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## Second Party Opinion

# Bank Eskhata OJSC's Green Bond Framework

March 18, 2024

**Location:** Tajikistan

**Sector:** Banks

### Primary contact

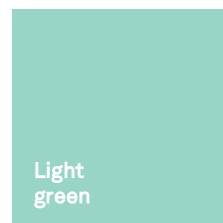
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## Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

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



Light  
green

Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term low-carbon climate resilient solutions.

Our [Shades of Green Analytical Approach](#) >

## Strengths

### Eligible projects aim to promote low-carbon measures in the Republic of Tajikistan.

Successful implementation of the projects could reduce exposure to environmental and climate risk for households and small-scale industrial operations.

## Weaknesses

### Proceeds may be used to finance working capital for farms that possess the certification listed in the framework's eligibility criteria.

Although certification implies more-sustainable farm operations, loans may be used to finance assets that are not in line with 2050 sustainability goals (for example, machinery powered by fossil fuels).

### Physical climate risks will not necessarily be addressed in the bank's selection of green loans.

In some categories, the exposure may be minimal, but in others, such as agriculture, it can be substantial. We note that only new green buildings projects will include a requirement to construct on flood-free areas.

### Proceeds can be allocated to buildings that use fossil fuel for heating.

## Areas to watch

### There are risks over the overall climate and environmental benefits of the financing under the climate smart agriculture category.

While certified agriculture can lead to more sustainable practices compared to traditional methods, there are risks and uncertainties due to certifications' different approaches, focus areas, and goals.

### The criteria do not include specifications for production processes for energy efficient and renewable energy technologies.

While the production of equipment is crucial, climate and environmental risks can arise if there are safeguards in place, for example limits on production emissions.

### Hybrid vehicles, eligible for financing, can be a transition technology.

This may be the case for the context of Tajikistan. However, the eligibility criteria do not include emissions thresholds for hybrids, and they include both plug-in and non-plug-in models.

## Eligible Green Projects Assessment Summary

Eligible projects under Bank Eskhata's green bond framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

### Renewable energy

 **Dark green**

Financing the installation or construction of fixed assets for the production or efficient use of energy for power, heating and/or cooling. It is expected that only small scale solar and transmission projects will be financed.

### Energy efficiency

 **Light green**

Financing the acquisition, replacement, redesign, or refurbishment of equipment, systems, and/or contracting services/products to reduce absolute energy consumption by at least 20%.

### Energy efficient and renewable energy equipment

 **Light green**

Financing the manufacture, supply, and purchase of energy-efficiency technology equipment or appliances and of renewable energy technology equipment that meets international certification standards or that will achieve energy savings of 20%.

### Green buildings

 **Light green**

Financing the construction or purchase (mortgage) of buildings that meet IFC EDGE requirements, and 20% energy efficiency improvements compared with buildings that have no efficiency measures.

### Clean transportation

 **Light green**

Financing or refinancing the purchase, lease, and operation of zero direct emission vehicles, hybrid vehicles, and the related infrastructure.

### Climate smart agriculture

 **Light green**

Loans to farms that are certified as meeting international sustainable agriculture standards.

### Sustainable water and wastewater management

 **Light green**

Loans or leases to finance or refinance the development, construction, operation, and maintenance of sustainable water and waste management projects and facilities.

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

## Issuer Sustainability Context

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

### Company Description

Founded in 1993, Bank Eskhata OJSC is one of the largest banks in the Republic of Tajikistan. The bank, which has 32 branches and 113 banking centers, provides loans to retail, micro, small and midsize enterprise (SME), and corporate clients. It has historically been a leading player in money transfer and currency exchange operations in Tajikistan. It is now seeking to expand in the micro and SME segment. Through its presence and services, it has a systemically important role in Tajikistan's financial sector.

### Material Sustainability Factors

#### Climate transition risk

Banks are highly exposed to climate transition risk through their financing of economic activities, which impact the environment. Banks' direct environmental impact is small compared to financed emissions and stems mainly from power consumption (e.g., data centers). Policies and rules to reduce emissions could raise credit, legal, and reputational risks for banks with large exposures to high-emitting sectors, such as oil and gas, metals and mining, real estate, or transportation. These medium- to long-term risks are significant and will be proportional to the impact of climate change on the economy. Positively, financing the climate transition offers a growth avenue for banks through lending, debt structuring, and other capital markets activities. Tajikistan accounts for 0.04% of global greenhouse gas emissions. Nevertheless, it makes substantial use of fossil fuels, including coal. Energy is one of its highest-emitting sectors, along with agriculture.

#### Physical climate risk

Physical climate risks will affect many economic activities as climate change will increase the frequency and severity of extreme weather events. Banks finance a wide array of business sectors that are exposed to physical climate risks, exposing banks to through their financing activities. However, while climate change is a global issue, weather-related events are typically localized, so the magnitude of banks' exposure is linked to the geographical location of the activities and assets they finance. Similarly, banks' physical footprint (e.g., branches or ATMs) may also be exposed to physical risks, which may disrupt their ability to service clients in the event of a natural catastrophe, amplifying the impact on communities. Banks may contribute to mitigate the effects of physical climate risks by financing adaptation projects and climate-resilient infrastructure, as well as by investing in solutions that support business continuity in exposed geographies. Key risks in Tajikistan relate to increasing flooding, droughts, avalanches, landslides, and mudslides.

#### Biodiversity and resource use

Banks contribute to significant resource use and biodiversity impact through the activities they fund or invest in. For example, the construction sector—which is a major recipient of bank financing—is a large consumer of raw materials such as steel and cement. Similarly, bank-financed agricultural activities can have material biodiversity impacts.

#### Access and affordability

Banks' large impact on society and the economy stems from their role in enabling access to financial services to individuals and businesses, and in ensuring the correct functioning of payments systems, which are cornerstones of economic development and stability. In most countries, unbanked and underserved population segments are still meaningful, although the access gap is most acute in emerging economies. Market imperfections such as low competition, incomplete information, and lack of financial

literacy, often result in costly alternatives for small businesses and low-income people, so ensuring affordable access to financial services, especially to the most vulnerable population, remains a challenge for the banking industry. New technologies will, however, increasingly enable banks to close this gap, through cost efficiencies and product innovation. While structural issues such as poverty, informality, and lack of financial literacy partly limit access to financial services, banks have large opportunities to support economic development through financial inclusion. Tajikistan has a fairly small domestic banking system and shallow capital markets. The country's economy remains reliant on Russia for trade and remittances; therefore, weaker economic activity in Russia affects the Tajik economy, in the form of lower remittances and rising unemployment.

### Privacy protection

Growing digitalization in the banking sector has increased banks' exposure to the risk of IT infrastructure failures, cyberattacks, and other quickly evolving risks that can create disruption, including the theft of client data. As digitalization expands in Tajikistan, banks will be increasingly exposed to these risks. Mitigating them requires the development of strong risk governance and controls, both within the banking sector and at a national level.

## Issuer And Context Analysis

All project categories address the sustainability factors that we consider material for Bank Eskhata. The renewable energy, energy efficiency, energy efficient and renewable energy equipment, green buildings, clean transportation, and climate smart agriculture categories aim to address climate transition risk. Physical climate risk will be addressed by sustainable water and wastewater management projects, and somewhat by green building projects. The green buildings, climate smart agriculture, and sustainable water and wastewater management categories will contribute to mitigating biodiversity and resource use risks.

**Bank Eskhata is playing a key role in supporting the implementation of climate smart practices in Tajikistan, but its sustainability strategy and its approach to addressing and managing climate transition risk is in its infancy.** The bank has yet to start publishing sustainability reports or to introduce emission reduction targets (for its direct or financed emissions). It has started to measure and reduce its operational footprint; for example, by using Energy Star-certified equipment for its new data centers. However, progress on that front is difficult to assess due to a lack of disclosure. The bank is playing a key role in supporting the transition to more-sustainable practices in Tajikistan. For example, through its CLIMADAPT program the European Bank for Reconstruction and Development (EBRD) backed a collaboration with Bank Eskhata to finance measures such as irrigation systems, new fruit gardens, and restructuring water pipes. The EBRD also financed Bank Eskhata's 2016 Enhanced Competitiveness of Tajik Agribusiness Program (ECTAP), through which clients could receive a grant covering 20% of the loan principal to purchase farm equipment approved by the EBRD to improve efficiency. In addition, the EBRD partnered with Bank Eskhata under the Green Economy Financing Facility (GEFF) to offer the banks' clients loans that include a grant of 20%-30% of the eligible component of the loan principal, for investments in emission-saving or climate resilience technologies, such as the construction of greenhouses and refrigeration chambers. All projects funded by the EBRD incorporate environmental and social requirements based on EU standards and international best practice.

**The bank has yet to develop its physical climate and biodiversity and resource use strategies.** Its lending process includes environmental and social risk management (ESRM) procedures, through which it identifies activities for which it will not provide any form of financing. It has also established a requirement to include environmental and social considerations for all types of lending. We note that the identification of environmental and social risks beyond local environmental and social regulatory compliance is limited to SME and corporate clients. Bank Eskhata has not indicated if it will expand its approach to addressing physical climate and biodiversity and resource use risks.

# Alignment Assessment

This section provides an analysis of the framework's alignment to Green Bond principles.

## Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

### ✓ Use of proceeds

All the framework's green project categories are shaded in green, and the issuer commits to allocate the net proceeds issued under the framework exclusively to eligible green projects. The maximum refinancing look-back period is one year, which we view as a strong market practice. However, the bank does not commit to disclosing the proportion of funds used for financing versus refinancing in its allocation reporting. Please refer to Analysis of Eligible Projects section for more information on our analysis of the environmental benefits of the expected use of proceeds.

### ✓ Process for project evaluation and selection

The framework describes the process to determine how projects fit within the eligibility criteria. Bank Eskhata established its Green Loan Committee (GLC), consisting of members from departments such as banking risk, small and corporate business, financial, ESG, and a loan office from the branch. Having relevant sustainability subject matter expertise within the decision-making body is a strong market practice. The GLC is responsible for ensuring that proceeds allocated to the loans in scope of this framework are in line with the eligibility criteria. Due diligence will be carried to identify and evaluate associated environmental and social risks when extending finance to customers, as per the bank's environmental and social risks management (ESRM) policy. We note that the degree of scrutiny will vary according to the type of lender, with micro and retail clients not being assessed beyond compliance with local regulatory requirements and permits. SME and corporate clients will be subject to a more-detailed assessment of their ESRM.

In addition to referencing the International Financial Corporation's (IFC) exclusion list, Bank Eskhata commits to not allocate proceeds to fossil fuel projects (including refined or alternative coal technologies, gas-to-liquid, and natural gas), nor to projects developed by companies in excluded sectors (such as defense and weapons, nuclear energy, fossil fuel energy, mining, alcohol, tobacco, and gambling), nor to activities that will lead to deforestation.

### ✓ Management of proceeds

The net proceeds will be managed by Bank Eskhata's green leading development coordinator (GLDC) and tracked through the green bond register. The GLDC will verify the eligibility and availability of eligible loans annually. The balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible projects as long as the green bond is outstanding. Pending allocation, unallocated proceeds will be temporarily kept as cash or deposits with the National Bank of Tajikistan.

### ✓ Reporting

Bank Eskhata commits to reporting the allocation of the net proceeds and the environmental impacts of the financed projects. The bank will report the information annually on its website until full allocation of the net proceeds. Bank Eskhata also commits to engage an independent third-party to verify its post-issuance allocation, adding transparency.

# Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the Shades of Green methodology.

Over the three years following issuance of the financing, Bank Eskhata expects to allocate the majority of proceeds to the clean transport project category, followed by the energy efficiency, climate smart agriculture, and sustainable water categories. A small portion of the proceeds will be allocated to the remaining project categories—renewable energy, energy efficient and renewable energy equipment, and green buildings.

The issuer expects a maximum of 30% of the total proceeds to be allocated to refinancing projects, while the remainder of the proceeds will be directed to finance new projects.

## Overall Shades of Green assessment

Based on the project category shades of green detailed below, and consideration of environmental ambitions reflected in Bank Eskhata's Green Bond Framework, we assess the framework as Light green.

Light green

Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term low-carbon climate resilient solutions.

Our [Shades of Green Analytical Approach](#) >

## Green project categories

### Renewable energy

#### Assessment

 Dark green

#### Description

Eligible renewable energy (RE) projects are defined as the financing for the installation or construction carried out by the company for investment in fixed assets or for producing or efficiently using such forms of energy as power, heating, cooling, and/or any other forms of energy from renewable sources. Only small-scale solar projects will be financed. Also eligible are loans for relevant (small-scale) transmission projects to support integration of renewable energy into grids.

### Analytical considerations

- Financing investments aimed at solar energy production and renewable energy grid integration align with the low carbon 2050 vision because they reduce dependency and use of fossil fuels. According to the International Energy Association (IEA), in 2021 hydropower accounted for 90% of electricity generation, 8.5% was coal, and the remainder was natural gas. Its heavy reliance on hydropower has exposed the country to high degrees of supply volatility, especially in winter months, often resulting in electricity shortages. Within this context, we assess Bank Eskhata's loans for small scale solar and grid transmission projects as Dark green.
- We understand that the funds provided under this category will only finance small-scale projects, such as roof-top solar installations, and not large solar farms and transmission systems. This lessens the potential for adverse local environmental impacts.
- The production of the technologies in question could result in negative value chain environmental impacts, for example, hazardous waste generation and emissions from industrial processes and transport. Under the ESRM procedure that is part of the lending process, clients are subject to varying degrees of scrutiny. Micro and retail clients are required to demonstrate compliance with local regulatory and permit requirements. We view positively that SMEs and corporate clients, who likely face greater exposures and impacts, are assessed on their management of environmental and social risks identified by the bank during the loan application process.
- Tajikistan is highly exposed to physical climate risk. The lending activities it finances as part of its partnership with the IFC are typically subject to the IFC's Adaption/Resilience assessment (i.e., Building Block 2), whereby projects are required to demonstrate that climate risk has been identified and resilience measures have been implemented. As the projects included in

the scope of this framework are small in scale, have short tenors, and can be moveable assets, we understand this assessment will not be applied. That said, we note that different project categories have different levels of exposure depending on their nature. Small-scale solar and transmission projects could, for example, be exposed to physical climate risk given their more fixed nature. We acknowledge that physical climate risk may be included in permit and insurance checks.

## Energy efficiency

### Assessment

 Light green

### Description

Eligible energy efficiency (EE) projects are defined as the measures implemented by an eligible sub-borrower aimed to acquire, replace, redesign, or refurbish equipment, systems, and/or contracting services/products in order to decrease energy consumption for every unit of service output. This includes utilizing waste energy and any other measure to improve the efficiency of energy use (or reduce specific energy consumption) of the system directly affected by the sub-project, based on minimum requirements. In general, an EE project must reduce absolute energy consumption by at least 20%.

Examples include, but are not limited to:

- Projects improving the energy efficiency of industrial production processes;
- Individual renovation measures including installation, maintenance, or repair of:
  - Energy efficiency equipment (e.g., LED lighting);
  - Home improvement equipment such as double glazing and roof/wall insulation;
  - Instruments and devices for measuring, regulation, and controlling energy performance of buildings (e.g., zoned thermostats, building automation and control systems, smart meters).

### Analytical considerations

- Activities that seek to improve energy efficiency are necessary to transition to a low carbon economy in line with the Paris Agreement 2050 objectives because they allow for the reduction in overall energy consumption and decrease primary energy demand.
- We assess Bank Eskhata's financing of measures to improve the energy efficiency of equipment, systems and/or contracting services/products as Light green. Due to its focus on micro, SME, and retail loans, activities eligible under this category will contribute to the improvement of households and small-scale industrial processes energy use. While it is positive that the criteria include a requirement that the financed measures reduce absolute energy consumption by at least 20% compared with pre-project implementation levels, such reductions can arise from the application of market-standard technology or business-as-usual practices.
- Although the framework's exclusion criteria and relevant provisions of the issuer's ESRM policy apply, the small scale of the loans that will be financed under the framework indicates that there is some uncertainty as to what types of industrial production could be eligible. The issuer confirmed it will not provide loans for activities related to the efficiency improvement of fossil-fuel powered assets.
- There is the potential for adverse negative environmental impacts, namely in the production of the equipment in question and in the end-of-life stage. As the projects included in this category are small in scale, these impacts are likely to be limited. We note that clients included in the scope of financing under this framework are subject to varying levels of scrutiny, with only SMEs and corporate clients assessed on environmental and social risk management beyond legal compliance and micro and retail clients required to prove compliance with regulatory and permit requirements, as outlined in the renewable energy category above.
- Given the nature of the projects and their small scale, the potential for physical climate risk for this category should be less material.

## Energy efficient and renewable energy equipment

### Assessment

 Light green

### Description

Eligible sub-projects can include the financing of manufacturers and suppliers of equipment or products intended for EE and RE projects:

- In the case of EE equipment or products, the eligible sub-project should be directly manufacturing or supplying the energy-efficient technology equipment or appliance. The EE equipment or products should either be verified as energy-efficient based on a reasonable benchmark in the market of the technology or product being sold or be directly supplied to EE projects (per definition of eligible EE sub-projects above).
- In the case of RE technology equipment, the eligible sub-project should be directly manufacturing or supplying a component that is exclusively for the purpose of producing or supporting RE.

Equipment, appliances, and lighting that show an energy-efficiency assurance label, assuring at least 20% energy savings compared to the baseline are automatically accepted. To date equipment, appliances, or lighting with the following domestic EE labels can be accounted as eligible projects:

- Bangladesh EE label with 4 or 5 stars.
- South African energy efficiency label A+++, A++, A+
- Energy Star (IT equipment)
- White appliances listed in the annual list Most Efficient Energy Star
- Vietstar 5 or 4 star (Vietnam)
- FIDE A or B (Mexico)
- Hong Kong Voluntary Energy Efficiency Labelling Scheme
- Argentinian Official EE label category A or B
- Brazilian Etiqueta Nacional de Conservação de Energia (ENCE).

### Analytical considerations

- Activities that seek to improve energy efficiency and promote renewable energy are necessary to transition to a low carbon economy in line with the Paris Agreement 2050 objectives as they allow for the reduction in overall energy consumption and decrease demand for fossil fuels.
- The criterion regarding the manufacture and supply of energy efficient or renewable energy technology equipment and products is considered Light green. This criterion intends to promote the sector of energy efficiency and renewable energy technology manufacturing in Tajikistan, and the end use of such products should contribute to the transition to a low carbon future (as discussed in the previous two project categories). Nonetheless, while the production of equipment is crucial, climate and environmental risks can arise during production and are not expressly addressed in the criterion; for example, limits on production emissions. In addition, there is uncertainty as to how Bank Eskhata will define "reasonable benchmarks" for energy efficient equipment.
- Investments in energy efficient equipment is also considered Light green, given they could result in improved energy performance for users of the applicable technologies by improving energy efficiency and reducing energy use. Such equipment can be financed if it has one of the energy labels listed in the eligibility criteria, or, in the absence of such label, if there is a demonstrated 20% savings compared to a pre-project implementation baseline. In respect of the energy labels, the issuer informed us that only Energy Star will be used, and that equipment with this label in Tajikistan outperforms regulation in respect of energy efficiency.
- The exposure to physical climate risk of the equipment included in the scope of this financing is likely to be less material, as the assets in question are moveable. The facilities used for the manufacture of efficiency and renewable energy equipment could be



exposed to physical climate risk due to their fixed nature. As outlined in the renewable energy category, clients included in the scope of financing under this framework are subject to varying degrees of scrutiny, with only SMEs and corporate clients assessed on environmental and social risk management beyond legal compliance and micro and retail clients required to prove compliance with regulatory and permit requirements.

## Green Buildings

### Assessment

#### Light green

### Description

An eligible green building project should be financing for the construction or mortgage of a building that:

- Eligible green building projects are for the financing the buildings that comply with standards on green buildings with the following certificates: Is certified by IFC's Excellence in Design for Greater Efficiencies (EDGE) certificate; Environmental Assessment Method (BREEAM) certificate, as defined by the Building Research Establishment (BRE); certificate issued by the German Sustainable Building Council (DGNB); Green Star; Leadership in Energy and Environmental Design (LEED) certificate; or an equivalent internationally-recognized green building certification system or a certification validated by IFC Green Building Specialists; and
- Documents 20% energy efficiency improvement compared to a baseline building without energy-efficient design; and
- Has a measurable impact.

### Analytical considerations

- The construction, renovation, and purchase of green buildings can support climate change mitigation, as it allows for improved energy use, and can lead to additional environmental benefits, such as reduced water consumption, which are needed to achieve low-carbon built environments, in line with the 2050 Paris Agreement vision.
- We understand that the issuer will primarily seek to provide financing for the construction of new green buildings (one potential pilot project is currently being mooted). Though unlikely, it could also finance the renovation of buildings so that they satisfy the criteria post-renovation, or provide mortgages for the purchase of units within buildings constructed in accordance with the criteria outlined in the framework. We assess the issuer's financing under this category as Light green, given that the criteria require, at a minimum, energy performance 20% better than local regulation.
- All buildings under the project category must satisfy the requirements of the IFC's EDGE Certificate, which requires a 20% reduction in energy use, water use, and embodied carbon in material. The baseline for energy use is local regulations, according to the issuer, while a baseline building can be used for water use and embodied carbon. Buildings may be additionally certified using LEED and BREEAM, though according to the issuer they must also satisfy EDGE requirements. Note that the criteria contain no exclusions or specifications in respect of heating type, and buildings that use fossil fuel heating could therefore be financed.
- The construction of buildings generates negative environmental impacts despite certification-level practices. This includes construction waste, water use, and emissions from fossil fuel-powered equipment and transport vehicles. We note that clients included in the scope of financing under this framework are subject to varying levels of scrutiny, with only SMEs and corporate clients assessed on environmental and social risk management beyond legal compliance; micro and retail clients are required to prove compliance with regulatory and permit requirements, as outlined in the renewable energy category above. The bank may at its own discretion apply more-detailed environmental and social risk assessments for projects with higher apparent risk levels.
- Given the fixed nature of buildings, they are exposed to significant physical climate risks. Although the framework does not include a systematic assessment of physical climate risks for each project category, due to their small scale and short tenor, we understand that new buildings will be required to be built on areas not prone to flooding. Other activities eligible under this category, namely refurbishment, will not be assessed, beyond what is required to meet the building standards listed in the criteria. We acknowledge that physical climate risk may be included in permit and insurance checks.

## Clean transportation

### Assessment

 Light green

### Description

Finance or refinance purchase, rental, leasing, and operation of zero direct emission vehicles (EVs, electric scooters/mopeds, and similar), as well as related infrastructure (e.g., electric charging points). Note: Vehicles used for the purpose of transportation of fossil fuels are excluded. Eligible infrastructure does not include parking facilities. Hybrid vehicles are also included.

### Analytical considerations

- Electric vehicles are seen as a key technology to decarbonize road transportation, while hybrids can be seen as transition technology, given that they can have lower emissions than internal combustion engine vehicles and can contribute to the development of charging infrastructure.
- We assess the issuer's financing of zero direct emission and hybrid vehicles as Light green. In the context of Tajikistan hybrids may contribute to the development of charging infrastructure and we consider that this project category may promote the transition to a low-carbon transport sector where zero emission vehicles have achieved low levels of market penetration. However, the criteria do not specify emissions thresholds for hybrids and does not exclude non-plug-in models.
- Value chain emissions for electric vehicles depend on the grid's energy mix. We expect Tajikistan's commitment to increasing the presence of renewables in the country's grid to achieve its NDC 2030 unconditional emissions reductions of 30%-40% to somewhat reduce this exposure.
- We note that clients included in the scope of financing under this framework are subject to varying levels of scrutiny, with only SMEs and corporate clients assessed on environmental and social risk management beyond legal compliance and micro and retail clients required to prove compliance with regulatory and permit requirements, as outlined in the renewable energy category above. We acknowledge that due to the small scale of the activities in question, this may be less material.
- Due to the moveable nature of the vehicles included in this project category, we consider exposure to physical climate risk to be minimal.

## Climate smart agriculture (CSA)

### Assessment

 Light green

### Description

Sub-projects that are certified under the following agri-certification schemes are automatically eligible:

- Aquaculture Stewardship Council Standards for Farmed Seafood;
- Roundtable on Sustainable Biomaterials Standard;
- Roundtable on Responsible Soy Association Standard;
- Bonsucro Production Standard;
- Fairtrade Standard for Small-Scale Producer Organizations; and
- Rainforest Alliance 2020 Sustainable Agriculture Standard.

**Eligible with conditions:** For the following certification, climate eligibility depends on the specific practices adopted, and will require additional review of supporting documentation.

**Better Cotton Initiative:** Confirm if the risk assessment plan prevents deforestation. If, and only if, this condition is met, then 100% of financing volume can be classified as climate-related.

### Analytical considerations

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- Sustainable farming practices can contribute to mitigating the emissions and negative environmental impacts associated with agriculture. Agriculture is one of the main sectors in Tajikistan and is characterized by small-scale farmers using traditional low-yielding technologies and farming practices. Therefore, in this context, the project category receives a Light green assessment. This is because the use of certifications may lead to more sustainable farming in the Tajiki context, further supported by the safeguards and exclusion in the eligibility criteria, but uncertainties still exist, arising from the different approaches of the listed certifications, and unspecified working capital can be financed.
- The issuer has confirmed that it will not provide loans for livestock agriculture under this framework, and that only existing farms that are certified according to the standards listed in the criteria are eligible. Moreover, we view positively that the bank has excluded activities that lead to deforestation as part of the overall framework's exclusion criteria and that an additional screening against deforestation will take place for Better Cotton Initiative-certified borrowers.
- According to the issuer, in the Tajiki context, agriculture carried out under the certifications listed is more sustainable than the more widespread traditional practices employed by farmers. However, certifications in themselves do not guarantee positive or equal climate or environmental benefits. This is because certifications can focus on different goals (environment, climate, water etc.), adopt differing approaches (procedural v. thresholds), and have differing levels of restrictiveness. As such, the effect on climate and the environment of implementing these practices is difficult to assess. For example, although the Better Cotton Initiative requires a reduction in the use of pesticides, it does not prohibit their use, and its benefits compared with organic or synthetic cotton farming are uncertain.
- As the framework does not list activity types that could be eligible, nor does it require screening to be conducted on the purpose of the loan, we understand that the proceeds can be used to finance the working capital of the eligible farms. Proceeds may ultimately, therefore, be used to finance specific assets which are, in and of themselves, less-aligned with the 2050 future (for example, fossil fuel-powered machinery, fertilizers, or pesticides).
- As outlined in the renewable energy category above, clients included in the scope of financing under this framework are subject to varying levels of scrutiny, with only SMEs and corporate clients assessed on environmental and social risk management beyond legal compliance and micro and retail clients required to prove compliance with regulatory and permit requirements.
- Agricultural activities are highly exposed to physical climate risk. As outlined in the renewable energy category above, the bank will not assess or seek to mitigate its portfolio exposure due to the small scale and short tenor of the projects in question. We acknowledge that physical climate risk may be included in permit and insurance checks

### Sustainable water and wastewater management

#### Assessment

 Light green

#### Description

Loans to (re)finance development, construction, operation, and maintenance of sustainable water and wastewater management projects and facilities:

- Technologies that increase water-use efficiency, water recycling and reuse, water saving systems and technologies, and water metering;
- Use of effective irrigation methods (drip irrigation);
- Promoting efficient irrigation technologies;
- Rehabilitation of irrigation and drainage systems.

#### Analytical considerations







- Financing activities for the development, construction, operation, and maintenance of sustainable water and wastewater management projects can result in positive environmental benefits in terms of water consumption and water security and are necessary for the achievement of the 2050 Paris Agreement objectives.
- According to the World Bank, the Tajikistan water supply is exposed to significant challenges due to a long-term lack of investment and inadequate operation and maintenance. Within this context, we therefore assess the issuer's loans for water-related projects for households and agricultural activities to be Light green. This reflects that the loan should lead to increased water efficiency, while at the same time acknowledging that the criteria does not include any specific improvement thresholds.
- While the project category is limited to small-scale investments, projects may also give rise to other environmental risks, for example, related to rehabilitation of waterway irrigation systems. As outlined in the renewable energy category above, clients

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included in the scope of financing under this framework are subject to varying levels of scrutiny, with only SMEs and corporate clients assessed on environmental and social risk management beyond legal compliance and micro and retail clients required to prove compliance with regulatory and permit requirements.

- Infrastructure is exposed to physical climate risk. As outlined in the renewable energy category, due to the small scale of the projects in question, it will not conduct physical climate risk assessments or seek to mitigate the exposure. That said, given the small scale of the projects, this exposure is less material. We acknowledge that physical climate risk may be included in permit and insurance checks

S&P Global Ratings' Shades of Green

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

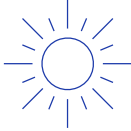
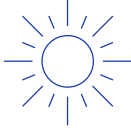
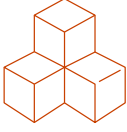





Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

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

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

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

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs
Renewable energy	 <p data-bbox="443 751 652 814"><b>*7. Affordable and clean energy</b></p>
Energy efficiency	  <p data-bbox="443 1008 652 1071"><b>*7. Affordable and clean energy</b></p> <p data-bbox="683 1008 850 1092"><b>*9. Industry, innovation and infrastructure</b></p>
Green buildings	  <p data-bbox="459 1287 641 1371"><b>*11. Sustainable cities and communities</b></p> <p data-bbox="667 1287 867 1312"><b>13. Climate action</b></p>
Clean transportation	 <p data-bbox="459 1566 641 1650"><b>*11. Sustainable cities and communities</b></p>
Sustainable agriculture	 

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**\*2. Zero hunger      \*15. Life on land**

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Sustainable water and wastewater management



**\*11. Sustainable cities and communities**

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

## Related Research

- [ESG Materiality Map: Banks](#), July 20, 2022
- [Analytical Approach: Second Party Opinions: Use of Proceeds](#), July 27, 2023
- [FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions](#), July 27, 2023
- [Analytical Approach: Shades of Green Assessments](#), July 27, 2023

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## Second Party Opinion: Bank Eshkata OJSC's Green Bond Framework

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