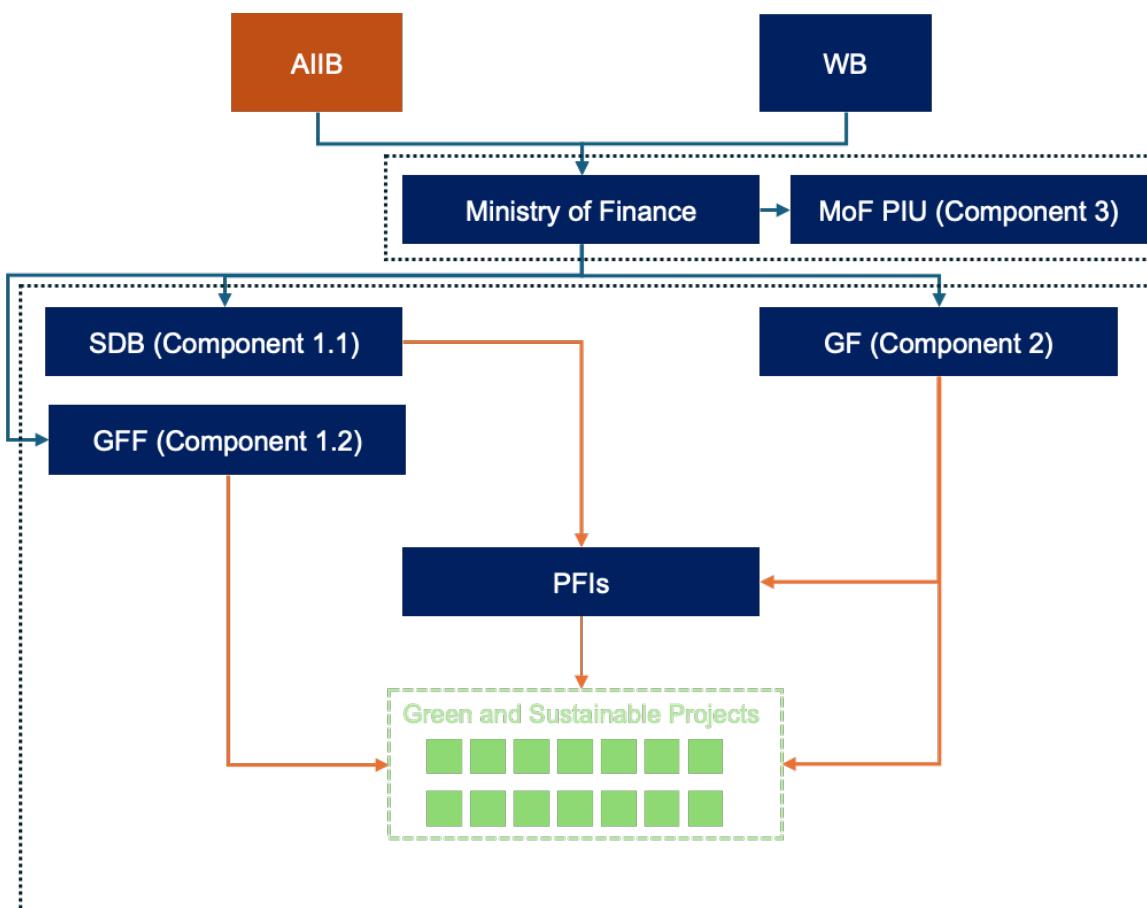
Procurement and ES activities

- a) Procurement plan of the project detailing contract packages, modes of procurement, pre-requisites for awarding the contracts, approval flow chart, decision making structure and schedule for each contract has been finalized.
 - Yes
 - No, provide status quo, time-bound actions:
- b) Bidding documents for all contracts, to be awarded during first 18 months of project implementation have been finalized, especially when involving advance procurement/retroactive financing.
 - Yes
 - No, provide status quo, time-bound actions: There are no procurement packages/contracts envisaged under Component 1 for which AIIB will provide financing. For the four consultancy contracts under Component 3, the ToRs are under preparation.
- c) Land acquisition and resettlement plans are ready, where relevant.
 - Yes
 - No, provide status quo, time-bound actions: Not applicable, activities with land acquisition and involuntary resettlement have been deemed ineligible for financing under the Project will not be financed under the Project. The willing buyer-willing seller approach or by using available state/municipal land allocated through legal procedures will be adopted.
- d) Budgeting for at least 30% of land acquisition & resettlement requirements has been made. Land acquisition/pre-construction activities, where relevant, are in progress.
 - Yes
 - No, provide status quo, time-bound actions: Not applicable, activities with land acquisition and involuntary resettlement have been deemed ineligible for financing under the Project and will not be financed under the Project. The willing buyer-willing seller approach or by using available state/municipal land allocated through legal procedures will be adopted.
- e) Relief & Resettlement (R&R) Plan, where relevant, for the first two years of the project implementation has been finalized and confirmation that R&R activities are aligned with the Procurement Plan, has been conveyed.
 - Yes
 - No, provide status quo, time-bound actions: Not applicable
- f) Environmental Management Plan (EMP) for the first two years of project implementation has been finalized with technical assistance for its execution in place if required. Initial Environment Examination (IEE) /Environment Impact Assessment (EIA) and approval of AIIB have been completed/secured.
 - Yes
 - No, provide status quo, time-bound actions: the Project is Category FI, subproject-level environmental instruments will be prepared case by case. High-risk or substantial-risk sub-projects will be excluded from financing.

Required Clearances/Approvals for Project Implementation

- a) All Statutory clearances like environmental/forest, water, land clearances, if applicable, are obtained.
 - Yes
 - No, provide status quo, time-bound actions: Will be obtained by the beneficiary MSMEs
- b) Administrative clearances for temporary use of land are taken.
 - Yes
 - No, provide status quo, time-bound actions Not applicable
- c) Administrative approvals for shifting of utilities are taken.
 - Yes
 - No, provide status quo, time-bound actions: Will be obtained by the beneficiary MSMEs

Implementation arrangements



Annex 5: Eligibility Criteria Applicable to PFIs

1. The State Development Bank (SDB) has established the following criteria for Participating Financial Institutions (PFIs) involved in the Project (including environmental requirements):

- (a) Hold an appropriate license by the National Bank of the Kyrgyz Republic (NBKR).
- (b) Has demonstrated experience lending to micro, small and medium-sized enterprises (MSMEs).
- (c) Has satisfactory capital adequacy ratio.
- (d) Availability of financial statements that meet the break-even requirement for the last 3 years.
- (e) Compliance with the standards established by the legislation of the Kyrgyz Republic.
- (f) Absence of any significant sanctions from the NBKR, such as:
 - (1) restriction or prohibition on lending operations.
 - (2) restriction or prohibition on opening and maintaining bank accounts.
 - (3) restriction or prohibition on deposit-taking operations.
 - (4) introduction of temporary administration.
 - (5) revocation of license.
- (g) For green financing through PFIs, SDB has developed “Guidelines for partner banks on selection of green projects to receive financing from the State Development Bank of the Kyrgyz Republic JSC.”
- (h) Has commitment to green/sustainable finance in its corporate strategy and developed time-bound action plan.
- (i) Must ensure that the projects financed are not included in the Exclusion List contained in the Financing Agreements (under the Project).
- (j) Ready and able to provide, promptly as needed, facilities, services and other resources required for effective Project implementation.
- (k) Agree to follow the rules as prescribed in Operations Manual / Procedural Manuals and to undertake annual external audits by reputable auditors satisfactory to the World Bank and the Asian Infrastructure Investment Bank, and according to applicable auditing standards.
- (l) Has appropriate internal audit and internal control functions:
 - (1) Adequate organization of internal audit in place; good quality of reporting; responsive to audit suggestions and conducts effective follow-up on any noted issues.
 - (2) Has understanding and oversight of operational risk resulting from inadequate or failed internal processes and systems, or from human factors or due to external events.

- (m) Has adequate IT, software and application systems and effective management reporting:
 - (1) Good database systems with adequate back-up in place
 - (2) Has adequate data storage, processing and reporting standards.
- (n) For green project financing programs through eligible PFIs, projects must comply with the SDB's Green Taxonomy and established criteria and thresholds.
- (o) Note on SDB's Green Taxonomy and the National Taxonomy: Based on the official launch of the National Green Taxonomy in May 2025, the following consensus was reached during a meeting between the Ministry of Economy and Commerce (MoEC) and the SDB. As a result, the draft National Green Taxonomy was supplemented with the following provision: *"During the pilot phase of this Green Taxonomy, financing channeled through the State Development Bank of the Kyrgyz Republic (including via financial and credit institutions) may be labeled as 'green', 'climate', or 'low-carbon' if it aligns with the internal taxonomy of the State Development Bank of the Kyrgyz Republic, provided there is no direct conflict with the National Green Taxonomy. In the event of such a conflict, the authorized state body responsible for green economy matters in the Kyrgyz Republic shall have the authority to make a final determination regarding the appropriate use of the terms 'green', 'climate', and 'low-carbon'."*
- (p) SDB is coordinating with the relevant Ministry team on implementation efforts. A Memorandum of Understanding (MoU) has been drafted with the Ministry to guide the application of both the national taxonomy and SDB's internal taxonomy to SDB's green lending and investment activities, with a focus on identifying common areas and gaps.

2. For sectors not covered by the national taxonomy, the Climate Bonds Initiative (CBI), European Union Taxonomy, or SDB internal taxonomies may be applied, subject to consultation with the Ministry of Economy and agreement with relevant line ministries, as outlined in the MoU between SDB and the Ministry of Economy.

3. **PFI Eligibility Review.** If a bank (PFI) is interested to participate in the Project, it will be subject to eligibility appraisal process. The potential PFI should allow the World Bank (WB), Asian Infrastructure Investment Bank (AIIB) or Implementation Bank to access (on a need-to-know basis) privileged information necessary to appraise whether the interested financial institution meets and/or continues to meet the agreed qualification criteria.

4. The PFI appraisal will include (a) meetings with senior management covering the key banking and risk management functions, (b) review of externally audited financial statements and prudential reports submitted to the SBV, (c) review of organizational chart and ownership structure, (d) review written policies and procedures related to the lending and liquidity management functions, (e) review of internal audit and control practices and (f) review the environmental and social management system.

5. **PFI Suspension.** Once qualified, a PFI is expected to continue to meet the eligibility criteria to maintain access to WB and AIIB funds during project life. If a PFI is found to breach

the established eligibility criteria or other participation rules, its further participation will be suspended until such time the problem has been addressed.

- (a) If a PFI utilizes funds for ineligible expenditures or does not follow procedures specified in Operations Manual, the erring PFI would be asked to take remedial action within a deadline, or else refund to the Special Account all World Bank and AIIB-financed amounts that have been improperly used.
- (b) If the PFI is found to breach the WB or AIIB safeguard requirements, it could be asked to re-finance the related funding from its own sources. If the issue is serious, its participation could be suspended.
- (c) If a PFI is delinquent on its repayment of interest and principal due.

6. **Environmental Requirements for PFIs** (activities must comply with or be brought into compliance within a time frame agreed upon with the SDB) under the Project:

- (a) A system for managing environmental and social risks within SDB (including policies, regulations, etc.).
- (b) A list of exclusions of activities that are prohibited from financing.
- (c) A complaint and suggestion review mechanism.
- (d) Health, safety and security standards for personnel in place.
- (e) Ensuring that each loan is granted for a project that meets the conditions and requirements of the financial agreement, including environmental and social standards, as well as other relevant environmental and social tools and procedures. For projects requiring an environmental and social impact assessment or the development of a corresponding plan, ensuring the timely completion of the assessment and plan preparation.
- (f) Ensuring that the Project, which qualifies for financing, does not include activities that: (1) involve land acquisition, forced resettlement, impact on livelihoods or cultural heritage of local populations and (2) use or risk polluting international waterways as defined in OP 7.50 (WB Operational Policy on Projects in International Waterways).

7. In this regard, the WB is supporting the SDB in implementing an Environmental and Social Management System (ESMS) and an Environmental and Social Risk Management System (ESRMS). To date, drafts of the SDB's Environmental and Social Policy and the Regulations for the Environmental and Social Risk Management System have been developed and will be approved soon. The Policy and Regulations include a list of activities that are not eligible for financing, as well as step-by-step procedures for selection, analysis, verification, monitoring and other procedural aspects.

8. **Monitoring Mechanisms for Existing Green Activities.** SDB conducts quarterly monitoring to ensure the targeted use of disbursed funds by reviewing the borrower's quarterly reports, which include, *inter alia*, the following information:

- (a) Confirmation of the intended use of funds within the green loan or tranche.

- (b) Verification of compliance with the stated purpose of the funds, ensuring that expenditures align with the originally declared objectives.
- (c) Updates on the progress and results of the green project's implementation, in relation to the environmental performance indicators initially declared.
- (d) Data on the achievement of the declared environmental outcomes of the green project.
- (e) Further details on the monitoring mechanisms would be specified in the Procedural Manuals and will be subject to change from time to time based on internal regulations of the SDB.

9. Additionally, SDB conducts an independent verification of each green project no later than one year after the financing date.¹ Independent technical experts with relevant sectoral experience are engaged to confirm that the Project complies with the applicable taxonomy requirements, such as reducing carbon dioxide (CO₂) emissions, minimizing water consumption and/or enabling water reuse.

10. SDB has undertaken efforts to establish a database of technical experts for the validation and verification of green projects.

11. To this end, official requests were sent to relevant government bodies and organizations, asking them to nominate experts in their respective fields. Responses with lists of technical experts were received from the following institutions:

- (a) Ministry of Natural Resources.
- (b) Ministry of Energy.
- (c) Ministry of Emergency Situations.
- (d) State Agency for Architecture, Construction, and Housing and Communal Services under the Cabinet of Ministers.
- (e) Center for Standardization and Metrology under the Ministry of Economy and Commerce.
- (f) Unison Group.

12. These experts will contribute to the ongoing efforts to ensure that green projects meet the required technical and environmental standards.

¹ Review criteria, clarifications and parameters to be established in accordance with the Green Taxonomy of Kyrgyzstan.

Annex 6: Eligibility Criteria Applicable to MSMEs

1. The State Development Bank (SDB) will establish the following criteria for Participating Financial Institutions (PFIs) in their selection of micro, small and medium-sized enterprises (MSMEs):

- (a) Legally registered to carry out economic activity and meets the criteria for classification as an MSME in accordance with Tax Code of the Kyrgyz Republic.¹
- (b) Has proposed a subproject that is assessed by the PFI in accordance with the relevant project guidelines under development and includes activities aimed at promoting green and sustainable development.
- (c) Is not involved in activities falling under the List of Exclusions set out in the relevant project guidelines.
- (d) According to the Tax Code of the Kyrgyz Republic:
 - (1) A small business entity is an organization or an individual entrepreneur whose total turnover for the last 12 consecutive months does not exceed KGS8,000,000.
 - (2) A medium-sized business entity is an organization or individual entrepreneur whose total revenue for the last 12 consecutive months exceeds KGS8,000,000, but does not exceed KGS50,000,000.

2. MSMEs will be selected based on the harmonized definitions of the green taxonomies being adopted. At present, the current priority green sectors targeted by each PFI for their MSME lending are:

- (a) Renewable energy (wind, solar, geothermal, hydro, bioenergy, supply chain and supporting infrastructure for renewable energy, hydrogen production).
- (b) Energy efficiency (improving the energy efficiency of existing and new industrial and residential facilities, improving the energy efficiency of municipal buildings, energy-efficient buildings, structures and facilities).
- (c) Green buildings (green buildings, associated systems and building materials, green infrastructure).
- (d) Pollution prevention and control (air quality, soil).
- (e) Sustainable use of water and waste (sustainable use of water and water conservation, waste and wastewater, resource conservation and recovery).
- (f) Sustainable agriculture, land use, forestry, biodiversity conservation and ecotourism.
- (g) Clean transport (low-carbon vehicles, clean transport infrastructure, clean transport information and communication technologies).

¹ A small business entity is an organization or an individual entrepreneur whose total revenue for the last 12 consecutive months does not exceed KGS8,000,000. A medium-sized business entity is an organization or individual entrepreneur whose total revenue for the last 12 consecutive months exceeds KGS8,000,000, but does not exceed KGS50,000,000.

3. The SDB of the Kyrgyz Republic does not finance and will not support the following activities:

- (a) Production or trade in any goods, or implementation of any activities that are classified as illegal by the legislation of the Kyrgyz Republic or international conventions and treaties, or are subject to withdrawal from international circulation or prohibition, such as:
 - (1) pharmaceuticals,
 - (2) pesticides/herbicides,
 - (3) ozone-depleting substances,
 - (4) PCBs and other hazardous chemicals,
 - (5) wild animals or products regulated by CITES. (Convention on International Trade in Endangered Species),
 - (6) transboundary transportation of waste prohibited by international law.
- (b) Production or sale of hazardous substances containing, for example, carcinogenic, mutagenic or teratogenic properties, including creosote and chlorinated solvents.
- (c) Military industry, production, trade and other activities related to the use of weapons and ammunition.
- (d) Production or trade in alcoholic beverages (except beer and wine, as well as retail trade carried out by MSME entities such as grocery stores, cafes and restaurants, where alcoholic beverages are not a significant/significant part of the trade business).
- (e) Production or trade in tobacco (except for MSMEs engaged in retail trade, such as grocery stores, cafes and restaurants, where tobacco is not a significant/substantial part of the trading business).
- (f) Gaming, gambling, casinos and similar establishments.
- (g) Production or trade in radioactive materials, including nuclear reactors and their components. Does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment whose radioactive source is considered insignificant and/or sufficiently shielded.
- (h) Production or trade in loose asbestos fibers. This does not apply to the purchase and use of glued asbestos cement sheets in which the asbestos content is less than 20%.
- (i) Drift net fishing in the marine environment using nets longer than 2.5 km.
- (j) Production or activities involving harmful or exploitative forms of labor and working conditions.
- (k) Production of or trade in timber and other forest products, except for products from sustainably managed forests.
- (l) Commercial logging for use in primary tropical rain forest or other forest products not derived from sustainably managed forests.

- (m) Activities related to the financing of terrorist activities and the legalization (laundering) of criminal proceeds.
- (n) Projects causing forced evictions/resettlement.

4. SDB will limit financing to activities consistent with the terms of SDB's Partners as defined in the loan agreements, such as:

- (a) Coal-related projects, including coal mining, coal transportation or coal-fired power plants and infrastructure services intended solely to support any of these activities.
- (b) Petroleum exploration and production.

5. In financing microfinance institutions, the following will additionally apply:

- (a) Production, trade, storage or transportation of significant quantities of hazardous chemicals or the use of hazardous chemicals on a commercial scale. Hazardous chemicals include gasoline, kerosene and other petroleum products.
- (b) Production or activities that encroach on lands owned or claimed by indigenous peoples without the full and documented consent of such peoples.

Annex 7. State Development Bank

1. The State Development Bank (SDB) of the Kyrgyz Republic is a state-owned development finance institution established pursuant to Cabinet of Ministers Resolution No. 286, dated May 31, 2022. Following the successful completion of its capital formation and corporate registration procedures, SDB commenced operations in April 2023. It operates under a dedicated legal and regulatory framework, including the Law "On the State Development Bank of the Kyrgyz Republic"¹ and accompanying Regulation approved by Cabinet Resolution No. 533 dated Oct. 9, 2023.
2. As of end March 2025, SDB holds a charter capital of KGS19.7 billion (USD225 million), placing it among the most capitalized financial institutions in the Kyrgyz Republic (Kyrgyzstan). The Government of the Kyrgyz Republic remains the sole shareholder, with ownership exercised via the Ministry of Finance. It is not subject to licensing by the National Bank of the Kyrgyz Republic, reflecting its unique status as a non-deposit-taking, government-mandated financial institution. Its operations are protected by law from undue interference by public authorities.
3. SDB's primary mandate is to promote sustainable and inclusive economic development through the provision of long-term financing, with a strategic focus on industrial diversification, export competitiveness, regional development and green transition. It plays both a direct and apex financing role, channeling concessional resources through PFIs and extending loans for critical infrastructure and enterprise development projects. Its credit and investment activities are guided by economic rationale and financial prudence, rather than profit maximization. Nonetheless, it is required to remain financially self-sustaining, with a dividend policy that retains 75% of net profits to support capital growth.
4. Over the period 2025–2027, SDB is expected to deepen its institutional role by expanding its lending and investment portfolio, supporting the government's national development priorities and facilitating crowd-in of private and multilateral capital. SDB aims to scale its assets from KGS21.3 billion to KGS39.6 billion by the end of 2027.
5. SDB is aligned with the government's core policy documents, including the National Development Program to 2026, the Strategy for Non-Bank Financial Sector Development (2021–2025) and the 2018–2040 National Development Strategy. Key sectors prioritized for financing include manufacturing (including value-added processing), mining, logistics, IT/e-commerce and environmentally sustainable industries. In addition to its core lending operations, SDB is actively involved in the development of its subsidiaries, such as Alfa Telecom and the State Leasing Company, and plans to expand its role in the local capital market through bond issuances and equity investments in strategic projects.
6. SDB maintains full alignment with international standards on financial reporting and corporate governance, with its financial statements audited annually by an internationally recognized firm. It has also committed to embedding ESG standards, enhancing risk management and operationalizing a green finance ecosystem. By the end of the Project implementation period, SDB can be expected to emerge as Kyrgyzstan's leading apex

¹ [On the State Development Bank of Kyrgyz Republic](#)

development institution, with a measurable impact in terms of job creation, fiscal revenues, and resilience to external shocks.

7. SDB has an existing committed exposure of approximately USD18 million to nine Participating Financial Institutions (PFIs) with an already disbursed amount of approximately USD10.5 million. The total exposure is USD34.4 million, out of which USD10.5 million is through PFIs, and the direct financing is USD23.9 million.

Table A7.1. Financing from SDB by Industries and Regions as of May 2025

Sectors	Amount (USD million)	Percentage (%)
Industry	20.19	58.7%
Food industry	11.33	32.9%
Building materials industry	2.66	7.7%
Processing industry	1.03	3.0%
Mechanical engineering industry	4.00	11.6%
Light industry	0.80	2.3%
Electrical industry	0.38	1.1%
Mining and processing of raw materials	3.35	9.7%
Transport and logistics	3.75	10.9%
Green financing	5.84	17.0%
IT and E-commerce	-	0.0%
Other	1.26	3.7%
Total	34.39	100.0%
Area		
Bishkek	5.59	16.3%
Osh Region	1.47	4.3%
Jalal-Abad Region	7.61	22.1%
Issyk-Kul Region	8.36	24.3%
Talas Region	0.09	0.3%
Naryn Region	0.09	0.2%
Batken Region	0.14	0.4%
Chui Region	11.04	32.1%
Total	34.39	100.0%

8. SDB is exploring the possibility of obtaining an international credit rating. It has received commercial offers from all three major global rating agencies—S&P, Moody's and Fitch—and is in the process of evaluating them. The decision to proceed with a formal rating process is pending further discussion with the new Chief Executive Officer, who has assumed office in May 2025. The SDB management expects to obtain its first credit rating by Q4 2025.

9. SDB maintains a formal risk appetite policy that includes specific thresholds to manage concentration risks in its asset and liability structure. It has established the following key limits:

- (a) The 10 largest sources of funding may account for up to 80% of total liabilities, excluding government-mandated financing with a targeted purpose.

- (b) Exposure to affiliated or related parties must not exceed 60% of its net capital, excluding investments in state securities or strategic enterprises.
- (c) Any single investment in a non-banking institution—comprising both financial instruments and credit—must not exceed 25% of its regulatory capital, with the cumulative total capped at 60%.
- (d) Investments in fixed assets are limited to 100% of the paid-up authorized capital.
- (e) Exposure to sovereign and central bank securities with a minimum credit rating of “A” (or A2) is capped at 100% of net capital, while non-government debt instruments are limited to 50%.

10. SDB maintains operations in accordance with the Regulation on Delegation of Powers and Establishment of Transaction Limits, approved by the Management Board (Resolution No. 52 dated Dec. 8, 2023) and the Board of Directors (Resolution No. 38 dated Dec. 14, 2023). The Regulation sets out the procedures for authorizing transactions and defines the distribution of decision-making authority across the SDB.

11. A detailed Matrix of Authorities classifies transaction types and establishes corresponding approval thresholds. Responsibilities are allocated across multiple levels, including employees, department heads, the Chief Accountant, the Chairperson of the Management Board, the Credit Committee, the Asset-Liability Management Committee, the Management Board, the Tender and Selection Committees, the Board of Directors and the Shareholders’ Meeting. Approval limits vary by transaction category and value, with higher-value or strategically significant transactions requiring decisions by senior governance bodies.

12. The Regulation also outlines procedures for the approval of internal regulatory documents, credit agreements, procurement contracts, equity investments, borrowings and strategic plans. It includes provisions for monitoring compliance with transaction limits and defines the roles of the Management Board, Risk Department and Internal Audit in this process.

13. In cases where provisions of the Regulation conflict with national legislation or SDB’s Charter, the applicable legal framework takes precedence. Amendments to the Regulation require approval by the Board of Directors.

14. The approval process follows a tiered structure, with different levels of responsibility and oversight depending on the financial magnitude and nature of the transaction. The following outlines the key thresholds and approval channels:

15. Monetary Thresholds:

- (a) Transactions up to KGS50 million, or within 10% of SDB’s capital, can typically be authorized by the Management Board or relevant internal committees.
- (b) Transactions that exceed KGS50 million or 10% of capital are escalated to the Board of Directors for approval.
- (c) Any transaction that exceeds 50% of SDB’s balance sheet assets on the date of the transaction must be submitted to the Shareholders’ Meeting for approval.

16. Transactions with Related Parties:

- (a) Transactions involving insiders, affiliated persons, or related parties regardless of the transaction amount must be reviewed and approved by the Board of Directors.
- (b) This includes any financial engagement where a conflict of interest or affiliated ownership structure may be present.

17. Strategic Transactions:

- (a) Certain transactions classified as strategic in nature, such as:
 - (1) The acquisition, creation or liquidation of subsidiaries or dependent companies.
 - (2) External borrowings by SDB (including issuance of debt instruments).
 - (3) Direct equity investments into non-bank entities.
 - (4) Capital investment projects, including leasing and property acquisition.
- (b) These typically involve multi-tiered approval procedures. The process may begin with internal review and recommendation by functional departments or committees (e.g., Credit Committee or ALCO), followed by approval by the Management Board and final ratification by the Board of Directors or Shareholders, depending on the transaction's size and risk profile.

18. The Matrix of Authorities further specifies exceptional cases, including the procurement of goods and services, which are governed by additional procedural thresholds (e.g., signed by department heads for amounts up to KGS1 million; escalated beyond that). Similarly, non-core transactions such as bonus allocations, staffing decisions, or internal document approvals follow a defined route through designated governance bodies.

19. As of April 30, 2025, there were 21 commercial banks and 304 branches of commercial banks operating in Kyrgyzstan. The SDB has existing on-lending experience with the first eight institutions:

19.1. OJSC «BAKAI BANK»	19.12. CJSB JSCB «Tolubay»
19.2. CJSC «Bank of Asia»	19.13. OJSC «Dos-Kredobank»
19.3. OJSC «Bai-Tushum» Bank	19.14. CJSC «EcoIslamicBank»
19.4. CJSC «KSB Commercial Bank»	19.15. OJSC «Eurasian Savings Bank»
19.5. CJSC «DKIB»	19.16. OJSC «O!Bank»
19.6. OJSC «Aiyl Bank»	19.17. CJSC «Kyrgyz Investment and Credit Bank»
19.7. OJSC «Eldik Bank»	19.18. OJSC «FinanceCreditBank»
19.8. OJSC «Kyrgyzkommertsbank»	19.19. OJSC «Keremet Bank»
19.9. OJSC «Mbank»	19.20. CJSC «FINCA Bank»
19.10. OJSC «Optima Bank»	19.21. CJSC «Kompanion Bank»
19.11. OJSC «Capital Bank»	

Annex 8: Paris Agreement Alignment and Climate Finance

1. The Project is aligned with both the mitigation and adaptation goals of the Paris Climate Agreement, in accordance with the Asian Infrastructure Investment Bank (AIIB) Multilateral Development Bank (MDB) Methodology for assessing the alignment of intermediated finance with Paris Agreement alignment. AIIB finance will support activities of micro, small and medium-sized enterprises (MSMEs) that are listed as universally aligned with mitigation objectives and will also enhance resilience to climate variability and extreme weather events of MSMEs and the wider society, contributing to adaptation outcomes.

Alignment with mitigation goals of the Paris Agreement (BB1)

2. AIIB's participation in Component 1: Green and Sustainable Finance includes (i) wholesale co-financing to Participating Financial Institutions (PFIs) and (ii) a funding contribution to the Green Finance Fund (GFF) to promote investments in low-carbon technologies by MSMEs. The use of funds will support MSMEs activities aligned with the SDB Taxonomy in sectors such as renewable energy, energy efficiency, green buildings, sustainable water and waste management, sustainable agriculture and clean transport. The SDB Taxonomy has been reviewed and found to be consistent with the Joint MDB list of Activities Considered Universally Aligned with the Paris Agreement's Mitigation Goals.

3. Conclusion: the Project is considered aligned with the mitigation goals of the Paris Agreement (BB1).

Alignment with adaptation and resilience goals of the Paris Agreement (BB2)

4. The Project is considered aligned with the adaptation and climate resilience goals of the Paris Agreement (BB2), in accordance with the AIIB Methodology. The on-lending loans are expected to be directed toward diversified MSMEs activities across various sectors and regions in the Kyrgyz Republic (Kyrgyzstan). These characteristics meet the criteria for automatic alignment under BB2, as the financed activities are generally associated with low exposure to physical climate risks.

5. Additionally, Kyrgyzstan is vulnerable to a range of climate-induced extreme events, including floods, landslides and droughts. According to the 2023 World Bank (WB) Enterprise Survey, nearly 8% of businesses reported being affected by such events, incurring losses equivalent to approximately 15%-17% of their annual revenues. In this context, the use of funds is expected to support activities with strong climate adaptation potential, particularly in sectors such as sustainable water use, wastewater treatment, climate-smart agriculture, sustainable waste management and ecosystem restoration. Eligible investments may include water conservation and stormwater management systems, smart monitoring of water bodies and climate-resilient agricultural practices. These investments shall lead to enhanced climate resilience of the value chain and operations of MSMEs, as well as of the wider society through the provision of climate resilience solutions provided by beneficiary MSMEs under the project.

6. Conclusion: the Project is considered aligned with the adaptation and climate resilient goals of the Paris Agreement (BB2).

7. Overall, the Project aims to enhance the financial system's capacity to support MSMEs in adopting low-carbon technologies and climate-resilient practices.

8. In addition, SDB as the implementing entity plans to develop a comprehensive ESG framework in the upcoming year, including the establishment of decarbonization goals and the creation of a detailed implementation roadmap. As part of this initiative, SDB will assess its carbon footprint, focusing on Scope 1 and Scope 2 emissions and prepare a comprehensive sustainable development report to guide its efforts and communicate progress.

Climate Finance

9. The total Climate Finance for the Project is estimated at 100% of AIIB finance. The use of funds will support on-lending to sectors such as renewable energy, energy efficiency, green buildings, sustainable water and waste management, sustainable agriculture and clean transport. The climate finance contribution is expected to comprise approximately 90% for mitigation and 10% for adaptation activities.

Annex 9: Description of World Bank-Supported Components¹

Component 2 is comprised of two subcomponents:

- **Subcomponent 2.1: Green PRSF for MSMEs.** A dedicated green guaranteed window will be established within the Open Joint Stock Company Guarantee Fund (GF), either: As part of the existing Portfolio Risk Sharing Facility (PRSF), created under the Emergency Support for MSMEs Project (World Bank P174028/ AIIB PD000423-KGZ), or as a standalone PRSF exclusively focused on green micro, small and medium-sized enterprise (MSME) loans.
- Key features of the Green PRSF include:
 - Automatic Inclusion. All eligible green MSME loans from PFIs will be automatically included in the Green PRSF facility, reducing selection biases and riskier lending practices.
 - Risk Sharing Mechanism. The maximum risk-sharing ratio is 50%, as stipulated by the Law on Guarantee Funds in the Kyrgyz Republic.
 - Eligibility & Loan Thresholds. The Project Operations Manual (POM) will define loan eligibility criteria, pricing mechanisms and loan size thresholds.
 - Higher Loan Limits. While the current PRSF threshold is USD40,000 per loan, a higher ceiling will be introduced, considering that green investments often require long-term financing rather than short-term liquidity support.
- This subcomponent will enhance MSME access to climate finance and strengthen private sector investment in renewable energy, energy efficiency and climate adaptation solutions.
- **Subcomponent 2.2: Individual Green Guarantees.** This subcomponent will guarantee larger green projects outside the PRSF parameters.
 - The current PRSF threshold is USD40,000 per loan, but loans up to USD100,000 or higher may be considered under this facility.
 - A market assessment of MSME financing needs will be conducted to determine the optimal loan threshold and risk-sharing conditions.
 - Given that green guarantees are new to many commercial banks, some PFIs may initially prefer individual guarantees before scaling up their sustainable finance portfolios.
- The demonstration effect of individual green guarantees will help accelerate PFIs' adoption of green lending, fostering private sector participation in sustainable finance markets.
- **Component 3: Project Implementation and Sustainable Finance Capacity Building.** This component will support institutional strengthening for implementing agencies and PFIs, ensuring they develop the expertise and operational frameworks necessary to

¹ AIIB is not co-financing Component 2 and Component 3 of the Project.

manage and expand green and sustainable finance. The capacity-building efforts will be complemented by the World Bank, the International Finance Corporation, other multilateral development banks, bilateral institutions and donors currently engaged in technical assistance or planning to provide future support.