

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

Approved by the Board of Directors on 21 February 2024¹

REPUBLIC OF TAJIKISTAN

**SUGD TRANSMISSION GRID UPGRADE
SUGD TRANSMISSION GRID EXTENSION**

[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]

¹ 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

CDP	Corporate Development Program	MoF	Ministry of Finance
COD	Commercial Operation Date	MW	Megawatt
E&S	Environmental and Social	OECD	The Organization for Economic Cooperation and Development
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization	PIU	Project Implementation Unit
ESAP	Environmental and Social Action Plan	PP&R	Procurement Policies and Rules
ESDD	Environmental and Social Due Diligence	RST	Reform Support Team
ESMS	E&S Risk Management Systems	SDG	Sustainable Development Goal
EUR	Euro	SSF	EBRD Shareholder Special Fund
FX	Foreign Exchange	SIF	Sustainable Infrastructure Fund
GDP	Gross Domestic Product	TC	Technical Cooperation
GET	Green Economy Transition	TCO _{2e}	Tonnes of Carbon Dioxide Equivalent
IFI	International financial institution	TDD	Technical Due Diligence
IFRS	International Financial Reporting Standards	TJS	Tajik Somoni
LGD	Loss Given Default	USD	US Dollar
LTA	Lender's Technical Advisor		

CURRENCY CONVERSIONS

1 EUR = 11.5 TJS; 1 USD = 10.99 TJS

(as of 19 October 2023)

WEIGHTS AND MEASURES

1 Megawatt	(MW)	=	1,000 kilowatts (10 ³ kW)
1 Gigawatt	(GW)	=	1 million kilowatts (10 ⁶ kW)
1 Megawatt-hour	(MWh)	=	1,000 kilowatt-hours (10 ³ kWh)
1 Gigawatt-hour	(GWh)	=	1 million kilowatt-hours (10 ⁶ kWh)
1 Terawatt-hour	(TWh)	=	1 billion kilowatt-hours (10 ⁹ kWh)

PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concerning comprehensive financing facility in favour of the Republic of Tajikistan is submitted for consideration by the Board of Directors.

The financing facility consists of two sovereign loans to the Republic of Tajikistan (the “Borrower”) in the total amount of up to EUR 23 million and the EBRD Shareholder Special Fund (the “SSF”) investment grants in the total amount of up to EUR 8.0 million. The proceeds of the loans will be on-lent to Open Joint Stock Company “Shabaqahoi Intiqoli Barq” (the “Company”) incorporated in the Republic of Tajikistan and responsible for operation of the transmission network in the country.

The financing facility builds on the Bank’s previous support of the power sector reform in Tajikistan, in parallel with investments, through well-designed projects combined with institutional policy work. It will enable the Company to modernise transmission network in the Sugd region of Tajikistan involving rehabilitation of the existing transmission grid transformers under the Sugd Transmission Grid Upgrade Project and addition of a new transformer under the Sugd Transmission Grid Extension Project at the Sugd substation (jointly the “Projects”). The Projects will be also co-financed by the Sustainable Infrastructure Fund (“SIF”) investment grants in the amount of up to EUR 2 million.

The Projects will incorporate capacity support to the Company to ensure delivery of priority power sector reforms and peer-to-peer assistance on integration of variable renewables in the power system in Tajikistan. The Projects are classified as 100% GET and are expected to achieve CO2 emissions savings in the amount of over 129 tCO2/year through reduction of the electricity transmission losses and facilitation of connection of pilot renewable energy projects in the Sugd region.

TC support for these operations has been provided by the Japan-EBRD Cooperation Fund and the SIF.

I am satisfied that the operation is consistent with the Bank’s Strategy for Tajikistan, Energy Sector Strategy 2019-2023, GET approach, the Bank’s Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loans and the SSF investment grants substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

REPUBLIC OF TAJIKISTAN - SUGD TRANSMISSION GRID UPGRADE - DTM 54275 REPUBLIC OF TAJIKISTAN - SUGD TRANSMISSION GRID EXTENSION - DTM 54592	
Transaction / Board Decision	<p>Board approval² is sought for a comprehensive financing facility consisting of:</p> <ul style="list-style-type: none"> a sovereign loan of up to EUR 12.8 million and the EBRD Shareholder Special Fund (the “SSF”) investment grant in the amount of up to EUR 4.5 million in favour of the Republic of Tajikistan (the “Borrower”) to finance construction of a new transformer at the existing substation in the Sugd region of Tajikistan (Sugd Transmission Grid Extension); and a sovereign loan of up to EUR 10.2 million and SSF investment grant of up to EUR 3.5 million in favour of the Republic of Tajikistan to finance rehabilitation of the existing transformer in the Sugd region (Sugd Transmission Grid Upgrade). <p>The loans will be also co-financed by the Sustainable Infrastructure Fund (“SIF”) investment grants of up to EUR 2 million, administered by the Bank.</p>
Client	The Republic of Tajikistan, on-lending to OJSC Shabaqahoi Intiqoli Barq (the “Company”). The Company is a state-owned power utility responsible for operation and maintenance of the entire transmission network in Tajikistan.
Main Elements of the Proposal	<p><u>Transition impact:</u></p> <ul style="list-style-type: none"> Primary Quality – Resilient: the Projects entail a policy dialogue initiative, building on existing engagements, to improve corporate governance in the energy sector and support unbundling, provide support for along-term network development plan, provide recommendations for increasing grid capacity for renewables, and capacity building support to the Company. Secondary Quality – Green: the Projects will reduce electricity transmission losses, improve energy efficiency of the transmission network and are expected to result in GHG emissions savings of 129 tCO₂/annum. <p><u>Additionality:</u></p> <ul style="list-style-type: none"> Financing structure: the Bank will provide long-term financing required for the Projects, which is currently not available from local commercial banks. Risk Mitigation, Policy and Regulatory Change, and Knowledge, Innovation and Capacity Building: the Bank’s technical, institutional and regulatory expertise with the turnaround of national utilities, policy dialogue work and TC are complementary to the support provided by other IFIs in Tajikistan. Standard-setting: The Bank will support the client to achieve higher standards through its conditionalities (e.g. PP&R and ESAP). <p><u>Sound banking:</u> The Bank’s loans will be backed by the sovereign debt capacity.</p>
Key Risks	<p><i>Sovereign risk:</i> In the short term, foreign exchange reserves accumulated in 2022 alleviate most of the immediate risks. Tajikistan managed to build up significant international reserves. The country’s Debt/GDP ratio has decreased to 34.6% in 2022 on the back of strong growth in output. The Bank’s loans are relatively small and are not expected to have major impacts on the sovereign debt capacity.</p> <p><i>Implementation risk:</i> The risk is associated with potentially weak implementation capacity. International PIU consultant will be hired to support procurement and implementation of the Projects. The Projects’ capex includes a contingency provision to offset unexpected construction cost increases.</p>
Strategic Fit Summary	The Projects are consistent with the Bank’s Strategy for Tajikistan, Energy Sector Strategy 2019-2023, GET approach, and with the Bank’s Strategy for Promotion of Gender Equality.

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>The comprehensive financing facility consists of two sovereign loans to the Republic of Tajikistan as follows:</p> <ul style="list-style-type: none"> - Sugd Transmission Grid Extension project: up to EUR 12.8 million to finance construction of a new transformer at the existing substation in the Sugd region of Tajikistan (the “Sugd-500 Substation”), and - Sugd Transmission Grid Upgrade project: up to EUR 10.2 million to finance rehabilitation of the existing transformer at the Sugd-500 Substation. <p>The loans will be co-financed by investment grants from the EBRD Shareholder Special Fund (the “SSF”) in the amount of up to EUR 8.0 million and by the Sustainable Infrastructure Fund (“SIF”) investment grants in the amount of up to EUR 2 million, administered by the Bank.</p>
Existing Exposure	<p>Sovereign exposure: EUR 434 million Operating assets: EUR 234 million</p> <p>Exposure to the Company: None Total exposure to the power sector of Tajikistan via sovereign and sovereign guaranteed loans: EUR 237.5 million, including:</p> <ul style="list-style-type: none"> - Sugd Energy Loss Reduction Project, 2011: USD 14.15 million; - Qairokkum Hydro Power Rehabilitation, 2014: USD 50 million; - Cross Regional Power Trade, 2015: USD 110 million; - Qairokkum HPP Climate Resilience Upgrade, 2018: USD 38 million; - Khatlon Energy Loss Reduction Project, 2021: EUR 20 million; and - Dushanbe Energy Loss Reduction Project, 2021: USD 25 million.
Maturity / Exit / Repayment	Up to 18 years [REDACTED].
Potential AMI eligible financing	None.
Use of Proceeds - Description	<p>The proceeds of the loans will be used to finance</p> <ul style="list-style-type: none"> • Sugd Transmission Grid Extension: construction of a new transformer at the Sugd-500 Substation, and • Sugd Transmission Grid Upgrade: rehabilitation of the existing transformer at the Sugd-500 Substation.
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<p>Borrower: the Republic of Tajikistan. Project Entity: OJSC Shabaqahoi Intiqoli Barq.</p>
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign loans
Other material agreements	<ul style="list-style-type: none"> - Project Agreement between the Bank and the Company. - Grant Agreement between the Bank and the Republic of Tajikistan.
Associated Donor Funded TC and Blended Concessional Finance	<p>A. Technical Cooperation (TC) <i>Pre-signing:</i> TC 1 – Project Due Diligence to include environmental and social due diligence and technical review. The cost of these assignments are EUR 20,000 for E&S due diligence and EUR 74,500 for Technical due diligence, funded by the Japan-EBRD Cooperation Fund. TC 2 – IFRS Support: a restatement of the Company’s accounts in accordance with International Financial Reporting Standards. The TC will assist the Company in preparing</p>

financial statements in line with IFRS. The cost of this assignment is EUR 45,000, funded by the Sustainable Infrastructure Fund.

Post-signing:

TC 3 – PIU Support: this assignment will ensure that the Projects are implemented in accordance with the Bank’s requirements and will help to build local capacity through (i) assistance with procurement of the goods, works and services under the Projects including development of tender documentation, tenders’ evaluation, contracting, assistance with technical acceptance, documentation and training; (ii) assistance with monitoring and supervision of the contracts, and (iii) implementation of the ESAP. The estimated cost of this assignment is EUR 1,450,000; proposed to be financed by an international donor, SIF or the SSF.

TC 4 – ESMS Development Support: this assignment will provide capacity building and monitoring support to the client, to ensure that project implementation is in line with the requirements of the Environmental and Social Policy (ESP). The TC will have a systemic capacity building impact on the E&S management capacity of the Company. The estimated cost of this assignment is EUR 40,000, proposed to be financed under the Delegated Authority Programme #2010 - Cross Sectoral Supplementary Environmental and Social Due Diligence and Monitoring Programme by an international donor, SIF or the SSF.

TC 5 – SMART Corporate Development Program: assignment to support and implement improvements to the corporate governance and unbundling arrangements, capacity building to the Company from the Reform Support Team (the “RST”) and preparation of a transmission network development plan for the Company. The RST will consist of two local experts to be appointed and embedded in the Ministry of Energy and the Company (the Transmission Operator) to ensure delivery of priority electricity sector reforms. The estimated cost of this assignment is EUR 620,000 proposed to be financed under SOEs Management Assistance Reform and Transformation (SMART) by an international donor, SIF or the SSF.

TC 6 – Central Asia: Energy Security Programme for Peer-to-Peer Assistance to Electricity Transmission System Operators: development of recommendations for (1) merging the transmission operator (the “TO”) and system operator (the “SO”) functions into a single, independent Transmission System Operator, distinct from the competitive segments of the power sector and (2) increase in grid capability for renewables. The estimated cost is EUR 50,000 and EUR 75,000 for each assignment proposed to be financed by SIF or the SSF.

Cost sharing: [REDACTED]. In line with the Bank’s cost-sharing policy dated 1 January 2021, cash contributions will not be provided taking into account the Company’s publicly owned status and limited funds available to make such contribution.

B. Blended Concessional Finance

The Projects will be co-financed by the SSF in the amount of up to EUR 8.0 million and by the SIF in the amount of up to EUR 2.0 million in the form of investment grants.

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

The Projects will build on the previous successful engagement between the Bank and the national electricity utility Barqi Tojik under the Sugd Energy Loss Reduction Project and Qairokkum Hydro Power Rehabilitation Project developed in the same region. The Sugd Energy Loss Reduction Project demonstrated the benefit of investment in modern metering and billing systems in the distribution network resulting in the reduction of network losses in the Khujand city network from 27% to below 10% and improved collections from 85% to 100%. It contributed to improvements in the financial standing of the distribution company through additional annual revenue and has become the model which is replicated by the Government across the country. The Qairokkum project supports priority rehabilitation of power units and civil works at the Qairokkum hydropower plant, the only power generation plant in the Sugd region, that will result in additional 50MW of hydro generation capacity.

The Sugd region is seen as one of the most promising for development of renewables due to its favourable wind and solar resources. An initial study performed by an international consultant identified several locations in the Sugd region which are suitable for development of pilot solar and wind projects. The Government is looking to develop up to 700MW of non-hydro renewables. The Projects will contribute to strengthening the grid which is a prerequisite for development of renewables in the region.

The Sugd-500 Substation is one of three substations which make up the backbone of the national transmission network and is a cornerstone for ensuring reliable and uninterrupted supply of electricity to the grid. The northern power system of the country is significantly dependent upon the 500 kV high-voltage Sugd-Dushanbe line connected to the Sugd-500 Substation. The national transmission network also has cross-border interconnections to allow for the electricity exports to the neighbouring countries. Due to the ageing infrastructure and existing bottlenecks in the regional transmission network, the Sugd-500 Substation is becoming less efficient and has been unable to meet the needs of domestic electricity demand and export sales, growing on the back of rapid economic development and improved cross border trade in the region.

The Government of Tajikistan has been highly supportive of the regional power sector development and is ready to build up on the positive experience with the Bank and address the most urgent needs of the grid modernization. The existing autotransformers (2 sets of 3*167 MVA capacity) at the Sugd-500 Substation are regularly overloaded to the extent that additional cooling is required to avoid overheating. The substation staff regularly have to carry out load-shedding which increases vulnerability of the transmission network. In this context, rehabilitation and extension of the Sugd-500 Substation will increase installed capacity of autotransformers and will help rehabilitate related infrastructure to strengthen reliability and stability of the transmission network and to improve capacity of the electricity system, ultimately leading to the reduction of system losses. [REDACTED]. In addition the Projects shall help meet increasing domestic demand and cross regional power trade while ensuring reliability of power supply to consumers. The Projects will contribute to the hard currency denominated export revenues, releasing additional electricity for export through a reduction in losses. New transmission capacity is also needed to ensure smooth introduction of a pilot renewable capacity in the Sugd region and ensure uninterrupted electricity supplies.

The Projects incorporate a capacity building program to support further development of secure and resilient electricity system in Tajikistan. The program will be delivered through a sector wide engagement between the Bank and the Company under the SOEs Management Assistance Reform and Transformation (SMART)

Technical Assistance Programme and Peer-to-Peer Assistance to Electricity Transmission System Operators of Central Asia. The proposed assignments will support (i) drafting and implementation of a Long-term Transmission Network Development Plan to set out a vision of the future power system and assess how solar and wind renewables can be developed in Tajikistan; (ii) merger of the transmission operator and system operator functions under a single, independent Transmission System Operator and supporting the Ministry of Energy with the required legislative changes; (iii) high-level review of corporate governance to enhance the Company's capacity to deliver on the Corporate Development Programme and digital monitoring framework for the Transmission Network Development Plan that would be reported to the governance levels of the Company. The Bank will also support the Company with implementation of IFRS financial reporting.

The comprehensive policy dialogue package is expected to support sector reform where the following milestones have been achieved to date with the Bank's support:

- Completion of OJSC “Barqi Tojik” (“BT”) unbundling into generation, transmission and distribution. An external management company was assigned to operate electricity distribution sector;
- Establishment of an energy regulator within the Anti-Monopoly Commission in 2019. In 2023 the regulatory unit's status was upgraded to Department of Electricity Sector Regulation (the “Regulator”) reflecting importance of regulatory functions within the power sector;

Implementation of tariff increases to achieve a cost recovery tariff. The Government resumed tariff increases following a tariff-freeze during the pandemic to support the population, and the most recent increase took place in October 2022 by 15% for population and by 10% for industrial producers. The end-user tariffs were increased further by 16% from 1 January 2024. The indexation is aimed at reaching cost recovery tariffs by 2027. The overall tariff increase is estimated at 59% since 2019. The Regulator has been working in close cooperation with the unbundled entities on implementation of the new cost recovery tariff methodology adopted in 2019.

- Improved financial sustainability of BT through tariff increases and balance sheet restructuring.

The Projects are in line with the Green Economy Transition Initiative and the Energy Sector Strategy 2019-2023 aimed at supporting cleaner production and distribution of energy through greater energy and resource efficiency. The proposed Projects are also in line with the Strategy for Tajikistan and the Bank's Strategy for the Promotion of Gender Equality. The Projects also contribute to UN Sustainable Development Goal (SDG), such as SDG 7 (Affordable and Clean Energy), SDG 9 (Industry, Innovation and Infrastructure), SDG 11 (Sustainable Cities and Communities), SDG 13 (Climate Action) and SDG 17 (Partnerships for the SDGs).

1.2 TRANSITION IMPACT

Obj. No.	Objective	Details
Primary TI Quality: Resilient		
1.1	The project entails a policy dialogue initiative that has been assessed as Strong Good by the sector economist.	The Projects incorporate a policy package to: (i) improve the unbundling arrangements in the energy sector by providing support in proposing and implementing changes to the legislation to merge the transmission operator and system operator functions under a single, independent Transmission System Operator; (ii) support the Transmission Operator in developing and implementing a long-term network development plan for the current infrastructure and its future

		<p>development, supply adequacy outlook and an assessment of network resilience and providing support on proposing and implementing any legislative changes; (iii) provide a high-level review of corporate governance to enhance the Company's capacity to deliver on the Corporate Development Programme (CDP) by assessing the Corporate Governance arrangements of the Company based on OECD guidelines and EBRD guidance. Recommendations for improvements in key areas will be provided (e.g. board and management oversight, governance structure, assessment of risk, audit processes etc.) in line with their relevance for the support of implementation of the CDP deliverables; (iv) provide recommendations for increasing the grid capability to integrate more renewables; and v) provide capacity support to the Transmission System Operator and the Ministry of Energy to cover points i) to iv). These activities will be covered via TCs under the SMART and Peer-to-Peer programmes.</p> <p>The Bank is also planning to arrange a knowledge exchange/site visit between the Company's representatives and international cybersecurity & power sector entities concerning cybersecurity policy & implementation strategy. The engagement is expected to spur broader penetration of digital technologies in Tajikistan helping to identify comprehensive strategies for digital system implementation and safeguard for transmission companies with robust cyber security.</p>
Secondary TI Quality: Green		
2.1	The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance is 15% or higher.	The Projects are expected to deliver climate mitigation benefits through improving energy efficiency of the electricity transmission network. The Projects will significantly reduce electricity losses in the transmission network and are expected to result in GHG emissions savings. As confirmed by technical due diligence, electricity losses reduction and corresponding GHG emission savings from the Projects are 1,112 MWh/year and 129 tCO ₂ e, respectively.

Risks to TI delivery:

The risks to achieving the transition impact mainly relate to the implementation of the Projects. The risks are to be mitigated by the involvement of a PIU consultant and engagement of experienced PIU.

1.3 ADDITIONALITY

Identified triggers	Description
None	N/A
Additionality sources	Description
Financing structure: EBRD offers financing that is not available in the market from	Long-term funding from commercial sources is not available for projects in the power sector in Tajikistan. There are no sources of long-term financing that match the lifetime of power assets

commercial sources on reasonable terms and conditions, e.g. a longer grace period than the market average, restricted foreign currency financing etc. Such financing is necessary to structure the project.	[REDACTED]. Long-term financing from the Bank will help the Company to proceed with modernization program aimed at improvement of efficiency in the sector and will support progress with the sector reform.
Standard-setting: helping projects and clients achieve higher standards: Client seeks/makes use of EBRD expertise on best international procurement standards.	The Company as a newly established entity seeks EBRD expertise on the best international procurement standards. Procurement will follow the EBRD's procurement policies and rules ("PP&R") and will use EBRD Client e-Procurement Platform ("ECEPP"). Through the Projects, the EBRD will introduce high standards beyond local requirements and practices on ESAP and procurement that are innovative for the Company.
Policy, sector, institutional, or regulatory change: 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.	The Bank and the Government agreed to reform the legal and regulatory base for the transmission sector to better reflect good international practices, to attract additional investment and to support development of renewables. The Bank's technical cooperation will target IFRS Support and ESMS Development at the Company's level and support for merger of transmission operator and system operator functions as well as drafting of a Long-term Network Development Plan for the transmission sector.
Knowledge, innovation, and capacity building: 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.	Through the Projects, the Bank will introduce high standards and practices on ESAP, IFRS reporting and open tender procurement through the use of ECEPP that are innovative for the Company. The Bank supports engagement of an experienced PIU consultant which will work closely with the Company to assist with procurement, tendering, contract implementation, compliance and reporting obligations and other Project implementation procedures and will provide trainings.

1.4 SOUND BANKING – KEY RISKS

Risks	Probability / Effect	Comments
Sovereign risk:	Medium / High	Tajikistan is vulnerable to risks of weak external liquidity and has high reliance on commodity exports and remittances. The country continues to face elevated geopolitical and security risks. <i>Mitigant:</i> The economy has benefited from increased trade flows in the region, along with significant inflows of FDI and remittances. Fiscal space is at comfortable levels. In the short term, foreign exchange reserves accumulated in 2022 alleviate most of the immediate risks. To boost its external resilience, Tajikistan managed to build up significant international reserves (USD 3.1 billion as of December 2022), providing more than 8 months of import cover. The

		country's public debt amounted to USD 3.5 billion translating into 34.6% Debt/GDP ratio in 2022 (compared to 42.8% in 2021) on the back of very strong growth in output. In 2021, the IMF and World Bank upgraded Tajik debt carrying capacity due to a recovery in remittances.
Credit Risk:	Medium Medium	<p>Creditworthiness of the Company depends on the tariff increases and efficient revenue collection.</p> <p><i>Mitigant:</i> the loans will be provided to the Republic of Tajikistan. The Government of Tajikistan is committed to implementation of required tariff increases and has increased tariffs by 59% since 2019. The tariff methodology also assumes passing FX-related costs through to end-user tariffs. The sufficient [REDACTED]tenor of the loans as well as their sovereign nature should help limit risks to the financial stability of the Company and enable debt service.</p>
Restructuring risk:	Medium Medium	<p>Power sector reforms following the unbundling of OJSC “Barqi Tojik” (BT), national power utility, may face challenges due to macroeconomic instability.</p> <p><i>Mitigant:</i> the Government expressed support and commitment to continue the necessary sector reforms including the ones aimed at to improving financial sustainability in the sector. The Bank is providing a dedicated policy package under the Projects aimed at upholding sector reform and strengthening corporate governance and grid planning at the Company.</p>
Implementation Capacity and procurement risk:	Medium Medium	<p>The Projects may face risks of cost overruns, delays in procurement [REDACTED].</p> <p><i>Mitigant:</i> (i) investment plan, project scope and costs/budget were confirmed by the LTA as part of technical due diligence, (ii) the Projects' capex includes a contingency provision to offset unexpected construction cost increases, (iii) the Bank provides TC support to engage a PIU consultant for supervision and implementation of the Projects to ensure that the preparation of contracts and implementation of the Projects will be in compliance with the Bank's PP&R. The PIU consultant will provide assistance to the Company during project design phase, tendering phase, tender evaluation, contract finalization and implementation phase. With the involvement of the consultant, the Company will have access to the best practices in relation to implementation of projects and procurement of works, goods and services, as well as advice on specific technical issues including E&S requirements.</p>
Foreign exchange risk:	Medium Medium	<p>Tajik Somoni devaluation could adversely affect the ability of the Borrower to repay the hard currency loan.</p> <p><i>Mitigating factors:</i> Risk of external debt distress is manageable given accumulated reserves (USD 3.1 billion as of December 2022).</p>

2. MEASURING / MONITORING SUCCESS

Transition Impact Monitoring Indicators

Primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Duration
1.1	Legal, institutional or regulatory frameworks in target areas improved [Covenanted]	Development and implementation of changes to legislation to enable the merger of the transmission operator and system operator functions under a single, independent TSO and supporting the implementation of any required legislative changes.	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Legal, institutional or regulatory frameworks in target areas improved [Covenanted]	Development and implementation of a Long-term Transmission Network Development Plan	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Legal, institutional or regulatory frameworks in target areas improved [Covenanted]	Development and implementation of changes to legislation to enable the implementation of the Transmission Network Development Plan	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Legal, institutional or regulatory frameworks in target areas improved [Donor TC]	Provision of a Reform Support Team (RST) consisting of local experts for capacity support to be appointed and embedded in the Transmission Operator and Ministry of Energy to help develop and implement the reforms covered in the relevant SMART CDP and P2P programmes.	[REDACTED]	[REDACTED]	[REDACTED]
1.5	Advocacy/knowledge management activity(ies) delivered [Donor TC]	Advanced TSO recommendations and workshop on merging the transmission operator and system operator functions.	[REDACTED]	[REDACTED]	[REDACTED]
1.6	Advocacy/knowledge management activity(ies) delivered [Donor TC]	Advanced TSO recommendations and workshop on the core challenges and measures needed for safely integrating and scaling renewables in Tajikistan. Technical visit to advanced TSO and its control room.	[REDACTED]	[REDACTED]	[REDACTED]
1.7	Corporate governance improved: Commitment to Corporate Governance [Covenanted]	Client to adopt corporate governance recommendations in order to enhance its capacity to deliver on the Corporate Development Programme.	[REDACTED]	[REDACTED]	[REDACTED]
1.8	Advocacy/knowledge management activity(ies) delivered [Donor TC]	Knowledge exchange/site visit focusing on knowledge sharing with international cyber security and power sector entities.	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Duration
2.1	CO2e emissions reduced (tonnes/year) [Donor TC]	Monitoring of avoided emissions [REDACTED]	0	129	5 years after signing
2.2	Operational performance of the client: losses reduced [Donor TC]	Calculation in reduction of electricity losses [REDACTED]	0	1,112	5 years after signing

3. KEY PARTIES

3.1 BORROWER

The Republic of Tajikistan: Tajikistan's economy has proven relatively resilient to adverse external shocks such as Covid-19 and the conflict in Ukraine. The economy grew by 8.3% year-on-year basis in the first half of 2023, helped by trade reopening, increased remittances and vigorous public spending. With consumer price inflation at 2.3% (as of July 2023, the lowest level in Central Asia), Tajikistan is currently the only regional economy to keep inflation below the central bank's target corridor of 4-8%. The National Bank of Tajikistan ("NBT") maintained its policy rate well-above inflation throughout 2021-2022. The National Bank of Tajikistan gradually brought down its policy rate from 13% in November 2022 to 10% in May 2023. Fiscal accounts have improved - in May 2023 the state budget surplus stood at TJS 1,046 million (USD 95.8 million). Public debt declined to 34.6% of GDP on the back of very strong growth in output and improved tax collection in 2022. IMF expects public debt to equate to 32% of GDP by 2027, if fiscal deficits are capped at 2.5% of GDP in the coming years (the deficit stood at 1.4% of GDP in 2022).

3.2 PROJECT ENTITY

OJSC Shabaqahoi Intiqoli Barq: The Company was established in 2021 as a result of legal unbundling of the vertically integrated power utility Barqi Tojik ("BT"). The Company is in charge of electricity transmission in Tajikistan and consolidates all transmission activities and attributable infrastructure. In 2022, the Company transmitted approximately 21 TWh of electricity, including 3.3 TWh for export.

4. MARKET CONTEXT

Tajikistan has total installed capacity of around 5.2 GW dominated by hydropower plants that represent over 90% of total capacity. Although high dependence on hydropower makes the sector vulnerable and open to climate change related risks, the security of domestic electricity supply has been improving and over the last years the country has been increasing energy exports to neighbouring countries. Low-carbon Tajik power exports to Uzbekistan – which has a highly carbon intensive power sector – have an important impact on the regional CO2 emissions. [REDACTED]The Bank has been actively engaging in Tajikistan to rehabilitate the country's hydro-power capacity and to introduce modern metering and billing equipment with projects in the Northern, Southern and Central parts of the country.

Following unbundling of BT, the national power utility, the sector is currently represented by (i) BT responsible for generation and in interim stage also dispatch, (ii) OJSC "Shabaqahoi Intiqoli Barq" responsible for nationwide electricity transmission, and (iii) OJSC "Shabaqahoi Taqsimoti Barq" responsible for nationwide electricity distribution. To manage financial flows in the power sector for the interim period, the Government has established an escrow account mechanism which has begun operations as of 1 January 2023. This mechanism covers revenues from domestic customers and export sales which are then distributed among generation, transmission and distribution sectors. There are also three large independent power producers ("IPPs") – Sangtuda 1 HPP (670 MW), Sangtuda 2 HPP (220 MW), and state-owned Rogun HPP (currently under construction and operating in an early-generation mode with installed capacity of 1,200 MW) which sell electricity to BT.

The debts of the sector remained with BT, and the Government adopted a financial recovery plan. The newly established transmission and distribution companies were established without any debt. In late 2022, the Government signed a management contract with an international firm (TATA Power Company Limited, India) to manage the distribution company for five years. The distribution company's top priority is to reduce losses in the network, and to strengthen transparency and corporate governance.

In 2019, an energy sector regulatory unit was established under the Anti-monopoly Service's division for

regulation of natural monopolies with an aim to gradually become an independent regulator. Since then, the Bank has provided capacity building assistance to the newly established unit and supported introduction of new tariff methodology. The USAID is currently supporting the unit with implementation the tariff methodology.

In light of substantial increase in tariff expected for the period up to 2027 and the need to protect vulnerable group of consumers the Republic of Tajikistan approved the Law on Targeted Social Support outlining the list of vulnerable group criteria and forms of social support measures. The power sector reform measures are expected to gradually help eliminate subsidies and the sector cash deficit.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL ANALYSIS

[REDACTED]

5.2 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (2019 ESP) as the environmental and social impacts associated with the rehabilitation of the existing transformer and construction of a new transformer are site-specific and/or readily identified and addressed through effective mitigation measures. The Bank's Environmental and Social Due Diligence (ESDD) has been carried out by an independent consultant and included a site visit, review of the Company's current operations and the proposed Projects and documentation review. An Environmental and Social Action Plan (ESAP) has been developed, incorporating actions to ensure the Projects are structured to comply with the Performance Requirements (PRs).

The results of the ESDD have confirmed that as a relatively new company, which was formed from the unbundling of the national power utility, Shabaqahoi Intiqoli Barq, which has responsibility for the operation and maintenance of the national transmission network, has very limited institutional capacity or environmental and social (E&S) management system (ESMS) in place. Organisational capacity will need to be enhanced and an ESMS developed and implemented in accordance with PR1 for construction and operation phases. Health and safety risks are managed in accordance with national legislation and will need to be incorporated into the management system to ensure compliance with PR4.

The main E&S risks are associated with pollution prevention and control, occupational health and safety and hygiene and labour and working conditions including within the direct and contractor workforce. Procedures will need to be put in place to safely manage SF6 in the Project facilities. An Occupational Health and Safety Plan will be developed and implemented in construction and operation in accordance with PR4, with a particular focus on managing electrical safety risks associated with working in the vicinity of energised existing infrastructure. Impacts on local communities are anticipated to be restricted to increased traffic and noise in construction for which appropriate management plans will be developed and rehabilitation of fencing to manage risks of unauthorised site access. The Projects will not be associated

with any physical resettlement or economic displacement or impacts on cultural heritage as it will be built within the boundary of the existing substation. The Company operates in accordance with national legislation regarding labour and working conditions and will need to develop an HR policy and a workforce grievance mechanism aligned with PR2. The Projects' welfare arrangements and facilities including any accommodation in both construction and operation will be suitable for both men and women and in accordance with EBRD guidance. A Non-Technical Summary (NTS) and Stakeholder Engagement Plan (SEP) has been developed and will be disclosed by the Company.

The ESAP includes the above actions and the Company will receive consultant assistance to implement the ESAP including development of the ESMS. The Bank will monitor the Projects through review of annual environmental and social reports and site visits if required.

6.2 INTEGRITY

Integrity due diligence was undertaken on the Company (Shabaqahoi Intiqoli Barq), its shareholder, senior management and other relevant parties, including its predecessor entity Barqi Tojik (BT), existing client of the Bank. [REDACTED].

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Projects, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the project.

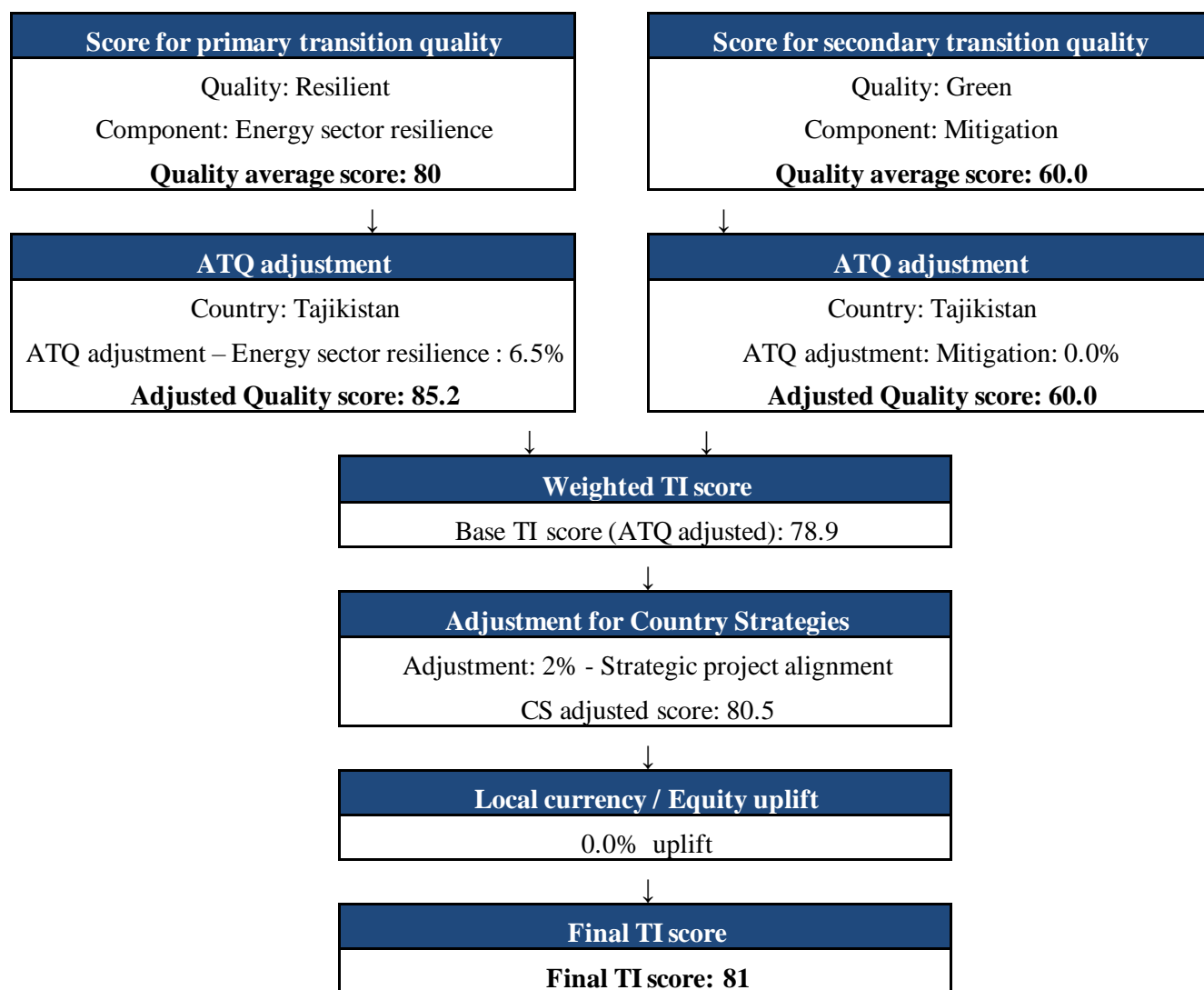
6.3 OTHER ISSUES

Concessional Finance – SSF and SIF investment grants would enable the Company to address most urgent needs for the replacement of aged infrastructure and to contribute towards the reduction of transmission network losses resulting in financial and CO2 emissions savings. Investment grants will also reduce the costs passed through to end consumers which will help avoid affordability constraints. [REDACTED].

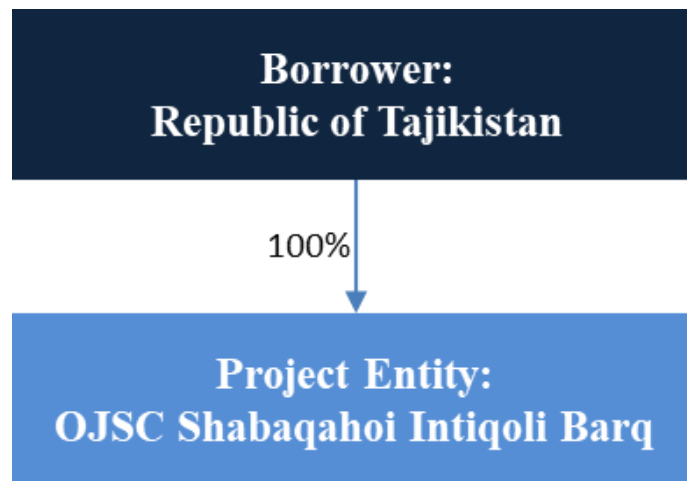
ANNEXES TO OPERATION REPORT

ANNEX 1	Transition impact scoring chart
ANNEX 2	Shareholding structure
ANNEX 3	Project implementation
ANNEX 4	Green Assessment
ANNEX 5	EBRD SSF co-investment project fiche

ANNEX 1 – TRANSITION IMPACT SCORING CHART



ANNEX 2 – SHAREHOLDING STRUCTURE



ANNEX 3 – PROJECT IMPLEMENTATION

Procurement classification – *Public, sovereign*

Project risk assessment:

[REDACTED]. The implementing PIU must be established before the start of the project. The PIU will be supported by a PIU Consultant, appointed competitively in accordance with the EBRD Procurement Policy and Rules (PP&R). Training and Capacity Building will be one of the first and essential tasks of the PIU Support Consultant to mitigate risks and ensure successful implementation. An independent framework consultant will be engaged to support the company in the procurement of the PIU Consultant and to deliver first trainings on EBRD processes and requirements.

PPAD procurement specialist assessed the Company's risk regarding procurement based on PPAD's developed toolkit [REDACTED]. All categories i.e. legal framework, organisation of procurement function, support/control systems, staffing, record keeping, procurement planning, procurement cycle, general assessment of the client, and project risk have been covered during the assessment. [REDACTED].

Contracts risk assessment

“Moderate”

The Projects will consist of one Design and Build contract based on FIDIC Yellow Book as detailed in the Procurement Plan to implement the construction of a new transformer and the existing transformer of the substation. [REDACTED] [T]he Consultant will act as “The Engineer” under FIDIC contract, thus ensuring thorough contract implementation to minimise delays and resulting claims.

Project implementation arrangements:

A dedicated PIU is to be established for the purposes of the Projects which will be supported by PIU Consultant. The PIU Consultant will be in place to coordinate and support the Company with all procurement activities under the Projects. Further, the PIU Consultant will assist the PIU and the Company with contract management, supervision and monitoring of the project implementation until completion.

This structure should strengthen project implementation ability within the Company and mitigate risks of procurement and project implementation delays, while significantly speeding up the implementation of the projects.

Procurement arrangements:

All contracts under the Projects will be procured following open tendering procedure by using ECEPP in accordance with the requirements of the EBRD PP&R 2022 for public sector operations using the Bank's latest standard procurement document templates. All procurement will be conducted in accordance with the Procurement Plan as amended from time to time if necessary and will be subject to prior review. There

are no deviations from the PPR envisaged or requested.

There will be one Bank-financed work contract covering both Projects: transformer rehabilitation of 3*167MVA capacity and construction of a new transformer of 3*267 MVA capacity at the existing 500/220/35 kV substation. This contract will be co-financed by the EBRD loans and SSF/SIF funds.

There will be a PIU Consultant consultancy contract to be selected by competitive selection method and financed by TC funds. This contract will be subject to advance procurement. [REDACTED].

ANNEX 4 – GREEN ASSESSMENT

The Projects have been assessed as ‘aligned’ for mitigation and adaptation. For mitigation, the Projects are on the ‘aligned’ list under “electricity transmission and distribution, including energy access, energy storage and demand-side management”. For adaptation, the risks of extreme heat events and floods are mitigated/non-material, and the project does not undermine broader climate resilience. The Projects have received a GET attribution both for climate mitigation and climate adaptation. Physical climate risk is low (3) due to the geographic distribution of the sovereign counterparty. Climate transition risk score is 3, with no further assessment required.

Paris alignment assessment

Alignment with the mitigation goals of Paris Agreement: general screening

- The project/economic activity is **included** in the ‘aligned list’.
- Regarding project/economic activity(ies), there are **no** activities included in the ‘non-aligned list’.

Alignment with the adaptation goals of Paris Agreement

- **Evaluation of the physical climate risk and vulnerability context:** screening indicated potential risk of extreme heat and floods at the substation location.
- **Definition of climate resilience measures:**

Extreme heat events:

The wider area is projected to experience above-average levels of warming in the future. The substation component most affected by rising ambient temperatures is the transformer. For the design of the transformer, the project will follow the IEC 60076-2 standard. This standard specifies that the transformer design should be defined relative to yearly average ambient temperature and expected maximum temperatures. During the next phase of the Projects the actual values to be included in the specification for the transformers will be determined. CSD have already provided estimates to the consultants on the expected future max temperatures to inform the design. The design of relevant elements of the substation will reflect the projected change in critical temperature variables to ensure resilience.

Floods: Based on additional information obtained from the Company, the technical consultants as well as an EBRD in-house review, exposure to flood risk is considered more limited than the screening indicates while on-site structures are in place to insulate the substation from flood events.

- When assessed relative to more granular local flood data products, the location shows a strongly reduced exposure to flood risk.
- The project site is surrounded by tall walls that fence the substations from surrounding areas.
- The project site has never been subject to floods in the past.
- **Appraisal of broader climate resilience context:** The Projects do not undermine the climate resilience of the wider system and do not contravene relevant national legislation or action plans on adaptation.

GET attribution

100% of proceeds will go for brownfield transmission infrastructure improvements. Rehabilitation of the power transformers and installation of new power transformers will improve efficiency; this will also improve reactive power capability in the area, and voltage quality, reducing transmission losses. Conservative emissions savings have been estimated at 129 tCO₂/per annum. Furthermore, the Projects are eligible for a GET climate adaptation attribution. The installation of a new autotransformer will significantly enhance the capacity of the existing substation. This is especially crucial as the existing transformers have reached their full capacity under current climatic conditions, and any increase in ambient temperature would further reduce their ability to maintain a normal hotspot temperature and prevent system failure. Additionally, installing a new autotransformer provides a safety buffer for future demand fluctuations and potential ambient temperature derating issues which, given the climate projections around temperature increases in Tajikistan, are bound to manifest.

ANNEX 5 – EBRD SSF CO-INVESTMENT PROJECT FICHE

[REDACTED]