

PUBLIC

**DOCUMENT OF THE EUROPEAN BANK  
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 14 June 2023<sup>1</sup>

**UZBEKISTAN**

**UZBEKISTAN WIND GUARANTEE**

*[Redacted in line with the EBRD's Access to Information Policy]*

*[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]*

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<sup>1</sup> As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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**ABBREVIATIONS / CURRENCY CONVERSIONS**

CO <sub>2</sub>	Carbon dioxide
ESP	Environmental and social policy
ESAP	Environmental and social action plan
ESDD	Environmental and social due diligence
EUR	Euro
FE	Foreign enterprise
FX	Foreign exchange
GDP	Gross domestic product
GET	Green economy transition
GoU	Government of Uzbekistan
GSA	Government support agreement
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IFI	International financial institution
IPP	Independent power producer
LC	Letter of credit
LLC	Limited liability company
MoU	Memorandum of Understanding
NEGU	National Electric Grid of Uzbekistan
PPA	Power purchase agreement
SDR	Special drawing rights
SPV	Special purpose vehicle
TC	Technical cooperation
TSO	Transmission system operator
UZS	Uzbekistan Som
VAT	Value added tax

**CURRENCY EQUIVALENTS**

Country's Currency Unit	=	Uzbekistan Som or UZS
USD 1.00	=	UZS 11,269 (as of 01 February 2023)
USD 1.00	=	EUR 1.08 (as of 01 February 2023)
USD 1.00	=	UZS 10,065 (FY 2021 average)

**MEASURES**

1 Megawatt (MW)	=	1,000 kilowatts (10 <sup>3</sup> kW)
1 Gigawatt (GW)	=	1 million kilowatts (10 <sup>6</sup> kW)
1 Megawatt-hour (MWh)	=	1,000 kilowatt-hours (10 <sup>3</sup> kWh)
1 Gigawatt-hour (GWh)	=	1 million kilowatt-hours (10 <sup>6</sup> kWh)
1 kilovolt (kV)	=	1,000 volts

## PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Uzbekistan are submitted for consideration by the Board of Directors.

The operation will consist of guarantees (the “Guarantee”) provided by the Bank to cover letters of credit from one or more commercial banks to backstop the obligations of JSC National Electric Grid of Uzbekistan (“NEGU” or the “Off-taker”) acting as an off-taker for the first two tendered wind power projects in Uzbekistan (the “Project”). For each wind power project, NEGU will arrange a letter of credit (the “LC”) from a commercial bank, backed by the Guarantee. The aggregate amount of the Bank’s exposure under the Guarantee will be up to USD 23 mm (EUR 21.3 mm equivalent) with the committed guarantee amount for the first project of USD 3 mm (EUR 2.8 mm equivalent) and uncommitted amount for the second project of USD 20 mm (EUR 18.5 mm equivalent). Amounts drawn under the Guarantee will be reimbursed by the Republic of Uzbekistan under a sovereign loan.

The operation allows wind power projects to benefit from credit enhancement and mitigation of the risk of non-payment by the Off-taker thus enabling competitive bids. The expected transition impact of the operation is two-fold: *Competitive* – this innovative liquidity support structure helps attract strong interest from international wind developers to the yet emerging renewables sector in Uzbekistan and support competitively selected renewables, as demonstrated by the first successful wind auction supported by EBRD and completed in 2021, and *Green* – wind power projects to be developed with the support of this liquidity support mechanism will contribute to the avoidance of CO2 emissions, contributing to the low-carbon economic development of Uzbekistan.

TC support for this operation has been provided by Sustainable Infrastructure Fund.

I am satisfied that the operation is consistent with the Bank’s Strategy for Uzbekistan , the Green Economy Transition Approach, the Bank’s Energy Sector Strategy and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed Project substantially on the terms of the attached Report.

**Odile Renaud-Basso**

## BOARD DECISION SHEET

<b>Uzbekistan – Wind Guarantee – DTM 52114</b>	
<b>Transaction / Board Decision</b>	<p>Board approval<sup>2</sup> is sought for the EBRD guarantees in total of up to USD 23 mm (EUR 21.3 mm) (the “Guarantee” or the “Project”) to backstop the obligations of JSC National Electric Grid of Uzbekistan (“NEGU” or the “Off-taker”) acting as an off-taker under power purchase agreements for wind power projects in Uzbekistan. For each tendered wind power project, the Off-taker will arrange a letter of credit (backed by the Guarantee) from a financial institution satisfactory to the Bank [REDACTED], thus providing additional comfort to bidders and lenders by mitigating non-payment risks and enabling competitive bids. Amounts drawn under the Guarantee will be reimbursed by the Republic of Uzbekistan as a sovereign loan. Utilised amounts of the Guarantee will not be reinstated.</p> <p>The first tranche of the Guarantee in the amount of up to USD 3 mm (EUR 2.8 mm equivalent) (“Tranche 1”) will be provided to backstop the obligations of the Off-taker for the pilot 100MW Karakalpakstan wind power project awarded to ACWA Power Company (“ACWA Power”), EBRD’s existing client, as a result of the competitive tender supported by the Bank. Approval to commit the uncommitted tranche (“Tranche 2”) in the amount of up to USD 20 mm (EUR 18.5 mm equivalent) is proposed to be delegated to Management and Tranche 2 will cover the second wind tender supported by the Bank.</p>
<b>Client</b>	The Republic of Uzbekistan. ACWA Power Wind Karatau FE LLC, a special purpose vehicle incorporated in Uzbekistan, will act as a project company for Tranche 1. The SPV is currently owned by ACWA Power, an independent developer of power generation, desalinated water and green hydrogen production projects. The guarantee will backstop the obligations of JSC National Electric Grid of Uzbekistan acting as an off-taker for the underlying wind projects.
<b>Main Elements of the Proposal</b>	<p><u>Transition impact:</u></p> <ul style="list-style-type: none"> <li>• Primary Quality – Competitive: this innovative liquidity support structure helps attract stronger interest from international wind developers to the emerging renewables sector in Uzbekistan and will support competitively selected renewables.</li> <li>• Secondary Quality – Green: wind power projects to be developed under this liquidity support mechanism will contribute to the avoidance of CO2 emissions, supporting the economic development of Uzbekistan along the low carbon pathway.</li> </ul> <p><u>Additionality:</u></p> <ul style="list-style-type: none"> <li>• The Bank offers an innovative financing structure on terms not available currently in the market. The Bank provides comfort to clients and investors, financial or strategic, by mitigating the Off-taker non-payment risks. The Project supports EBRD’s overarching policy dialogue on enhancing the creditworthiness of NEGU with the goal of making the company financially sustainable in the long-run, in particular facilitating introduction of battery storage in the country through the second stage of EBRD-supported wind auction.</li> </ul> <p><u>Sound banking:</u> The Guarantee will be backed by the sovereign debt capacity.</p>
<b>Key Risks</b>	Key risks include (i) sovereign risk via inflationary pressures, international commodity price volatility and effects of the recent COVID outbreak, and (ii) the Off-taker creditworthiness risk [REDACTED]. Foreign exchange liberalization and substantial foreign exchange reserves provide sufficient mitigation of sovereign risk, as well as the moderate level of sovereign debt to GDP ratio, which stands at 38% of GDP as of YE2021 and remains manageable relative to the foreign exchange reserves. Sovereign backing and EBRD’s ongoing policy dialogue on the improvement of the Off-taker’s financial sustainability are the mitigation of the Off-taker creditworthiness risk.
<b>Strategic Fit Summary</b>	The operation will be highly catalytic in terms of promoting increased use of wind renewables potential and is consistent with the Uzbekistan Country Strategy, the Energy Sector Strategy, the Green Economy Transition approach and with the Agreement Establishing the Bank.

<sup>2</sup> Article 27 of the AEB provides the basis for this decision.

## ADDITIONAL SUMMARY TERMS FACTSHEET

<b>EBRD Transaction</b>	<p>The EBRD guarantees in the total amount of up to USD 23 mm (EUR 21.3 mm) (the “Guarantee” or the “Project”) to backstop the obligations of JSC National Electric Grid of Uzbekistan (“NEGU” or the “Off-taker”) acting as an off-taker under power purchase agreements (“PPA”) for wind power projects in Uzbekistan. For each wind power project, NEGU will arrange a letter of credit (the “LC”) (backed by the Guarantee) from a financial institution satisfactory to the Bank (thee “LC Issuing Bank”) [REDACTED] thus providing sufficient comfort to bidders and lenders by mitigating non-payment risks and enabling competitive bids. Amounts drawn under the Guarantee will be reimbursed by the Republic of Uzbekistan as a sovereign loan. [REDACTED].</p> <p>The first guarantee tranche in the amount of up to USD 3 mm (EUR 2.8 mm equivalent) (“Tranche 1”) will be provided to backstop obligations of the Off-taker for the pilot 100MW Karakalpakstan wind power project awarded to ACWA Power Company (“ACWA Power”), the bank’s existing client, as a result of the competitive tender. The uncommitted second tranche in the amount of up to USD 20 mm (EUR 18.5 mm equivalent) (“Tranche 2”) is targeted for the second wind/storage tender supported by the Bank and its approval is proposed to be delegated to Management.</p>
<b>Existing Exposure</b>	<p>The Bank’s sovereign exposure to the Republic of Uzbekistan totals EUR 1,189 mm as of 31 March 2023. Exposure to the Off-taker:</p> <ul style="list-style-type: none"> <li>- Navoi Transmission Upgrade, sovereign financing of USD 96.1 mm;</li> <li>- Uzbekenergo Murantau Substation, sovereign financing of USD 82.5 mm;</li> <li>- Sarimay-Djankeldy Transmission, sovereign financing of USD 47.1 mm.</li> </ul>
<b>Maturity / Exit / Repayment</b>	<ul style="list-style-type: none"> <li>- Availability of each tranche of the Guarantee: [REDACTED].</li> <li>- Term of each tranche of the Guarantee: [REDACTED].</li> <li>- [REDACTED] - Tenor of the Bank’s loan (for each utilised portion of the Guarantee under each tranche): up to 2 years [REDACTED].</li> </ul>
<b>Potential AMI eligible financing</b>	Non-Bank debt and equity financing for the wind tenders developed with the assistance of EBRD Advisory (SI3P): Tranche 1 – up to USD 100 mm <sup>3</sup> , Tranche 2 – to be determined after the tender.
<b>Use of Proceeds</b>	[REDACTED]
<b>Investment Plan</b>	[REDACTED]
<b>Financing Plan</b>	[REDACTED]
<b>Key Parties Involved</b>	<ul style="list-style-type: none"> <li>- Republic of Uzbekistan;</li> <li>- NEGU (the Off-taker);</li> <li>- The LC Issuing Bank(s): [REDACTED];</li> <li>- Project companies: <ul style="list-style-type: none"> <li>- Tranche 1: ACWA Power Wind Karatau FE LLC, an SPV currently owned by ACWA Power [REDACTED] developing the first tendered 100MW Karakalpakstan wind project;</li> <li>- Tranche 2: To be determined as a result of the second wind capacity tender supported by the Bank.</li> </ul> </li> </ul>
<b>Conditions Precedent to Effectiveness of EBRD Guarantee and PSRA</b>	[REDACTED]
<b>Key Covenants</b>	[REDACTED]
<b>Security / Guarantees</b>	Amounts drawn under the Guarantee will be reimbursed by the Republic of Uzbekistan as a sovereign loan.
<b>Material agreements</b>	<p>For each tranche separately:</p> <ul style="list-style-type: none"> <li>- EBRD Guaranteed LC from the LC Issuing Bank;</li> <li>- LC Reimbursement Agreement between the LC Issuing Bank(s) and the Off-taker;</li> <li>- EBRD Guarantee Agreement with the LC Issuing Bank(s);</li> <li>- Project Support and Reimbursement Agreement (PSRA) between Uzbekistan and EBRD;</li> <li>- Project Agreement between EBRD and a project company;</li> <li>- Cooperation Agreement between EBRD and the Off-taker.</li> </ul>
<b>Associated Donor Funded TC and co-investment grants / concessional finance</b>	<p><b>Technical Cooperation (TC)</b>  <u>TC: Legal Business Advisory:</u></p> <ul style="list-style-type: none"> <li>- The Project includes technical cooperation aimed at supporting the Project through the provision of legal business advisory (structuring and creating legal documentation for the Guarantee);</li> <li>- Funding source: Sustainable Infrastructure Fund [REDACTED].</li> </ul>

[REDACTED]

<sup>3</sup> The same AMI was included as a part of interrelated Uzbekistan: Karakalpakstan WPP project, Board approved in April 2023. The proposed AMI will be accounted only once in relation to either Tranche 1 under the Project, or the aforementioned Karakalpakstan WPP, whichever is signed first.

## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

#### 1.1 STRATEGIC CONTEXT

Uzbekistan's power sector is a key driver of the country's economic growth but it continues to suffer from the ageing infrastructure, inefficient capacity, supply imbalances and occasional blackouts. Recognising these constraints and risks to further growth, the Government of Uzbekistan, with the Bank's support, has embarked on a major power sector reform aimed at establishing an effective regulatory regime, enhancing security of power supplies and attracting private investments into the sector, while aiming to diversify the country's energy mix and develop its significant renewable energy potential.

The Bank is actively engaging in Uzbekistan's power sector reform including through the assignment to help develop a well-functioning market system for renewables via the implementation of the competitive tendering of wind capacity. The Government's renewables deployment plan, comprehensively supported by the Bank in cooperation with the other IFIs, targets development of 12 GW of solar and wind capacity by 2030. It paved the way for signing the first solar and wind power projects financed by the Bank in the country, including Samarkand Solar and Nur Navoi Solar, Zarafshon, Bash and Dzhankeldy Wind. Expedited growth of renewables is particularly important for Uzbekistan, where ca. 84% of generation comes from thermal power plants. The GoU is accelerating development of renewable energy generation and taking meaningful steps to achieve its targets of 12 GW of renewables installed by 2030 and its nationally determined contribution under the Paris Agreement, which was updated in 2021 to target a 35% reduction by 2030 in greenhouse gas emissions from 2010 levels, instead of the previously envisaged 10%. [REDACTED].

The Bank supported the country in preparing and carrying out the first 100MW wind tender in Uzbekistan, which was announced to the public in April 2020 attracting over 70 qualified investors in the first stage. As a result of the tender, in September 2021, ACWA Power, the Bank's existing client, was announced a winner having offered a tariff of 2.5695 (US cents/kWh) (excluding VAT). The Bank is also expected to provide a senior loan under this project co-financed with Deutsche Investitions und Entwicklungsgesellschaft (DEG) and Proparco under the operation Uzbekistan: Karakalpakstan Wind.

The Bank is currently preparing the second wind plus storage tender under this support programme. The Bank originally was set to support 1 GW of wind auctions but, at the request of the GoU, on 4 March 2022 a memorandum of understanding was signed to scale up the Bank's support to 2GW of wind auctions.

The proposed Guarantee is novel for the Bank and is similar to the IBRD guarantee under the World Bank / IFC Scaling Solar programme but targeting the nascent Uzbek wind sector. The Guarantee provides the Bank with an opportunity to develop a new hybrid structure for a sovereign guarantee, which helps provide a credit enhancement feature. The Guarantee will support the Bank's efforts to help roll-out 2GW wind auctions in Uzbekistan and will be available for the first pilot wind tender for 100MW supported by the Bank and the next 200MW wind tender developed with a storage component (where the pre-qualification stage was completed in September 2022). The policy dialogue envisaged as part of the Project (through EBRD's support to wind auctions) will help introduce the much-needed battery storage to the transmission grid, which in turn should help support the financial capacity of NEGU. The Project adds to the broader ongoing policy engagement led as part of EBRD's projects with NEGU, most recently in the Sarimay-Djankeldy Transmission Project, that aims to ensure that NEGU (the "Off-taker") evolves into a financially sustainable off-taker. In particular, the policy dialogue and technical cooperation of EBRD under the Sarimay-Djankeldy

project are intended to facilitate the integration of renewable energy sources to the national grid by providing capacity building to NEGU to establish best practice in grid management practices that will help enable the national dispatching centre to accommodate increasing renewable energy capacities. The assistance will provide a gap analysis of the current NEGU grid management practices against best practice. In addition, it will provide a roadmap of required changes to the grid management practices that will need to be incorporated into TSO's standards and codes. [REDACTED].

The wind power projects will be developed on a project finance basis, where project companies will conclude PPAs with NEGU and benefit from a Government Support Agreement ("GSA"). The Off-taker was established in 2019 [REDACTED], and the Guarantee has been designed to provide additional off-take risk mitigation that shall help attract an LC from an international bank and competitive bids from a wide universe of developers including those not yet familiar with the market. The Bank's support provides further credit enhancement for the projects, which should help attract private players into the emerging renewables sector of Uzbekistan and build up the momentum for the development of the low carbon power sector. [REDACTED].

The Project will provide the Bank with an opportunity to bring a set of new attributes to the renewables sector in Uzbekistan including: a long-term project finance structure facilitating entry of high-calibre investors; the Bank's extensive on-going policy dialogue in support of the renewables regulatory framework in Uzbekistan; and the Bank's experience and expertise in financing renewables in the wider Central Asia region.

Since the start of the country's transformation in 2017, the Bank has actively engaged in supporting Uzbekistan's power sector reform agenda. In March 2019, with the EBRD's capacity building assistance on the power sector market and unbundling, Uzbekistan launched the restructuring of the national power utility JSC Uzbekenergo ("Uzbekenergo") into JSC Thermal Power Plants (power generation), JSC National Electric Grid of Uzbekistan (power transmission and single buyer function), and JSC Regional Electric Networks (power distribution). In early 2020, the Bank was asked by the authorities to continue policy work including on development of the Electricity Law with a focus on the establishment of a single buyer model. The single buyer model is a transition toward market liberalization and is a critical element for the development of the Uzbek power market and renewables in particular.

In 2019, the Bank started working on a first-of-its-kind technical cooperation programme on establishing a low carbon pathway for the power sector in the country, which aims at developing a viable roadmap for the sector decarbonisation in line with the national climate commitments under the Paris Agreement. The proposed project will facilitate the country's transition towards carbon neutrality under the Low Carbon Pathway developed as a result of this technical cooperation [REDACTED]. Building up on this engagement, in February 2021, EBRD signed an MoU with the Government of Uzbekistan on long-term decarbonisation strategy for the development of the power sector in the country, where fostering the development of renewable energy is one of the key objectives. The Bank also continues to support the GoU with transmission grid upgrades to uphold scaling up of renewables, through financing of new transmission infrastructure implemented by NEGU and through introducing storage components in the auctions supported by the Bank.

The Project provides an opportunity for the Bank to support the renewable energy sector in Uzbekistan helping to:

- attract private investment into the majority state-owned power sector (while a number of renewable energy projects are under consideration or development, there is limited privately owned capacity commissioned);

- diversify the country’s current energy mix through the addition of renewable energy capacity and help steer Uzbekistan towards a green recovery path post-COVID;
- increase power sector capacity in the country with a tight supply-demand balance in the context of expected growing demand for electricity; and
- pave the way for broader deployment of project finance structures through the application of this novel support structure.

The operation is consistent with the Bank’s Energy Sector Strategy, the Country Strategy for Uzbekistan and with the Bank’s Green Economy Transition approach and will be highly visible, contributing to the promotion of private sector participation in the renewables sector of Uzbekistan, increasing energy supply diversification, and helping unlock the country’s renewables potential. It is aligned with the Sustainable Development Goals of providing “access to affordable, reliable, sustainable, and modern energy”, developing “quality, reliable, sustainable and resilient infrastructure to support economic development and human well-being”, and bringing together “additional financial resources for developing countries from multiple sources”. The Project is expected to be 100% GET and will result in emission savings assessed at the level of the underlying projects that will benefit from the proposed guarantee. Successful implementation of the Project would support the bankability of the project finance structures in the emerging renewables sector and give momentum to the wind generation development success in Uzbekistan.

## 1.2 TRANSITION IMPACT

### Primary Quality: Competitive

Obj. No.	Objective	Details
1.1	<i>The project will involve an increase in power generation capacity by a private company already operating in a country; or by a new private entrant when private ownership is established in the market (i.e. &gt;2 privately owned power generators are either operational or in development).</i>	The Project will enable 100 MW of renewable power generation capacity to be installed by the private sector under Tranche 1 (200 MW plus storage – under Tranche 2).

### Secondary Quality: Green

Obj. No.	Objective	Details
2.1	<i>The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance is 15% or higher.</i>	The Project guarantees short term payment obligations by the Off-taker for 100 MW of newly installed capacity under Tranche 1, which is 100% GET (and 200 MW - under Tranche 2).
2.2	<i>This project involves a good policy engagement, which is new and aims to deliver institutional reform and lead to structural changes across sectors/markets.</i>	The Bank through this Project continues its policy engagement with the authorities of Uzbekistan on the development of renewable energy, supporting the roll-out of wind auctions. In particular, this Project supports introduction of battery storage as part of the wind auctions (under Tranche 2).

## 1.3 ADDITIONALITY

Identified triggers	Description
No triggers identified	n/a
Additionality sources	Description of additionality sources
<p><b>Financing Structure</b> – EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions (including tenor). Such financing is necessary to structure the project.</p>	<p>Partial risk guarantee of this type is not readily available from commercial sources in this market and is currently necessary to structure proposed wind auction projects in order to attract the highest number of competitive bids as the renewables sector is yet emerging, many developers are not yet familiar with it [REDACTED].</p>
<p><b>Financing Structure</b> – EBRD investment is needed to close the funding gap. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.</p>	<p>The design of the instrument will ensure additional risk mitigation, which will help crowd in private investment.</p>
<p><b>Innovative financing structures and/or instruments</b> – EBRD offers an innovative financing structure on commercial terms not available from other banks.</p>	<p>The proposed Guarantee is the first of its kind for the EBRD renewables practice and for the emerging wind industry in Uzbekistan. The innovative structure will support the first stages of the Uzbek wind renewables development and upon implementation will serve as an example for other countries in the region.</p>
<p><b>Risk mitigation</b> – EBRD provides comfort to clients and investors, financial or strategic, by mitigating non-financial risks, such as country, regulatory, project, economic cycle, or political risks.</p>	<p>The Bank’s active engagement in the power sector reform in Uzbekistan provides comfort to potential investors in wind projects. The Bank’s experience in the renewables sector in the region and policy engagement in Uzbekistan give additional comfort to investors with regard to regulatory and political risks. The EBRD Guarantee is also expected to facilitate entry of foreign investors into the country.</p>
<p><b>Policy, sector, institutional, or regulatory change</b> – EBRD’s involvement in a project is considered additional when it is designed to trigger a change in the policy, sector, institutional or regulatory framework, or enhance practices at the sector or country level.</p>	<p>The Project is part of the Bank’s engagement alongside other development partners to promote and help develop the emerging renewables sector of Uzbekistan. This innovative credit enhancement structure will support the development of the competitive tendering of renewable energy projects in Uzbekistan. The Bank’s additionality is further underpinned by extensive on-going policy dialogue in support of the renewables regulatory framework in Uzbekistan, particularly development of wind auctions including with a battery storage capacity.</p>
<p><b>Knowledge, innovation and capacity building</b> – EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the Project’s objectives, including support to strengthen the capacity of the client.</p>	<p>The Project supports EBRD’s overarching policy dialogue aimed at enhancing the creditworthiness of the Off-taker with the goal of making the company financially sustainable in the long run.</p>

## 1.4 SOUND BANKING - KEY RISKS

Risks	Prob. / Effect	Comments
Sovereign risk	Med. / High	<p>Uzbekistan is vulnerable to risks arising from inflationary pressures, international commodity price volatility and fiscal policy from on and off-budget operations. The pandemic has particularly resulted in an increase in government debt. Uzbekistan's economy will also likely experience spill-overs of the effects of international sanctions introduced against Russia in 2022.</p> <p><i>Mitigating factors:</i> (i) foreign exchange liberalization which improved foreign investor sentiment and substantial foreign exchange reserves (USD 35.4 bn as of March 2022, subject to growing debt) can provide a buffer against external shocks; (ii) while global energy, food and commodities prices are on the rise following sanctions against Russia, Uzbekistan as a net energy, metals and wheat exporter is expected to have increased FX earnings and budget revenues; during the pandemic the country as a gold exporter benefitted from increased gold prices; (iii) effective pandemic impact mitigation measures helped preserve economic growth as GDP increased by 7.4% in 2021 and by 5.7% in 2022 .</p>
Off-taker credit-worthiness	Med. / High	<p>100% of the electrical output of the underlying wind projects will be sold under PPAs with the Off-taker (NEGU). The Off-taker was established in 2019 [REDACTED].</p> <p><i>Mitigating factors:</i> (i) changed regulatory framework, including introduction of a new cost-reflective tariff methodology stipulating that the off-taker's expenses, including costs of acquiring electricity from all generating companies, should be accounted for in the end-user tariffs (expected to be introduced gradually), (ii) sovereign structure of the Guarantee, (iii) the Bank's on-going policy dialogue on enhancing creditworthiness of the Off-taker and introducing storage to the grid.</p>
Foreign Exchange Risk	Med. / Low	[REDACTED]

## 2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
- Reaching financial close of at least one underlying auctioned wind project	- One or more auctioned wind project benefits from the Guarantee	- [REDACTED]
- Good financial and operational performance of the Off-taker	[REDACTED]	

### Primary Quality: Competitive

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	Donor
1.1	Net increase in energy infrastructure usage and/or capacity	Power generation capacity of 100 MW (Tranche 1) installed by a private company.	[REDACTED]	100	[REDACTED]	[REDACTED]

### Secondary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	Donor
2.1	Legal, institutional or regulatory frameworks in target areas improved	The new instrument (wind guarantee) is designed and used in at least one tendered wind project in Uzbekistan.	[REDACTED]	Yes	[REDACTED]	[REDACTED]

### Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date
Advisory & Policy Indicators	Institution-level capacity strengthened in target area	Once developed, this product (the Guarantee) can be used for other EBRD-led renewable auctions.	[REDACTED]	Yes	[REDACTED]
Advisory & Policy Indicators	New financing instrument or method introduced: risk sharing	The new instrument (wind guarantee) is designed and used in at least one tendered wind project in Uzbekistan.	[REDACTED]	Yes	[REDACTED]

### 3. KEY PARTIES

#### 3.1 PROJECT COMPANY

A project company will be determined for each underlying project in the course of competitive international tenders. The tender for the pilot 100MW wind power project was completed in September 2021 and ACWA Power, the Bank's current client, was announced a winner. A dedicated SPV, incorporated in Uzbekistan, has been created (ACWA Power Wind Karatau FE LLC) to develop the wind project. A project company and a sponsor of the wind power project for Tranche 2 under the Project will be determined as a result of the 2<sup>nd</sup> tender for 200MW, potentially with a storage and a transmission interconnection, later.

#### 3.2 SOVEREIGN GUARANTOR

In 2021, the economy of Uzbekistan has been on a rapid recovery path growing by 7.4% led by expansion in industry (+8.7% y/y), services (+19.2% y/y), retail trade (+12.5% y/y), and construction (6.8%). On the demand side, fixed investment was up by 5.2% and exports increased by almost 10%. Imports soared by 20.3%, reflecting an improvement of the epidemiological situation, a gradual easing of border restrictions, and a significant increase in remittances.

The ongoing military conflict in Ukraine has led to a downward revision of growth projection for Uzbekistan. [REDACTED].

The economy nevertheless grew by 5.7% in 2022, and is expected to grow by 6.3% in 2023. Uzbekistan's debt is expected to remain at a manageable level and backed by substantial foreign exchange reserves.

#### 3.3 OFF-TAKER

JSC National Electric Grid of Uzbekistan ("NEGU") is a state-owned power utility company established in 2019 as a result of unbundling of JSC Uzbekenergo, a vertically integrated state-owned power utility, and responsible for transmission and dispatch of electricity. It also acts as a single buyer and off-taker for the electricity system in Uzbekistan. NEGU is in charge of Uzbekistan's high voltage transmission network.

Under the current set-up, the Company purchases electricity from the state power plants and IPPs and sells it to distribution companies at tariffs established by the Interministerial Commission on Tariffs. It also charges a fee for electricity transit under import/export contracts. The Company's revenue stream thus currently consists of transit fees and proceeds from electricity sale.

NEGU is subject to financial reporting under a number of existing projects with the Bank. Ongoing sovereign operations with NEGU as a project implementing entity entail a comprehensive set of measures that target operational and financial management improvements in the Company, including a number of financial covenants set for NEGU. [REDACTED].

#### 3.4 LC ISSUING BANK

[REDACTED]

#### 4. MARKET CONTEXT

Uzbekistan's total installed power generation capacity is c. 16.5GW, of which thermal power plants account for c. 14.3GW, alongside 2GW of hydropower capacity. While Uzbekistan is introducing modern gas-fired generation capacity to address the obsolete and highly energy intensive infrastructure, the Government has also started to invite private players for the development of 12GW of solar and wind mostly focusing on large scale capacity (above 100MW), and is actively looking to expand regional electricity trade.

The current end-user tariffs of UZS 391 (USc 3.71) and UZS 257 (USc 2.43) (excl. VAT) per kWh apply to industrial and residential consumers respectively, with the former group estimated to account for three quarters of total electricity consumption in 2020. The new tariff policy was adopted in 2019, stipulating a cost-reflective tariff methodology. In 2020, following the outbreak of COVID-19, the Government froze electricity tariffs to support the population. At the same time, a Concept Note for Ensuring Electricity Supply in Uzbekistan in 2020-2030, issued by the Ministry of Energy in April 2020, reiterates the Government's commitment to proceed with the power sector reform.

Uzbekistan has more than 9,700 km of 220-500 kV lines and over 28,600 km of 35-110 kV lines, as well as almost 224,000 km of 0.4-10 kV lines. National Electric Grid of Uzbekistan ("NEGU") is a state-owned power utility company responsible for transmission and dispatch and acts as single buyer and the off-taker for renewable energy sector in Uzbekistan. [REDACTED]. Under the current set-up, NEGU purchases electricity from state power stations and IPPs and sells it to distribution companies at tariffs established by the Interministerial Commission on Tariffs. It also charges a fee for electricity transit under import/export contracts. Therefore, the Company's revenue stream currently consists of transit fees and proceeds from electricity sale. [REDACTED].

## 5. FINANCIAL / ECONOMIC ANALYSIS

### 5.1 FINANCIAL PROJECTIONS

[REDACTED]

#### **The sovereign**

Uzbekistan's public debt is relatively low and sustainable. Public debt stood at around USD 26.2 billion, or 34.1% of GDP as of October 2022. External public debt (USD equivalent) decreased by 1.6% since the beginning of 2022 due to changes in the exchange rates of the state external debt portfolio (Japanese yen, SDR, Euro, Korean won and Chinese yuan), and disbursements resulted in financing of the state budget deficit and the implementation of investment projects with the principal repayments in the amount of USD 823 million. Overall, state external debt stood at USD 23.2 billion, and accounted for 30.1% of GDP (as of October 1, 2022, compared to 34.4 as of October 2021). It remains low relative to FX reserves of USD 35.7 billion as of January 2023. As a part of on-going capital market reform, a 10-year government bond was issued at the Uzbek Republican Currency Exchange auction on 25 January 2022, a further step towards diversification of financial instruments and attracting new market participants. Moreover, in February 2022, individuals and non-residents were allowed to purchase government bonds. The country is expected to carry on with the reform agenda and to maintain its commitment to sovereign debt sustainability.

On 9 September 2022, Fitch affirmed Uzbekistan's sovereign rating at "BB-" with a stable outlook given the country's external buffers, high international reserves, strong growth performance and a moderate level of external debt. At the same time, Fitch expects the current account deficit to widen to 9.7% amid a fall in remittances and government debt to reach 42% of GDP in 2022. Currency depreciation, the banking sector's exposure to SOEs, and significant dollarization of loans and deposits are a drag on Uzbekistan's financial sector's resilience, according to the agency. Uzbekistan's debt is expected to remain at a manageable level and backed by substantial foreign exchange reserves.

### 5.2 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

## 6. OTHER KEY CONSIDERATIONS

### 6.1 ENVIRONMENT

Categorized B (ESP 2019) and Low Risk, as the Bank is not financing wind projects themselves and this is a guarantee to the electricity off-taker associated with limited E&S impacts.

NEGU is an existing Bank's client and was subject to a comprehensive corporate ESDD in 2018, 2019 and 2022, which has confirmed NEGU's compliance with Uzbekistan national E&S legislation and availability of the institutional capacity to perform projects in line with ESP PRs. In-house desktop-based ESDD has been undertaken for the current project and comprised a review of the current E&S regulatory compliance, status of E&S management systems implementation, and progress in implementing corporate Environmental and Social Action Plan (ESAP), agreed for the previous projects. Whereas some elements of the E&S managements system are in place and E&S coordinator has been appointed, the delays have been identified in regards to the ESAP implementation for the previous transactions with NEGU. The Bank will assist NEGU is strengthening their E&S capacity and ESAP implementation through PIU TC under the existing projects. No additional ESAP is required for this Project.

As part of the institutional capacity strengthening the Bank is setting up criteria for wind farms development, inclusive of appropriate avifauna assessment in line with good international practices (GIP), which sponsors are required to apply to their projects. Assessment and management of any potential environmental and social risks associated with electricity offtake shall be performed by sponsors in accordance with EBRD's Environmental and Social Policy. This is being done for all wind projects financed using the Bank's proceeds in Uzbekistan.

EBRD is also supporting the GoU in preparation of the wind auctions, including E&S screening and comprehensive biodiversity and social surveys to confirm that the proposed sites are suitable for wind development and E&S impacts will be minimal and can be managed through implementation of the E&S management plans.

### 6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was updated on all key parties in the transaction. [REDACTED].

Integrity due diligence was undertaken in relation to entities involved in Tranche 1 as outlined below, and prior to commitment of Tranche 2, the Bank will also undertake integrity due diligence on future counterparties in the transaction to ensure integrity profiles are to the satisfaction of the Bank.

NEGU is the existing client of EBRD and the direct beneficiary of this project across the Tranches. It has also been subject to integrity checks as part of a number of recent private sector operations in its off-taker role. [REDACTED].

ACWA Power is well known to the Bank via a number of transactions across numerous jurisdictions including Turkey, Morocco, Jordan, Egypt and Uzbekistan. [REDACTED].

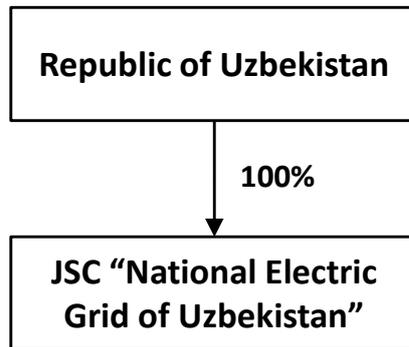
All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues (including sanctions) have been taken with respect to the Off-taker, the project implementing entity under Tranche 1 and the letter of credit provider under Tranche 1, and the Project files contain the integrity checklists and other required documentation, which have been properly and accurately completed in order to proceed with the Project.

## ANNEXES TO OPERATION REPORT

ANNEX 1	Shareholding Structure
ANNEX 2	Mechanics of the Guarantee
ANNEX 3	Historical Financial Statements
ANNEX 4	Project Implementation
ANNEX 5	Green Assessments

## ANNEX 1 – SHAREHOLDING STRUCTURE

### Shareholding structure of the Off-taker



Shareholding structure of ACWA Power Wind Karatau FE LLC, a project company under Karakalpakstan WPP project supported through Tranche 1 [REDACTED].

**ANNEX 2 – MECHANICS OF THE GUARANTEE**

[REDACTED]

**ANNEX 3 – HISTORICAL FINANCIAL STATEMENTS**  
[REDACTED]

## **ANNEX 4 – PROJECT IMPLEMENTATION**

The Bank's PP&R do not apply since the guarantee proceeds, if triggered, will be paid to a commercial bank to compensate for lack of NEGU's repayment of letter of credit obligations, rather than for procurement of goods, works or services.

## ANNEX 5 – GREEN ASSESSMENTS

### **Paris alignment assessment**

The project is considered Paris aligned for climate mitigation as it features in the joint MDB “aligned list. The project is deemed not significantly exposed to physical climate risks and is considered Paris aligned for adaptation.

### **GET attribution**

The project is consistent with the GET approach and the GET share is 100%. The project provides credit enhancement for other projects that finance construction of wind power plants, thus being a crucial component in enabling the roll-out of wind-powered generation capacity in Uzbekistan. No GET impacts (e.g. CO2 emissions reduction) are reported under this project as these are captured under other EBRD transactions.