BSTDB Climate Change Strategy

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Acronyms

AFD	Agence Française de Développement
CRP	Climate Resilience Principles
CIF	Climate Investment Funds
DFI	Development Finance Institution
EIB	European Investment Bank
EBRD	European Bank for Reconstruction and Development
E&S	Environmental and Social
FI	Financial Intermediary
GCF	Green Climate Fund
GBP	Green Bond Principles
GEFTF	Global Environment Facility Trust Fund
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GHG	Greenhouse Gas
IAEA	International Atomic Energy Agency
IDFC	International Development Finance Club
INDC	Intended Nationally Determined Contribution
IFI	International Financial Institution
IPCC	Intergovernmental Panel on Climate Change
MDB	Multilateral Development Bank
NPP	Nuclear Power Plants
R&D	Research and Development
SDGs	Sustainable Development Goals
UN COP	United Nations Conference of Parties

Key Definitions

Climate Change - The long-term global alteration of temperature and weather patterns.

Green House Effect - A process by which radiation from the planet's atmosphere warms the surface to a temperature above what it would be without an atmosphere.

Green House Gases (GHG) - Gases that absorb and emit radiant energy, causing the 'greenhouse effect'. The primary GHG in the Earth's atmosphere are water vapor, carbon dioxide, methane, nitrous oxide and ozone.

Climate Mitigation - The reduction of the emission sources causing global warming, and enhancing sinks for carbon removal.

Climate Adaptation - Adjustments in the environmental and socio-economic systems to both moderate harmful impacts and utilize opportunities arising from climate change.

Climate Financing - Financing from a diverse range of sources that seeks to support mitigation and adaptation actions that will address climate change.

Climate Co-benefits (in operations) – Operations where climate benefits are secondary, or side effects to the primary intention.

Carbon Accounting - A tool used to disclose emissions at a fixed point in time and in line with financial accounting periods, allowing stakeholders to understand how a financial institution's loans and investments are contributing to, or inhibiting, the transition to a low carbon economy.

GHG intensity of a portfolio - The total annualized absolute GHG emissions of a portfolio, either total or per million invested.

Green Bond - Bond instruments where the proceeds are used exclusively to finance and re-finance projects that contribute to climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control.

Intended Nationally Determined Contribution - A caveat of the Paris Agreement allowing each country to set its own emission reduction targets.

De-Carbonisation - Reducing the amount of GHG emissions produced from the burning of fossil fuels.

Executive Summary

Climate change affects the natural environment and human wellbeing through loss of ecosystems and their services, threats to water and food security, deterioration of man-made capital, and ability of economies to sustain growth and alleviate poverty. Thus, climate change threatens development, and combating it is an unprecedented global developmental challenge.

The development finance institutions play an important role in addressing climate change by providing financing for climate change mitigation and adaptation activities, thus making economies more climate friendly and more resilient to climate impacts. The Paris Agreement duly recognizes the role the financial sector has to play in shifting capital allocation towards climate financing and low-carbon economies.

Over the years, BSTDB supported operations with positive climate impact, but it can play a more notable role in addressing this global issue. At the same time the Bank recognizes that climate change poses new challenges to fulfilling its mandate and remaining meaningful, relevant and effective for its shareholders.

While aware of the pandemic-related lingering economic exigencies and uncertainty at the time of its approval, the Climate Change Strategy represents the vision and approach of BSTDB in addressing climate-related issues over the next ten years and beyond, and defines a more purposeful role for the Bank in supporting its shareholders to both mitigate and better cope with the impacts of climate change. By way of this document the Bank intends to better align its financing with the Member States climate priorities and commits to achieve the following three strategic objectives: 1) to gradually reduce net emissions in the portfolio by setting periodic emission targets aiming at achieving zero net emissions by 2050; 2) to gradually increase the share of its funding to climate positive operations and operations with climate co-benefits to at least 30 percent; and 3) to build capacity to better serve Member States public and private sector actors in mitigation and adaptation efforts.

In successfully meeting these objectives BSTDB will develop within twelve months following the approval of this Strategy a comprehensive implementation plan, which will systematically address climate issues at both strategic and operational level. GHG emission reduction is a crucial part of climate mitigation, and the Bank will strongly support future such efforts. Renewable energy investments, energy and resource efficiency, sustainable infrastructure, green buildings and electric transport systems will be among BSTDB's financing priorities. At the same time the Bank will gradually phase out support for carbon-intensive sectors.

Raising additional capital and exploring new sources of finance are central to fulfilling the Bank's strategic objective of mobilizing more capital for climate financing. BSTDB will seek to build a solid portfolio of green operations thus building expertise as well as gaining credibility. This will help attract more capital, including through green and climate bonds following the prevailing standards, access grants and technical assistance for project preparation needs, and contract concessional loans from climate funds.

BSTDB will build capacity to support and enhance mitigation and adaptation in both existing and new operations, either internally or by targeted outsourcing. This especially applies to vulnerable sectors such as construction and real estate, coastal infrastructure, agribusiness, mining, water-intensive sectors and utilities. These efforts will be made possible by both updating the Bank's assessment frameworks to account for climate risks as well as strengthening the due diligence process to identify and manage more accurately the climate change impacts on its operations. Using tools like carbon accounting methods and disclosure of the carbon intensity of its portfolio will help track and measure progress towards achieving the Bank's strategic goal.

BSTDB will seek balance on the issue of coal, by adhering to international best practices and trends, while respecting the sector's importance to its shareholders. This means that financing will be open for increased sustainability, or re-purposing of current operations. Similarly, considering the low carbon nature of nuclear energy and the fact that many of the Bank's Member States see it as an effective way to achieve the emissions targets of the Paris Agreement, BSTDB will, under certain conditions, be prepared to finance such operations in cooperation with larger and more experienced MDBs. In doing so the Bank will develop and embed strict safety standards into its risk assessment framework, as well as comprehensive nuclear screening guidelines and due diligence requirements.

The Bank will periodically review and adjust the implementation plan so that it contributes effectively to achieving the Climate Change Strategy's goals and objectives. BSTDB will ensure the relevance of the Strategy itself through a mid-term review in 2025, followed by necessary adjustments. Overall, the Strategy will help the Bank contribute more effectively to meeting the needs of its Member States in reducing

emissions, shifting to low carbon economies, and becoming more resilient to the impacts of climate change, and thus fulfilling its mandate in a more meaningful and relevant manner in the years to come.

Foreword

The Earth’s climate is affected by the increasing anthropogenic emissions that change the composition of the atmosphere and cause global warming, a process known as climate change. This phenomenon is characterized by more apparent shifts in temperature, precipitation, rising sea level, and more extreme weather events. The change in temperature and precipitation patterns impact water, agriculture and food security. Rising sea levels affect ocean currents and weather patterns, coastal areas and security of human settlements. The observations over the last hundred years show clear evidence of increased incidents of extreme weather events such as storms, floods, droughts and heat waves. This directly affects the natural environment and human wellbeing. It also affects businesses and national economies by accelerating deterioration of man-made capital, and the ability to sustain growth and alleviate poverty. Thus, climate change threatens development, and combating it is an unprecedented global developmental challenge.

The development finance institutions (DFIs) play an important role in addressing climate change. They provide financing for climate mitigation and adaptation activities, thus making economies more climate friendly and more resilient to climate impacts. In 2018-2019 DFIs, including bilateral and multilateral, mobilized more than USD 194 billion in climate financing, with a large majority of these funds earmarked for investments into climate mitigation.

The Paris Agreement duly recognizes the role the financial sector has to play in shifting capital allocation towards climate financing. Moreover, it specifically calls for the financial institutions to support actions that reduce emissions, build resilience, decrease vulnerability, and help de-carbonize the global economy.

BSTDB, as a Multilateral Development Bank (MDB), has the mandate to promote economic cooperation and development in the Black Sea Region. It provides financing solutions to private and the public sector actors and creates value for its shareholders. All Member States of the Bank are vulnerable to climate change. Reasons for this include historic underinvestment, outdated practices, and aging infrastructure; as a result, they are less able to withstand the effects of the changing climate and therefore are increasingly vulnerable. Over the years BSTDB addressed this issue by supporting operations focused on reduction of emissions, promoting renewable energy generation, energy efficiency, cleaner production, modernization of existing, and building of new robust infrastructure, as well as more sustainable transport systems. Since 2011 the green financing, including operations with climate co-benefits, has comprised on average 20 percent of the Bank’s annual new commitments. While this unquestionably has had a positive climate impact, the Bank has the potential to play a more notable role in addressing this global issue. At the same time climate change also poses new challenges to the Bank’s ability to fulfill its mandate; therefore, BSTDB needs to be properly consider and account for these issues in its operations.

This document represents the vision and approach of BSTDB in addressing climate change through the operations it finances, by setting strategic goals, and identifying priority climate actions to be implemented over the coming years. Overall, the Strategy defines a more purposeful role for the Bank in supporting its shareholders to mitigate climate change and better cope with its impacts. The Strategy is compatible with approaches of other MDBs, the Sustainable Development Goals (SDGs), the Principles of Mainstreaming Climate Actions within Financial Institutions, and the Paris Agreement. The Strategy does not intend to burden the Bank with additional costs, but rather refocuses priorities with practical actions that will help BSTDB remain meaningful, relevant and effective in achieving its mandate. The document recognizes that climate change is a shifting and dynamic process requiring a similarly dynamic institutional approach. Therefore, BSTDB’s implementation plan will be regularly reviewed and the Strategy adapted as needed.

Financing Climate Mitigation and Adaptation

The general approach in dealing with climate change shared by the international and national decision-making, academic bodies, and peer DFIs builds on two distinctive yet complementary strategies: climate mitigation, and climate adaptation. Mitigation focuses on reduction of emission sources as the main cause of global warming and enhancing the sinks for carbon removal from the atmosphere. Examples of mitigation include reducing energy demand by increasing energy efficiency; phasing out fossil fuels and increasing use of renewable sources; removing carbon through afforestation and carbon capturing technologies; etc.

Climate adaptation focuses on adjustments in the environmental and socio-economic systems to both moderate harmful impacts and utilize opportunities arising from climate change. In other words, adaptation aims at reducing the risks or vulnerabilities posed by climate change and increasing resilience. Examples of climate adaptation include physical protection of coastal communities; resettling from flood-prone areas; switching to drought resistant crops; revision of building codes so that new developments can withstand severe weather events; etc.

Thus, mitigation addresses the causes of climate change, while adaptation addresses the climate impacts. Both strategies are interrelated, complementary, and necessary. Mitigation may help stabilize climate change and potentially meet the global target of temperature increase of just 1.5-2°C above the pre-industrial levels by the end of the century. However, even with substantial mitigation efforts, the climate would still continue to change and adaptation to these changes is imperative. Similarly, adaptation alone is not sufficient to eliminate all negative impacts and needs to be paired with mitigation to holistically limit climate change.

Allocation of public and private sources in investments that support climate change mitigation and adaptation is commonly referred to as climate financing. In broad terms it aims at reduction of GHG emissions and helping societies better cope with climate impacts. Climate financing is largely dominated by investments in mitigation actions, adaptation receiving roughly one fifth of the total. Currently more and more institutions make commitments to decrease this discrepancy.

By way of this Strategy, BSTDB will consider climate mitigation and adaptation in its financing decisions and will integrate them into its policies, operational activities, and overall portfolio management. Climate issues will be identified at early stages of operation development, to account for climate mitigation, resilience and adaptation of any new operation.

Paris Agreement and Relevance to BSTDB

The Paris Agreement was signed by 197 parties in 2015 and represented a unique global achievement. It has three main objectives:

- Keep global average temperature rise by the end of this century below 2°C and pursue efforts to limit it to 1.5°C;
- Adapt to climate change and reduce countries' vulnerabilities to its impacts; and
- Align finance flows with countries' pathways to low GHG emissions and resilient development.

The success of the Paris Agreement lies in the fact that it allows each country to set its own emission reduction targets through the so-called Intended Nationally Determined Contribution (INDC) and to adopt its own strategy to meet them by 2030.

The overwhelming majority of BSTDB Member States have already ratified the Paris Agreement, and have approved at government level their individual INDCs. The INDC outlines the country's emission reduction target, the national socio-economic climate priorities, the most vulnerable sectors, and what mitigation and adaptation actions are necessary to meet said target. For example, Albania committed to reduce its emissions by 2030 by 11.5 percent, Azerbaijan by 35 percent, Bulgaria, Romania and Greece by 40 percent, Georgia by 15 percent, Moldova and Russia by 70 percent, Ukraine by 60 percent etc., from the business as usual level. Some Member States also indicated the financial implications of meeting their INDC. Moldova for example estimated that in the period 2020-2030 it will require USD 5bn for mitigation actions and USD 0.2bn for adaptation measures.

Aligning the financing priorities of BSTDB with the INDCs of its Member States will play an important role in supporting its shareholders in meeting their climate mitigation and adaptation commitments. This in turn will contribute to BSTDB fulfilling its mandate in a more meaningful and relevant manner in the years to come.

Strategic Goal and Objectives

The goal of the BSTDB Climate Change Strategy is to notably increase the support to its shareholders in limiting climate change and coping more effectively with its impacts, as well as better aligning its financing to their climate priorities. In order to achieve this strategic goal, the Bank commits to meet in the next ten years the following three key objectives:

- Gradually reduce the net emissions in the portfolio by setting periodic emission targets aiming at achieving zero net emissions by 2050;

- Mobilize more capital for shifting economies to low-carbon and climate resilient models and increase gradually to at least 30 percent the share of its funding in the next ten years for climate mitigation and adaptation operations, and operations with climate co-benefits; and

- Build capacity to better serve the Member States public and private sector actors in mitigation and adaptation efforts, either internally or by targeted outsourcing.

The general approach of the Bank towards achieving these objectives will mainly be through shifting the financing priorities to more climate positive operations, increasing the climate positive potential in operations, and gradually phasing out support for carbon intensive sectors primarily the ones based on fossil fuel. BSTDB will develop climate specific products and credit lines to support building a solid portfolio of green operations, This will help attract more capital, including through green and climate bonds following the prevailing standards, access grants and technical assistance for project preparation needs, and contract concessional loans from climate funds.

BSTDB will build capacity to support and enhance mitigation and adaptation in both existing and new operations, either internally or by targeted outsourcing. This will specifically apply to the vulnerable sectors such as construction and real estate, coastal infrastructure, agribusiness, mining, water-intensive sectors and utilities. For this reason, the Bank will update its credit assessment frameworks to account for climate risks and by strengthening its due diligence process to identify and manage more accurately the climate change impacts on its operations. Using tools like carbon accounting methods and disclosure of the carbon intensity of its portfolio will help track and measure progress towards achieving the Bank's strategic goal.

BSTDB will seek balance on the issue of coal by adhering to international best practices and trends, while respecting its importance to the shareholders. The Bank will support operations in the sector that will aim specifically at increasing sustainability, re-purposing of current operations, and operations that will reduce the reliance on coal. Similarly, considering the low carbon nature of the nuclear energy and the fact that many of the Bank's Member States see it as an effective way to achieve the emissions targets of the Paris Agreement, BSTDB will, under certain conditions, be prepared to finance such operations. In doing so the Bank will develop and embed strict safety standards into its risk assessment framework, as well as comprehensive nuclear screening guidelines and due diligence requirements.

Further down the document defines in more detail the approach BSTDB will take, the principles it will follow, and the methodologies it will use in implementing its Climate Change Strategy.

Addressing Climate Mitigation

BSTDB will notably increase its support of renewable energy and energy efficiency as a way of decreasing GHG emissions in the portfolio and making economies more energy efficient and independent. Large-scale renewable energy investments, energy efficiency/renewable energy credit lines, and direct investments in green buildings and electric transport systems will be among the priorities.

Renewable energy generated by wind, solar, biomass and biogas, small and medium hydropower, and geothermal holds strong net climate benefits and over the last decade has transformed from a novel, insignificant and subsidy-dependent sector into a stand-alone and important consideration for most of the Bank's Member States. With significant advantages introduced across the Black Sea region, such as feed-in tariffs, renewable energy zones, green certificates and other attractive incentives, renewable energy represents a viable sector for climate mitigation financing. While BSTDB already supports a number of such operations, there is opportunity to further increase its exposure to the renewable energy sector, helped by favorable legislation, demand growth and great natural potential of the region.

The operations financed through Financial Intermediaries (FIs) are viewed as opportunities to expand climate change mitigation and adaptation efforts to a wider pool of sub-borrowers, helping them to transition towards low carbon economies. In this respect BSTDB will develop climate-specific credit lines such as green construction finance, green mortgages, energy efficiency consumer loans, etc., as well as the appropriate eligibility criteria for such credit lines. These will include energy efficiency, renewable energy, water efficiency, green buildings, energy accumulation and storage systems, waste management and others.

As the Bank moves towards increasing its exposure to the public sector it will develop and support operations aiming at investing in climate-friendly and resilient urban infrastructure. This may include water supply, street lighting, climate-friendly waste projects, and green municipal transport projects. BSTDB will also explore new climate markets, investment vehicles, and increase internal capacity and support.

As a first priority action in achieving the portfolio emission reduction objective early in 2021 the Bank will determine its carbon baseline based on the past three years' GHG emission average of the portfolio. This will help identify the most carbon intensive sectors followed by setting the first emission reduction target for such sectors that BSTDB will commit to meet by 2030. At this stage it is expected the emissions reduction target to cover mostly energy, industrials, and materials sectors, but at a later stage it will be gradually extended to the less carbon intensive sectors. Determining the carbon baseline will also help develop the longer-term roadmap and methodology to achieve the zero net portfolio emissions by 2050.

Addressing Climate Adaptation

BSTDB will develop internal capacity in order to support its clients in identifying climate change impacts that are likely to affect their operations. This in turn, will help formulate adaptation strategies that will increase resilience through improved practices, and investments in measures and technologies that are better suited to a changing and more variable climate, thus reducing long-term risk. In this respect, BSTDB will follow the IDFC-MDB's Common Principles for Adaptation Climate Finance. Climate change adaptation reaches many sectors of the economy, but particularly the most vulnerable ones, such as construction and real estate, water supply, hydropower generation, coastal infrastructure and water-intensive industries, agribusiness and mining. Investments in making these sectors climate resilient help businesses reduce costs, improve profitability and increase competitiveness.

In construction and real estate, BSTDB will seek to support projects that enhance resilience by designing buildings, infrastructure, parks and public spaces to cope with extreme weather events, such as floods and heat stress. The Bank's proceeds could be directed to counterbalancing the rising capital costs for developers linked to managing these climate risks.

In water-intensive sectors and utilities, BSTDB will aim at improving efficiency of water use by reducing losses in water supplies; helping businesses achieve water savings through efficiency improvements; and reducing water demand through rational pricing, metering and consumer awareness programs.

In the energy generation sector BSTDB will support projects that build resilience and increase energy diversity, such as new hydropower plants and making existing ones more robust to hydrological variability; promoting efficient use of cooling water in thermal power generation; and strengthening power transmission networks so they can better cope with climatic extremes and shifts in demand.

In agribusiness, BSTDB will support adaptation through investments designed to improve water efficiency in irrigation; optimize water use in agri-processing; and make supply chains more resilient through improved equipment and facilities for production, storage and transport.

In manufacturing companies, BSTDB will target investments that improve water and energy efficiency through modern technologies and practices; and management of climate risks to supply chains by addressing bottlenecks and providing support to suppliers.

In mining operations, BSTDB will look to finance projects aiming at improving mine water management systems, including more resilient wastewater storage and increased dam safety in tailing ponds. Additionally, the Bank will support efforts of the mining companies to utilize new technology allowing their operations to withstand harsher climatic conditions; and promote operations that include adapted supply chains.

Accounting for climate risks

Climate risks can impact investments physically as a result of severe weather events and longer-term changes in the climate, as well as through legal and policy driven mechanisms, shifts in technology, and market changes as economies transition to low-carbon models. Both physical and transition risks affect the financial profile of businesses and may result in losses. The most vulnerable sectors in this respect are hydropower, thermal power generation based on fossil fuels, agriculture and agribusiness (water intensive), ports, and infrastructure. The active portfolio of BSTDB includes operations in most of these sectors, which creates the need for the Bank to participate in mitigation of these risks.

In order to account for climate risks and ensure these are properly managed BSTDB will incorporate climate risks into its existing risk assessment frameworks. This will focus specifically on how the physical risks will impact the operation and its environment, its supply chain, productivity and labor, its asset value, and its market. On the transition risks side the assessment will focus on how the technology, policy and legal changes will impact the operation, its suppliers, assets, and markets due to changes in the preferences of the consumers. The overall approach will include three main stages: 1) screening climate change risk at the early stages, as the climate risk may not always be relevant to every operation; 2) assessment of climate change risks and options available; and 3) performing climate sensitivity analysis. As a start, in early 2021 BSTDB will perform an analysis of climate risks in select operations.

BSTDB will update its due diligence process by introducing climate change risks along other risks and impacts. This will include development of climate screening procedures based on existing sector specific guidelines and checklists and will cover industrial activities, power generation, infrastructure projects, agribusiness, construction and real estate, waste processing, etc. Climate screening will help understand better whether the climate mitigation is relevant to the operation, based upon the current and expected local climate change, the vulnerability of the area and the technical details of the operation. It should also help assess the short-term adaptation costs when compared to long-term damage due to climate change.

BSTDB will carry out assessment of climate change risks and options available, bearing in mind the distinction between mitigation and adaptation. If mitigation will be considered, it is important that the climate impact assessment will include the expected GHG emission level and the measures to reduce it; the available options to improve energy efficiency in the projects; and how the project will contribute to the country's climate mitigation goals and the goal of this Strategy. When adaptation will be considered relevant, the Bank will cooperate with its Borrowers to make the projects more resilient to the extreme weather conditions, to recover more quickly once extreme conditions return to normal, and make the projects more flexible when the extent and speed of climate change is uncertain.

To the extent possible, the Bank will also introduce, as part of its due diligence, climate sensitivity analysis that will consider different climate scenarios and whether the project can survive under such scenarios. BSTDB will work closely with its clients to identify effective measures for any of these scenarios, including back-up measures for the worst case.

Carbon accounting

Carbon accounting is an important tool used by peer MDBs to disclose emissions at a fixed point in time and in line with financial accounting periods, allowing stakeholders to understand how a financial institution's loans and investments are contributing to, or inhibiting, the transition to a low carbon economy. Generally, it is the estimation of gross GHG emissions generated on an annual basis and includes all the activities, facilities and infrastructure that the institution is financing.

BSTDB will introduce carbon accounting in its operation cycle and will follow the widely accepted standards and tools, primarily the ones developed and used by peer MDBs. In this respect the Bank will adhere to the IFI Framework for a Harmonized Approach to GHG Accounting that establishes a set of common principles that cover the policy commitments, screening, methodology, GHG emissions accounting, and reporting. In line with this, as done by other development banks, BSTDB will report aggregate portfolio emissions based on GHG emissions of each category B+ and A operations, not pro rata based on the Bank's involvement.

As per the accepted protocol of peer MDB's, and similar to how BSTDB requests borrowers to disclose financial statements, the Bank will require borrowers financing carbon-intensive operations to disclose full emission estimates during the due diligence stage. These will be used for internal reporting and public disclosure. The calculation methods used to determine emissions should be feasible in the specific context and internationally recognised, for example: the GHG Protocol methods, ISO 14064, verified carbon standard or other international standards.

BSTDB recognizes that carbon accounting and reporting may be challenging for smaller businesses. Therefore, accounting of emissions will start with carbon-intensive operations and will gradually involve operations in other sectors such as transportation, heavy industries, and agriculture. In the longer term BSTDB will seek to cover the emissions of whole portfolio of category B, B+, A and to the extent possible FI operations. The Bank will combine these data and report its total net portfolio emissions as early as feasible.

Green and Climate Bonds

Green bonds play an increasingly important role in raising capital for projects that help the transition to a low-carbon economy. These are bond instruments where the proceeds are used exclusively to finance and re-finance projects that contribute to climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control. The market for green bonds is fast developing and in 2019 green bond issuance reached more than USD 250 billion, 50% up compared to 2018. Climate bonds are similar to green bonds but are specifically aligned with the Paris Agreement's 2°C warming limit. The market for climate bonds is still a nascent one, and there are few examples of climate themed bonds being used to raise financing by private sponsors for low-carbon energy projects. Some MDBs however have successfully raised financing from pension funds and institutional investors through such instruments. While, there are differences in the design of these instruments among MDBs, generally the proceeds of the green bond issue are ring-fenced and applied to climate-related activities according to pre-defined eligibility criteria.

As part of its overall funding strategy, BSTDB will explore issuing green bonds to raise capital for climate financing and will follow the prevailing standards and certification schemes, such as the Green Bond Principles (GBP), the Climate Resilience Principles (CRP), and the EU Green Bond Standard. In doing so, the Bank will ensure the proper use of proceeds and that the eligibility criteria for green projects are clearly defined; it will carry out the appropriate project evaluation and selection which will be clearly communicated to investors; it will use third party approved verifiers to assure the bonds meet the agreed requirements; and it will report in a timely, accurate and transparent manner on the use of proceeds.

Climate Funds

Climate funds play an important role in boosting MDBs' climate financing. In 2019, the MDBs reported a USD 102.7 billion co-financing with climate funds. The major partners in this respect being the Climate Investment Funds (CIF), the Global Environment Facility (GEF) Trust Fund, the Global Energy Efficiency and Renewable Energy Fund (GEEREF), the European Union's funds for Climate Action, and the Green Climate Fund (GCF). The latter is of particular interest to BSTDB since the Bank intends to apply for GCF accreditation and thus obtain support for its climate mitigation and adaptation activities (including renewable energy generation). MDBs may apply either for accreditation to the GCF to apply grants, or concessional loans to projects they generate. Given BSTDB's current status, it will seek accreditation at the level of accessing concessional loans. The Bank already has the financial standards and many of the rules and procedures in place as it follows MDB best practices.

GCF accreditation would enhance the business profile of BSTDB and help the institution increase its climate financing activities since it could blend the concessional financing with its own for eligible climate finance related projects, thus improving access to climate financing on more favorable terms for the benefit of Member States. BSTDB will also explore other opportunities to attract technical assistance and grant finance to further support its climate financing activities.

Thermal Coal

Thermal coal is still the largest source of energy worldwide and the most abundant fossil fuel. It also has the highest CO_2 emissions intensity when combusted and is recognized as the largest single source of anthropogenic GHG emissions. Coal-fired power plants produce 40% of global electricity, but account for 70% of global CO_2 emissions.

Almost half of BSTDB's Members States, namely Russia, Turkey, Ukraine, Greece and Bulgaria, are among the top 20 coal producing countries in the world and coal extraction and coal-based power generation are still important contributors to their national economies. BSTDB's exposure to the sector over the years has been limited to a few operations, however the Bank commits to adequately respond to international decisions, including of IPCC and UN COP, which urge to end the global reliance on coal and de-carbonize economies. At the same time BSTDB needs to meet the demands of its shareholders to support extractive industries and fossil fuel-based power generation. Therefore, the Bank will develop and follow specific financing criteria for coal. Among these criteria the following will be considered:

- Operations involving existing coal mines, coal-fired power plants, and associated facilities may be supported only if these aim specifically at improving their environmental, and occupational health and safety performance, where the positive impact is demonstrably significant, e.g. upgrades of mine ventilation, safety, and hazard detection and prevention; more efficient emissions treatment; carbon capturing and storage; fuel conversion to less polluting hydrocarbons such as gas, or biomass;

- Financing of plans and programs for coal mine reclamation and closure, and coal-fired power plants' decommissioning.

BSTDB will not finance greenfield coal mines, coal-fired power plants, nor new associated facilities, such as processing and beneficiation plants, coal transportation and transshipment, coal mining and processing equipment.

BSTDB will continue supporting operations involving metallurgical or coking coal that is used as fuel and reducing agent in steel manufacturing, although it will seek to promote greater efficiency of use and reduced emissions as part of its support. Coking coal accounts for less than 25 percent of all coal consumed worldwide and is of no immediate global concern.

Nuclear Energy

Nuclear energy is considered low-carbon. The bulk of GHG emissions associated with nuclear power stems from cement production needed for the Nuclear Power Plants (NPP), component manufacturing, and uranium mining and enrichment. The analysis of the International Atomic Energy Agency (IAEA) of the life cycle impacts from electricity generation shows that nuclear power is among the lowest carbon emitting technologies available today. In terms of grams of CO_2 equivalent emitted per kW hour, nuclear energy fares better than solar, wind and geothermal, and only hydropower registers lower emissions.

The 2015 Paris Agreement recognizes the liberty of states to decide how to reduce their INDC and what low carbon power generating technology, including nuclear, to choose. The EU Energy Policy also acknowledges the right of individual Member States to determine their energy mix and use nuclear power as part of their strategy to reduce GHG emissions and enhance energy security. IPCC confirmed the significant potential of nuclear power in de-carbonizing the global power sector, and recognized the importance it has to play in achieving the 2°C target of the Paris Agreement.

Among BSTDB's Member States, five have active nuclear facilities, and Turkey is in the process of acquiring a new NPP. Turkey specifically states that it will rely on nuclear power as part of its INDC to mitigate climate change. Other Member States could adopt a similar approach. BSTDB may choose to support the nuclear sector in achieving the strategic goal to reduce emissions and to contribute to the de-carbonization of its shareholders economies. In doing so, the Bank commits to adhere to the existing nuclear safety standards and embed these into its risk assessment policies. In this respect BSTDB will develop and strictly follow eligibility criteria for any operation involving nuclear power. These will necessarily include, but not be limited to, the following:

- Eligibility of financing existing, or new nuclear power generation, full fuel cycle, waste management, safety upgrades, lifetime extension, decommissioning, and R&D, or specific programs such as decommissioning, or safety upgrades;

- The operation will not have any implications, direct or indirect in the proliferation of arms using radioactive materials;

- The request for financing will be fully substantiated, bankable, the use of proceeds will be clearly defined, and the Bank will be able to monitor and enforce such use at any time;

- The country of the operation will be a member of IAEA and will have ratified the key international conventions and treaties governing radioactive materials;

- In EU Member States, the proponent has secured the support and acceptance of Euratom and of an MDB with appropriate capacity and expertise e.g. EIB;

- Decommissioning and safety upgrades operations will be co-financed with an MDB of appropriate capacity and expertise e.g. EIB, EBRD;

- The Bank will be able to carry out an enhanced due diligence and has the resources to retain reputable external expertise to assist in assessing and managing the associated risks;

- There is sufficient evidence that the project is publicly accepted and that it does not trigger material reputational risks.

BSTDB will develop also comprehensive nuclear screening guidelines and due diligence requirements that will cover at a minimum: the national legal, regulatory and institutional nuclear framework; the technology and capability; management of spent fuel and radioactive wastes; economic analysis; E&S risks and impacts; and reputational risks.

Implementation Steps

The approval of the Climate Change Strategy by the BSTDB Board of Directors represents a major formal commitment to address this global developmental challenge. The Bank jointly with Agence Française de Développement (AFD) through its technical assistance extended to BSTDB, is in the process of developing within twelve months from approval of this Strategy a comprehensive implementation plan. This will comprise short-, medium- and long-term actions to support the implementation of the Strategy over the next ten years. These actions will lead to a more effective management of climate issues at both strategic and operational levels; promotion of climate smart objectives to help Member States transition to low carbon economies; improve the Bank's climate performance and transparent reporting of its climate actions, and thus contribute to meeting the Strategy's goal and objectives. Among the key areas the implementation plan will target the following:

- Increasing support for climate positive operations and gradually phasing out support for carbon-intensive sectors, cognizant of the needs of Member States;

- Understanding climate risks, assessing effects, and integrating them into the operation cycle, due diligence and financial decisions;

- Developing and using climate change measurement tools to assess the portfolio, pipeline and new investments;

- Building internal capacity to help the Bank's Borrowers develop climate resilience and adaptation, decrease vulnerability and capitalize on the opportunities generated by climate change;

- Exploring new sectors, developing new climate-oriented products, and identifying new sources to finance climate positive operations;

- Reporting the performance, including the increases in financing of climate positive operations, carbon footprint of the portfolio, and how BSTDB addresses climate change and; and

- Measuring performance, setting new targets, and improving the climate profile of the Bank.

Considering the current pandemic situation, the Bank will implement the Strategy in parallel to supporting the post COVID recovery of its Member States. BSTDB will periodically review the progress and adjust the implementation plan accordingly so that it contributes effectively to achieving the Climate Change Strategy's goals and objectives. The Bank will ensure the relevance of the Strategy itself through a mid-term review in 2025.