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Approved

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Green Economy Financial Products Guidelines

The Guidelines on Green Economy Financial Products (the "Guidelines") related to the Green Economy Development Strategy for 2023-2037, approved by the Decree of the Government of the Republic of Tajikistan dated September 30, 2022, No.482, are designed to assist financial and insurance credit institutions in identifying and implementing green financial products and are advisory in nature.

1. GENERAL PROVISIONS

The main concepts used in this Guide are:

- **green economy** – a new economic model that includes the priority of environmentally friendly technologies, renewable energy sources, water supply services and environmentally friendly transport, the need for waste management, the construction of environmentally friendly buildings, sustainable agriculture and the human approach to the rational use of natural resources;
- **Environmental, Social and Corporate Governance Standards (ESMS)** are recognized international standards adhered to by credit financial institutions (CFS) and insurance organizations (SA) in their activities, and include the following standards:

- **environmental standards**– prevention of the negative impact of CFS and JI on the environment, climate, nature and ecology in the process of using natural resources;
- **social standards**– establishing the interaction of CFS and SO with employees and the local community, including legal labor relations, creation of favorable working conditions, ensuring labor protection, protecting the health of employees and ensuring gender equality;
- **Governance standards**– integrating good corporate governance into the CFS and JI to prevent risks, ensure transparency and disclose the implementation of the ESMIS.
- **green agriculture**- meeting current and future needs in a way that is environmentally friendly, as well as reducing the cost of natural resources;
- **green energy (renewable energy)** - energy obtained from natural resources that are renewable or inexhaustible on a global scale (renewable energy from natural resources - sunlight, water flows, winds, etc.);
- **green transport**- a vehicle that does not have a negative impact on the environment and uses green energy sources;
- **green (clean) industry**- an enterprise (industry) that does not produce harmful emissions (smoke, noise, unpleasant odors, etc.) into the environment;
- **Sustainable finance**– the process of integrating environmental, social, climate and governance considerations into investment decisions in the financial sector, which leads to financing of sustainable economic activities and projects, as well as facilitating the attraction and use of financial resources for projects and initiatives that ensure environmentally sustainable development, reduce negative environmental impacts and

mitigate the consequences of change Climate;

– **green finance** is a part of sustainable finance, a way to contribute to environmental protection and the preservation of natural resources by reducing the use of resources (e.g. electricity, water, paper-based operations, etc.) for future activities;

– **green banking**– banking activities aimed at green financing through the provision of various financial products, including investments in green projects, provision of green products and services, support for sustainable development and environmental initiatives, projects to mitigate the consequences of climate change, including green agriculture, clean industry, green (renewable) energy and energy efficiency programs;

– **green financial products** – products and services of CFS and JI classified and developed in accordance with the principles of a green economy;

- **green bonds**- securities issued by the issuer to finance or refinance (fully or partially) projects to protect the environment and improve the state of the environment;

- **green deposit**- a term deposit intended for use by customers exclusively as placed means of payment for the purposes of green banking;

- **green loans**- loans provided within the framework of the introduction of green banking;

- **green insurance**- the use of insurance services to reduce risks and threats, develop innovative solutions, increase business efficiency and promote environmental protection (improving the environment and combating climate change) and solving social problems.

2. GREEN FINANCE

2. The main goal of green finance is to reduce emissions, improve the management of greenhouse gases and reduce their vulnerability, preserve and improve the relationship between man and the environment, save energy, prevent and restore depleted water and forest resources, increase the efficiency of resource use and, in general, ensure environmental security and sustainable economic development through the effective and rational use of natural resources. Resources. 3. Green finance is linked to various areas of financial services, including investment, insurance, banking, accounting, economic advisory, etc. Decision-making related to green finance prioritizes ESMS principles which are linked to the long-term client and societal interest.

4. Green finance is a means of promoting environmental protection and conserving natural resources by reducing the use of resources (e.g., electricity, water, paperless paper, etc.) for future activities. CFS and JI use green finance by applying green technologies to other sectors through their financial products. This applies to projects that reduce negative external environmental impacts or contribute to positive external impacts on the environment. Thus, the approval or maintenance of green initiatives is carried out or approved through the financial instruments of CFS and JI.

5. The principles of green finance include: targeted use of funds, transparency, direct assessment, compliance with international standards, monitoring and reporting.

6. Green finance aims to increase the level of financial flow (from CFS and JI) in the public, private and non-profit sectors with sustainable development priorities.

7. When providing financial services, life cycle assessment (LCA) of a product is taken into account. That is, products and other green services

must be good for the environment throughout their life cycle.

3. GREEN BANKING

8. The activities of "green banking" are carried out according to the following five main areas: green finance, environmental measures (measuring carbon emissions), ESMS, green marketing awareness, understanding, reporting and disclosure of environmental problems.

9. Green banking, in general, incorporates environmentally sound financing practices and internal processes and reduces greenhouse gas emissions.

10. Green banking is a two-pronged approach to transforming the domestic operation of the CFS and the CFS implement best practices for using different green products/projects, automation and other measures to reduce greenhouse gas emissions in their activities.

11. CFS give priority to green finance and may consider environmental risk assessment before deciding on green financial products. Green financial products are an important tool to promote sustainable economic development and combat climate change. CFS play a key role in the transition to sustainable economic models by offering green financial products.

12. Green financial products promote sustainable development and aim to reduce negative environmental impacts. In particular, green loans, green bonds, green investment funds, green savings, green credit and debit cards, green mortgages, and others.

13. Environmentally Sound Agriculture Finance aims to promote sustainable agriculture through climate change adaptation measures. Agricultural productivity, especially in arid areas, needs to be improved through the introduction of principles of environmental friendliness, soil quality management and synergistic resource conservation.

14. Eco-agriculture sectors (using biological materials):

- husbandry;
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- preservation of crop yields;
- irrigation facilities;
- agricultural machinery;
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- use;
- and others.

15. Implementation of green financing in agriculture contributes to increased investment, introduction of modern technologies in irrigation, rational use and management of land resources, prevention of land degradation, increase in agricultural production, profitability and productivity.

16. Green finance in agriculture is seen as a priority area and can be granted by the CFS for green production, greenhouses, drip irrigation systems in the hills, hillside orchards, traditional orchards (in the hills), intensive orchards and vineyards (in the plains), terracing, the digging of drainage ditches, as well as the purchase of agricultural machinery (new agricultural machinery), including tractors, harvesters, milk processing equipment and other similar areas.

17. Green financing for livestock or poultry aims to produce livestock and poultry using modern technologies that can reduce the impact of greenhouse gases on the environment.

18. Financing for the green (renewable) energy sector. Green (renewable) energy includes energy from water streams in rivers, natural and artificial reservoirs, solar energy, wind energy, geothermal, biomass in the form of

industrial, agricultural, forest waste, etc.

19. Green (renewable) energy is energy obtained from natural sources and includes:

- solar panels;
- solar power grids;
- Sun parks;
- solar pumping systems for irrigation;
- enterprise for the production of solar photovoltaic systems;

- solar home systems;
- solar pumps for drinking water;
- sunny refrigeration rooms;
- Biogas power plants;
- wind farms;
- plants;
- Mobile power plants;
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20. Financing in green energy can be directed to solar panels, cold rooms, thermal insulation of buildings, solar water heaters, energy-efficient household appliances and other similar areas.

21. CFS can provide green investments in these priority areas, subject to compliance with requirements.

22. Finance to the green transport sector (clean, low carbon transport, clean transport infrastructure), that is, a sector that includes the following transport modes using only clean sources: traction power, natural gas (including biomethane), hydrogen and fuel cells (cells), electricity, solar energy, biofuels, as well as non-motorized transport.

23. Finance in the Green Industry (Clean Industry) sector, a sector that prioritizes the efficiency of sustainable resource use in production and

enables industrial development to protect the environment and benefit society.

24. Low Risk Industrial Enterprises (in accordance with Environmental and Social Due Diligence (ESDD) - environmental and social diagnoses):

- | | |
|--|----------|
| - an industrial enterprise for the production of crop production; | Products |
| - An industrial enterprise for the production of products operating on 100% local raw materials; | Dairy |
| <ul style="list-style-type: none">- folk crafts;- processing and production of honey;- Agricultural production;- Production of textile products;- production of agricultural machinery;- production of organic fertilizers;- processing of vegetables and fruits, etc. | |

25. Green mortgages are funds provided by the CFS for the construction or purchase of real estate that meets clean environmental standards.

26. Green mortgage loans are issued in accordance with international standards such as

LEED/ASHRAE/IES/USGBC etc.

27. Green financing for small and medium loans (SMEs) aims to provide financial access to finance for vulnerable groups by building resilience and reducing climate change, which is seen as important for the transition to low-carbon, cyclical and sustainable economies. CFS support targeted initiatives to expand green finance for MSCs, with a focus on specific sustainable/inclusive sectors. The green finance decisions of MCCs will address ESMS, inequality, inclusion, human capital investments, biodiversity, pollution prevention, and circular economy. The CFS determine green finance priorities for MSCs, giving priority to green finance for women entrepreneurs, businesses established in rural areas, start-ups, agribusiness, disabled persons, etc.

28. Electronic means of payment and systems play an important role in the green economy and create an enabling environment for sustainable development. They offer efficient, affordable, and environmentally friendly alternatives to traditional paper payment services. The use of electronic means of payment and payment systems contributes to the reduction in the use of material resources, including:

- decrease in demand for cash and paper payments, as well as decrease in paper consumption and waste generation through the use of electronic financial documents;
- Replacement of traditional processes with electronic financial documents helps to reduce waste and simplify the process of their disposal;
- remote services through platforms, websites and electronic payment instruments, which allow customers to use services without visiting institutions, which also contributes to the reduction of the use of material resources.

29. The widespread use of electronic payment instruments and the development of payment systems accelerate the reduction of negative environmental impacts and ensure transparency in the provision of services, encouraging environmental behaviour of consumers.

30. For the transition to a green economy, it is envisaged to use digital financial technologies to provide remote payment services, introduce cashless payments and electronic document flow in all areas. The above measures make it possible to significantly reduce the use of material resources.

4. GREEN INSURANCE

31. The purpose of insurance is to reduce damage from fires, earthquakes, natural disasters and other calamities, and losses to society. Climate change on the planet is forcing insurers to introduce methods to prevent losses associated with climate change, and to develop and offer products that reduce potential losses for the insured, the government and the

insurers themselves.

32. Green insurance is an insurance service that determines the planning, production and use of green products or their consequences related to production and consumption. At the same time, this service compensates for the insurance of environmental consequences of decisions made (or not made) by managers due to environmental consequences.

33. Green insurance can be of the following types: - insurance of the financing of green projects - insurance of environmental projects related to agriculture, renewable energy, clean industry, etc., the purpose of which is to reduce emissions into the environment and prevent greenhouse gas emissions; - green property insurance – property insurance of individuals and legal entities that meets the requirements of a green economy from an environmental point of view and is made from products that meet environmental standards;

- green vehicle insurance – insurance of the use of hybrid and electric vehicles, as well as provision of a discount when replacing fuel-fueled vehicles with environmentally friendly vehicles;

- Insurance of construction and installation works – insurance of construction projects, which reduces the risk of insured events due to the use of high-quality and environmentally friendly products;

- green cargo insurance – insurance for the transportation of goods related to the green economy;

- green agricultural insurance – insurance of agricultural sectors against natural disasters, such as excessive snowfalls or rains, floods, storms, landslides, ice, excessive humidity, drought, water shortage and other natural phenomena;

- environmental insurance is a type of insurance aimed at protecting the environment from various natural and man-made disasters, the object of which is the prevention of greenhouse gas emissions, the use of

equipment that reduces greenhouse gas emissions into the environment, as well as the prevention of natural disasters, such as floods, rainstorms, storms and droughts;

- Insurance of civil liability for environmental pollution is a type of insurance that provides for the payment of insurance compensation in the event of damage to the life, health and property of third parties, and to the environment as a result of greenhouse gas emissions and forest protection.

34. In addition to the types of insurance provided for in paragraph 33 of these Guidelines, SAs may develop and offer other types of insurance that contribute to the implementation of a green economy.

35. JI may apply incentive measures to expand the types of green insurance referred to in paragraph 33 by providing real discounts.

5. GREEN BONDS

36. The issue of green bonds is a profitable tool for the issuer and the investor, since by issuing a bond, the issuer receives the required amount, and the investor receives interest and principal. A green bond issuer raises capital from investors to mitigate the effects of climate change and adapt it to green projects and activities.

37. The main purpose of green bond funding for the CFS is to facilitate investment in green projects.

38. Issuance of green bonds must comply with the principles established by the International Capital Market Association (ICMA).

6. SCREENING AND MONITORING

39. Screening is the process of establishing the CFS and SA test criteria to avoid significant damage in order to mitigate and adapt to climate change

and to ensure environmental and social coordination.

40. During screening, criteria for achieving one of the following environmental objectives without causing significant environmental harm that make a significant contribution are identified:

- reducing the effects of climate change;
 - change adaptation;
 - rational and efficient use and conservation of natural resources;
 - Protecting healthy ecosystems and ensuring biodiversity;
 - Pollution prevention and climate change
- to promote the sustainability of resources and the strengthening of sustainable economic development.

41. Screening takes into account the "Exclusion List" in accordance with international standards and other internal regulations.

42. Monitoring is carried out immediately after financing by the CFS to determine the quality of the loan portfolio. While ESG analysis is important for ex-ante sustainability assessments, sustainability can only be achieved when monitoring takes place both remotely and on-site.

43. The purpose of client performance monitoring is to assess the existing and potential risks to the ESMS arising from transactions. The monitoring process consists of periodic ESMS analytical reports submitted by the client and regular monitoring of the client's activities. It places special emphasis on:

- Assessing the implementation of any mitigation measures on the plan;
- monitoring of the current license or ESSM license;
- imposing any fines and sanctions provided for non-compliance with the requirements of the ESMS;
- Supervisory authority reports on compliance with the requirements and not exceeding the established emission standards;
- any complaints submitted to the client.

7. FINAL PROVISIONS

44. The CFS and JI develop their annual strategy based on the credit fund balances and premiums (contributions) received in the previous year and plan the annual budget for green (sustainable) finance and services at the beginning of the calendar year.