

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

Approved by the Board of Directors on 4 November 2020¹

TAJIKISTAN

TAJIKISTAN ENERGY EFFICIENCY FRAMEWORK

[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.

TABLE OF CONTENTS

Page

TABLE OF CONTENTS	2
ABBREVIATIONS / CURRENCY CONVERSIONS	3
PRESIDENT'S RECOMMENDATION	4
BOARD DECISION SHEET	5
ADDITIONAL SUMMARY TERMS FACTSHEET	6
1. STRATEGIC FIT AND KEY ISSUES	9
1.1 STRATEGIC CONTEXT	9
1.2 TRANSITION IMPACT.....	12
1.3 ADDITIONALITY	14
1.4 SOUND BANKING - KEY RISKS.....	15
2. MEASURING / MONITORING SUCCESS	17
3. KEY PARTIES.....	18
3.1 GUARANTOR / BORROWER	18
3.2 PROJECT ENTITY	18
4. MARKET CONTEXT.....	18
5. FINANCIAL / ECONOMIC ANALYSIS.....	19
5.1 GUARANTOR / BORROWER	19
5.2 PROJECT ENTITY	20
5.3 PROJECTED PROFITABILITY FOR THE BANK	20
6. OTHER KEY CONSIDERATIONS	20
6.1 ENVIRONMENT	20
6.2 INTEGRITY.....	20
6.3 OTHER ISSUES	20
ANNEX 1 – PROJECT IMPLEMENTATION.....	23

ABBREVIATIONS / CURRENCY CONVERSIONS

ADB	Asian Development Bank
BT	OSHC “Barki Tojik”
Capex	Capital Expenditures
CEER	Council of European Energy Regulators
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESIA	Environmental and Social Impact Assessment
ETI	Expected Transition Impact
EUR	Euro
E&S	Environmental and Safety
GDP	Gross Domestic Product
GET	Green Economy Transition
IFCA	Investment Facility for Central Asia
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
IMF	International Monetary Fund
OJSC	Joint Stock Company
PD	Probability of Default
PIU	Project Implementation Unit
PP&R	Procurement Policies & Rules
PRs	Performance Requirements
SOE	State-Owned Enterprise
TC	Technical Cooperation
TJS	Tajik Somoni
TVET	Technical and Vocational Education and Training
USD	US Dollar
WB	World Bank
YE	Year End

CURRENCY EQUIVALENTS

Current EUR 1.00	=	USD 1.19
2019 TJS 9.6872	=	USD 1.0
2018 TJS 9.4296	=	USD 1.0
2017 TJS 8.8190	=	USD 1.0

MEASURES

GW	Gigawatt
kV	Kilovolt
kWh	Kilowatt-hour
MVA	Megavolt-ampere
MW	Megawatt
TWh	Terawatt-hour

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning a framework operation in favour of electricity distribution companies in Tajikistan (Tajikistan Energy Efficiency Framework, the “TEEF” or the “Framework”) are submitted for consideration by the Board of Directors.

The TEEF builds on the Bank’s continuing support of the power sector reform in Tajikistan through investment projects and policy engagement. The TEEF will entail support to the newly established companies following the unbundling of JSC Barki Tojik, a state-owned vertically integrated power utility, responsible for generation, transmission and distribution of electricity in Tajikistan (“BT”). The TEEF contributes to the Resilient Quality through electricity networks modernisation targeting a significant reduction of network losses and improvement in collection rates. The Bank is also supporting a significant policy engagement for energy sector regulatory reform, which will contribute to improved regulatory oversight and sustainability of the energy sector. In addition, the TEEF contributes to the Inclusive Quality as the TEEF will deliver youth inclusion benefits and support improvements in the employability of youth, establishing formal partnerships with local institutes and technical colleges, and expanding accredited skills training opportunities.

The TEEF will consist of sovereign or sovereign guaranteed loans for an aggregate amount of up to EUR 43 million in favour of electricity distribution companies in Tajikistan and is expected to be co-financed with international donors and other IFIs. Each sub-project will be supported by a comprehensive technical cooperation package to ensure appropriate preparation, implementation and institutional development assistance, to be financed by international donors (including EU IFCA and ADB) or the EBRD Shareholder Special Fund (the “SSF”).

I am satisfied that the operation is consistent with the Strategy for Tajikistan for 2020-2025, the Energy Sector Strategy 2019-2023, the Green Economy Transition Approach, the Economic Inclusion Strategy, the Strategy for the Promotion of Gender Equality 2016-2020 and with the Agreement Establishing the Bank.

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

Jürgen Rigterink
Acting President

BOARD DECISION SHEET

TAJIKISTAN – TAJIKISTAN ENERGY EFFICIENCY FRAMEWORK - DTM 51666	
Transaction / Board Decision	Board approval ² is sought for a framework operation to facilitate modernisation and strengthening of the electricity networks in Tajikistan. The framework will consist of sovereign or sovereign guaranteed loans in an aggregate amount of EBRD lending of up to EUR 43 million in favour of electricity companies (the “Project Entities”). Co-financing from other IFIs/DFIs will be sought where deemed feasible. Approval of the sub-project loans of up to EUR 25 million under the framework will be delegated to Management. Sub-projects categorised ‘A’ under the Bank’s Environmental and Social Policy will require Board approval regardless of the size of the EBRD financing. The duration of the proposed framework is anticipated to be five years from the date of the Board approval.
Client	The Republic of Tajikistan and the Project Entities.
Main Elements of the Proposal	<p><u>Framework coverage</u>: the TEEF will facilitate modernisation of Tajikistan’s power sector with an overall target of improving access to an efficient and reliable electricity network.</p> <p><u>Transition impact</u>: Primary Quality - Resilient. The TEEF will target energy efficiency improvements in the power sector, with a particular focus on the development of advanced grid metering infrastructure and network upgrades in major cities. The Framework includes a policy dialogue initiative, building on existing engagements, to strengthen the regulatory environment for the Tajik energy sector including drafting of key regulations, institutional capacity building for the newly established regulatory unit and support in the operationalization of the recently adopted tariff methodology.</p> <p>Secondary Quality - Inclusive. The Framework will support improvements in the employability of youth by expanding high-quality and certifiable skills training opportunities, in collaboration with local educational institutions, which is of particular importance in light of job losses and drop in remittances in Tajikistan caused by the COVID-19 crisis.</p> <p><u>Additionality</u>:</p> <ul style="list-style-type: none"> - Financing structure: Long-term financing for infrastructure projects is currently unavailable from commercial banks. - Risk Mitigation, Policy and Regulatory Change and Knowledge, Innovation and Capacity Building: the Bank’s technical and institutional expertise with the turnaround of utilities, policy dialogue work and TC. Additionality is further underpinned by the Bank’s conditionalities including in ESAP. <p><u>Sound banking</u>: The EBRD loans will be backed by the sovereign debt capacity.</p>
Key Risks	<ul style="list-style-type: none"> • <u>Implementation risk</u>. The risk is associated with potentially weak implementation capacity and will be mitigated by the involvement of a Project Implementation Support consultant; • <u>Sovereign debt capacity</u>: the Government is continuing discussions with the IMF regarding a new financing and reform programme, which is expected to limit the Government’s borrowing capacity. The EBRD loans are of relatively small and targeted amounts and are not expected to have major impacts on the sovereign debt capacity.
Strategic Fit Summary	TEEF is in line with the Green Economy Transition Approach and the Energy Sector Strategy 2019-2023 aimed at supporting cleaner production and distribution of energy through greater energy and resource efficiency. TEEF is also in line with the Strategy for Tajikistan for 2020-2025 and the Economic Inclusion Strategy, as well as the Strategy for the Promotion of Gender Equality 2016-2020.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	TEEF is designed to facilitate rehabilitation of the electricity distribution sector in Tajikistan, with an aggregate amount of EBRD lending of up to EUR 43 million. The financing will be provided either through (1) sovereign guaranteed loans to the Project Entities, or (2) sovereign loans to the Republic of Tajikistan to be on-lent to the Project Entities. Sub-project loans are expected to be co-financed with bilateral, multilateral donors and other IFIs. Approval of the sub-project loans of up to EUR 25 million under the framework will be delegated to Management. Sub-projects categorised ‘A’ under the Bank’s Environmental and Social Policy will require Board approval regardless of the size of the EBRD financing.
Existing Exposure	Sovereign exposure to the Republic of Tajikistan: EUR 412 million. Total exposure to BT via sovereign and sovereign guaranteed loans: EUR 171.4 million, including: <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; and - Qairokkum HPP Climate Resilience Upgrade, 2018: USD 38 million.
Maturity / Exit / Repayment	To be considered for each sub-project separately [REDACTED]
AMI eligible financing	To be assessed at a sub-project level.
Use of Proceeds	Investments into power utilities network infrastructure in Tajikistan, with a particular focus on modernisation of the electricity distribution networks, to be associated with electricity efficiency improvements and reduction of CO2 emissions.
Investment Plan	Total amount of EBRD financing will be up to EUR 43 million. A detailed investment plan will be developed for each sub-project and is expected to be focused on electricity networks improvements. Khatlon Energy Loss Reduction Project and Dushanbe Energy Loss Reduction Project which will help strengthening the grid in the cities of Kulob, Bokhtar, Dushanbe, Dangara, Buston and Panjakent are expected to be included in the Framework.
Financing Plan	[REDACTED]
Key Parties Involved	Republic of Tajikistan Electricity distribution companies as Project Entities.
Conditions to subscription / disbursement	Conditions to effectiveness: Execution of the Loan Agreement, Grant Agreement, Guarantee Agreement and Project Agreement as applicable [REDACTED]
Key Covenants	Covenants will be established at a sub-project level and will reflect the operating and technical characteristics of each sub-project. Financial covenants will be tailored on a case by case basis, but will include the collection rate improvement for each sub-project targeting installation of billing and metering systems. Support letters on Inclusion TC and Energy Regulatory Support TC will be requested from the Government. The project entities will cooperate with the Bank on developing and implementing technical cooperation assignments financed by the Bank. The commitments

	on advancing inclusion will be covenanted through the Environmental and Social Action Plans (ESAPs) of each sub-project.
Security / Guarantees	Sovereign guarantee or sovereign loan
Other material agreements	The Delegation Agreement between the EU and the EBRD for IFCA co-financing investment grant Project Implementation Agreement with the ADB
Associated Donor Funded TC and co-investment grants/concessional finance	<p>Technical Cooperation (“TC”)</p> <p><i>Project Implementation</i></p> <p>Each sub-project will have individually designed pre- and post-signing TCs, to include engagement of consultant to the Project Implementation Unit to assist with procurement, tendering, contract implementation, compliance and reporting obligations and other Project implementation activities on each sub-project. [REDACTED]</p> <p><u>Reimbursement:</u></p> <p>The TC will be provided on a non-reimbursable basis to evaluate the investments and assist the clients in implementing respective sub-projects.</p> <p><u>Cost sharing:</u></p> <p>The respective client for each sub-project will be responsible for paying all VAT and other indirect taxes that are applied to the post-signing TC assignments as a parallel cost contribution. Additionally, the respective client for each sub-project will provide in-kind contributions in the form of office space, communication connections, etc., for the consultants to work, presumed to amount to 3% of the total TC budget.</p> <p><i>Energy Regulator Support TC</i></p> <p>[REDACTED] TC support provided to the newly established energy sector regulatory unit, including (a) development of regulations and bylaws necessary for the functioning of the regulatory unit; (b) operationalization of tariff methodology; (c) restructuring of functions and staffing; and (d) capacity building and training on functions, duties and powers of energy regulatory institutions, expected to be financed by the SSF.</p> <p><i>Inclusion TC</i></p> <p>An estimated amount of [REDACTED] will be provided to support the Project Entities in designing the Youth Inclusion component, as well as the planned gender-sensitive outreach activities. Of these [REDACTED] have been secured [REDACTED] to support the activities linked to the Khatlon Energy Loss Reduction sub-project. The Framework will seek to mobilise further support [REDACTED] for the following sub-project (Dushanbe Energy Loss Reduction) [REDACTED].</p> <p>Co-investment grants / Concessional Finance (Non-TC)</p> <p>The TEEF will seek to mobilise concessional co-financing and investment grants [REDACTED]. Concessional funds will help address the tight fiscal space and consumer affordability concerns in Tajikistan, which are being exacerbated by the COVID-19 pandemic. The IMF recommends that</p>

	<p>Tajikistan does not take on non-concessional sovereign borrowing (concessionality below 35%).</p> <p>It is expected that majority of concessional funds will be externally managed. The first sub-project under the TEEF (Khatlon Energy Loss Reduction project) will be co-financed with EUR 15,000,000 capital grant from the EU IFCA (approved by the EU IFCA Board on 8 October 2019).</p>
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[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Since 2014, Tajikistan's economy has suffered from external shocks which weakened economic confidence, reduced fiscal space and external buffers, and increased vulnerabilities. The IMF estimates the fiscal deficit to remain high over the medium-term. Together with limited exchange rate flexibility, the fiscal deficit is expected to contribute to the weak external position, with the current account deficit over 5% of GDP. On January 13, 2020 the Executive Board of the IMF concluded the Article IV consultation urging the authorities to avoid non-concessional borrowing and implement a comprehensive debt management strategy. In parallel, the Government has been in talks with the IMF over a new three-year support programme.

Tajikistan economy is especially fragile in the light of the ongoing global coronavirus outbreak and high dependence on remittances from abroad (c. 32% of the country's GDP in 2019). The neighbouring countries have taken steps to limit migration inflows and introduced lockdown measures to contain further spread of the virus. Remittances declined by around 15% in the first half of 2020, weighing on consumption, imports and the Government's tax receipts. Economic growth decelerated to 3.5% year-on-year in January-June 2020 compared to 7.5% a year ago.

Tajikistan is facing severe disruptions in economic activity and the much needed investments into maintenance and rehabilitation of the power sector are under the risk of postponement. Support from international partners, including IFIs, is being mobilised to address the challenges created or exacerbated by the COVID-19 crisis in the areas where investment is needed to ensure sustainability of the country's economy during the crisis and its ability to recover with time. The current environment calls for the Bank's support of the priority energy sector infrastructure, enhanced efficiency and commercialisation of the sector, so that the priority investments are not undermined and important energy sector reforms continue.

Historically, the energy sector of Tajikistan has faced a number of issues. The most acute issues include the ageing infrastructure and underinvestment leading to high losses and lack of technology to enforce tariff and payment discipline. In recent years, the Government of Tajikistan embarked on an ambitious turnaround agenda for the energy sector with the goal of making it financially sustainable. Specific milestones for the restructuring programme were set in the Action Plan for Financial Recovery of BT announced in April 2019 by the Government ("the Action Plan"). The following steps were agreed and progressed:

- Completion of BT's unbundling into generation, transmission and distribution (legal unbundling is ongoing and is expected to be completed in 2020);
- Establishment of an energy regulator (a regulatory unit within the Anti-Monopoly Commission was established in July 2019 and is expected to ultimately evolve into a full-scope energy regulator in the coming years);
- Introduction of a new cost recovery tariff methodology allowing for recovery of all economically justified costs: the new methodology was approved in June 2019;
- Achievement of a cost recovery tariff by 2025 through a number of tariff increases [REDACTED].

While the implementation timeline might be affected by the pandemic outbreak, the Government remains committed to the reform related conditionalities under the Bank's projects, including eliminating power sector cash deficit by 2025. Meanwhile, affordability of electricity is an issue for the poorer segments of the population of Tajikistan and targeted measures are being introduced to protect vulnerable consumers.

Implementation of critical investments into rehabilitation and upgrade of key power transmission and distribution assets formed part of the Action Plan. The country's distribution network in particular is outdated and is in urgent need for investments, which remains unaddressed to date apart from the Sugd Energy Loss Reduction Project financed by the Bank in 2011 (the "Sugd Project"). The Sugd Project demonstrated the benefit of investment in the distribution network resulting in reduction of network losses in the Khujand city network from 27% to 10% and cash collections improvement at times close to 100% representing the highest cash collection rate in Tajikistan.

The Government of Tajikistan is keen to replicate the positive experience of the Sugd Project by cooperating with EBRD and other IFIs to help: (i) address the most urgent needs for replacement of the aged infrastructure, (ii) contribute to reduction of distribution network losses resulting in financial and CO₂ emissions savings, and (iii) introduce modern billing and metering infrastructure, improving payment discipline and cash collection and upholding operational and financial efficiency and sustainability of the power sector. These actions are expected to deliver climate mitigation benefits through improving energy efficiency of the electricity distribution network leading to CO₂ emission reduction estimated at up to 828 tons annually. The ADB and the World Bank have joined the IFI efforts to support the Government by providing grant funding to the distribution sector.

Through the policy dialogue included under the Framework, the Bank will facilitate the ongoing restructuring of BT at the time of unprecedented economic disruption and will help to protect transition gains achieved to date with the authorities on the power sector reform. Resulting from the long-standing policy engagement with the Bank, the Government adopted in July 2019 a Decree for establishing a tariff setting unit for the power sector within the Anti-monopoly Commission (AMC), which will gradually transition into an independent energy regulator. Three other decrees were signed which approved the three new tariff methodologies for generation, transmission and distribution. These policy developments were a direct outcome of the Bank's technical assistance with (i) the development of the concept and legislative amendments for setting up the tariff setting unit, (ii) review of draft methodologies, (iii) training and capacity building, (iv) policy engagement with national authorities and Investment Council, and last, but not least, high visibility presentations to the President of Tajikistan where the Bank's recommendations were delivered.

As part of the Framework, the Bank will retain an external consultant (the "Regulatory Consultant") to deliver regulatory technical assistance, building on previous and ongoing engagements by the EBRD. Key components of the assistance will include: i) development of regulatory bylaws and regulations necessary for the functioning of the regulatory unit; ii) operationalization of tariff methodology through development of guidelines and calculations for application of the tariff methodology of each function, which will gradually unbundle (i.e. generation, transmission and distribution); iii) restructuring of functions and staffing of the regulatory unit; and iv) institutional capacity building and training on the regulatory functions that an energy regulatory unit will assume

over time. Given the complexity of the regulatory issues in the country and lack of readily available solutions the Framework will also include the provision of Peer-to-Peer Assistance with the Council of European Energy Regulators (CEER), a cooperation of independent energy regulators of Europe.

The Framework will also help address the key transition challenge of youth unemployment, reaching 20.9% in the country (compared to 15% in Kyrgyz Republic, ILO 2020 modelled estimates). As Tajikistan has a young and rapidly growing population, with a median age of 22 years, improving the progression from school to work is critical. In the decades after 1991, the human capital endowments of the labour force sharply worsened, mainly as a consequence of disruptions in the education system following independence. In 2006, the Ministry of Education developed a National Action Plan for the Reform of the Initial Vocational Education and Training System (then incorporated in the National Education Development Strategy for 2012-2020), which identified as key priorities for the next decade the needs to upgrade the content of vocational education, to strengthen the VET system quality control and to create links with the labour market (European Training Foundation, 2020 Update of the Regional Strategy for Central Asia). The analysis of trends in the vocational education system shows that the system responds very weakly to the need for new skills and emerging demands by employers due to socioeconomic changes, including for high-value high-growth green economy sectors. This requires the development of new material and technical basis for professional education, with employers involved in this process of designing curricula and organising practical learning.

Tajikistan scores poorly on the Social Institutions and Gender Index (SIGI), which measures discrimination against women across different dimensions, including restrictions on access to productive resources and quality employment (OECD, 2019). The 2016 ADB Country Gender Assessment reports that, in the utilities sector (electricity, gas, and water supply), the average number of men employed is more than five times higher than the average number of women. The ADB Assessment also underlines that women make up the minority (about 15%) of students in technical energy-related fields, suggesting that special measures are needed to assist women in entering this field and sector.

Gender issues and youth unemployment are expected to be exacerbated by the falling remittances, returning workforce and economic slowdown caused by the COVID-19. The TEEF, therefore, will promote Inclusive Transition Impact through the development of an accredited and gender-sensitive dual learning model with power utility companies in Tajikistan. This will include (i) strengthened formal partnerships with local educational institutions, (ii) development of an institutional route for the school-to-work transition –with a gender lens, and (iii) technical improvement in the quality and the integration of gender-sensitive measures into curricula for dual learning, taking into account the skills needs for the power sector.

The TEEF is in line with the Green Economy Transition Approach and the Energy Sector Strategy 2019-2023 aimed at supporting cleaner production and distribution of energy through greater energy and resource efficiency. The TEEF is also in line with the Strategy for Tajikistan for 2020-2025, which aims to support as a priority wider access to services and skills for women and youth, as well as the Economic Inclusion Strategy and the Strategy for the Promotion of Gender Equality 2016-2020.

1.2 TRANSITION IMPACT

Transition Impact under the Framework will be achieved incrementally by each sub-project. All projects will, therefore, be rated in line with the Framework rating. The sub-projects will qualify for the Framework if they meet the eligibility criteria.

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	<i>The project entails a policy dialogue initiative that has been assessed as Good by the sector economist.</i>	<p>Under the Framework, the Bank will continue to support regulatory reform in the energy sector with the overall purpose to introduce clear and transparent energy regulation in the country, ensuring the sustainable and market-based functioning of the energy sector of Tajikistan. The policy engagement builds on previous and ongoing work by the Bank.</p> <p>The assignment will include: (i) drafting a Government decree and development of secondary legislation required for efficient functioning of the regulatory unit. This will include regulatory charter and regulatory bylaws that will enable the newly founded energy regulatory unit to operate and organically grow as a department within the Anti-Monopoly Commission; (ii) operationalization of tariff methodology including instruction for calculation of tariffs; reporting guidelines; and methodologies for tariff calculation for generation, transmission and distribution; (iii) restructuring of functions and staffing of the energy regulatory department; and (iv) training to the newly hired regulatory staff on key principles of energy regulation, as well as capacity building to support the regulatory unit as it builds its authority and assumes more regulatory functions as part of the power sector reform.</p> <p>To further support empowering an independent regulator initiated as part of Cross Regional Power Trade project, the Bank will develop a step-by-step plan for capacity building and increasing responsibility at the agency. Additionally, the Bank will mobilise regulatory experts from CEER member countries to share experiences with the Tajik Regulator and lessons learnt from their own experiences. Peer-to-peer assistance has proven extremely valuable for the regulator in other countries in the region such as Azerbaijan and Uzbekistan.</p>
1.2	<i>The project helps the client move towards international best practice in terms of system reliability, efficiency or flexibility</i>	<p>A sustainable electricity distribution system is an important component of the efficient, reliable, and flexible infrastructure needed to meet the growing demand for electricity in Tajikistan in the longer perspective as well as to support well-functioning markets during economic turmoil resulting from the 2019 coronavirus outbreak.</p> <p>The priority investment programme to be implemented as part of the Framework includes installation of 450 ths meters and billing systems as well as modernisation of low voltage power infrastructure across the country aimed at improved reliability. Through the planned network upgrades and replacement of distribution lines, technical and commercial losses will be substantially reduced and thus the reliability of the electricity distribution and transmission network throughout the country will be improved, which will be associated with climate mitigation benefits. As a result of the Framework implementation, a [REDACTED] reduction in total electricity losses and improvement in collection rate</p>

		[REDACTED] is expected to be reached in the target regions in which billing and metering systems will be installed.
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Secondary Quality: Inclusive

Obj. No.	Objective	Details
2.1	<i>Each sub-project will introduce a new, replicable and nationally accredited training programme to equip [REDACTED] young people (depending on company size) with higher skill levels in partnership with local vocational schools or universities.</i>	<p>Sub-projects under the Framework will include training programmes to provide young people with skills and employment opportunities in the energy distribution industry. Based on international best practice standards, dual-education components will be included under each sub-project to establish more institutional routes for the school-to-work transition and will result in accredited certification of learning outcomes. All sub-projects will entail new cooperation with educational institutions, including Technical and Vocational Education & Training (TVET) institutes and technical colleges. These institutes will be selected among potential feeders of senior students for the dual learning programme.</p> <p>This will enable youth from different regions of Tajikistan to acquire market-relevant and accredited skills on energy efficiency. New courses will be developed, to reflect the new green requirements of the project entities, such as the need for system operators and controllers or account and payment officers. TC support will include, as a first step, a gender-sensitive needs assessment on green skills in the energy sector and it will then focus on designing the structure and content of the new courses.</p> <p>Career advice to young people and outreach to local schools through female and male role models (chosen among successful client's employees) will be embedded in the programme to improve the perception and awareness of equal opportunities in the industry. The programme will also aim at raising interest in energy efficiency technologies, through initiatives and fairs on energy efficiency, in collaboration with the partner educational institutes, as well as a media campaign for the wider public to promote awareness of consumer energy-efficiency and demand-side activities to ensure the engagement of utilities with local communities. The outreach initiative and media campaign will be designed and implemented with a gender lens, for example by actively involving various stakeholders in the planning of gender-related themes.</p> <p>Based on the pipeline of 2 sub-projects under the Framework, the Framework is expected to generate dual learning opportunities for [REDACTED] young people over the next 5 years, with [REDACTED] young people targeted per project on average and 20% of female participants included.</p>

Delivery risks

The main risks applicable to the Framework relate to: (i) timely implementation of the policy reforms related to the regulatory improvement in the sector; (ii) successful implementation of the training programmes may be at risk in case the local educational institutions lack the commitment and/or resources; and (iii) successful physical projects implementation.

1.3 ADDITIONALITY

Identified triggers	Description
None	N/A

Additionality sources	Description
<p>Financing structure: EBRD offers financing that is not available in the market from 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.</p>	<p>Long-term funding from commercial sources is not available for projects in the power sector; the short-term commercial bank loans that are already on the balance sheet of BT require restructuring.</p> <p>There are no sources of long-term financing that match the lifetime of the power assets and have a grace period tailored for the project implementation.</p> <p>EBRD financing comes at the time of severe liquidity constraints caused by economic disruption as the result of the COVID-19 outbreak. The financing will help power companies to move on with the modernization programme aimed at efficiency improvements in the sector but also support the authorities in progressing with sector reform.</p>
<p>Standard-setting: helping projects and clients achieve higher standards: Client seeks/makes use of EBRD expertise on best international procurement standards.</p>	<p>Tajik authorities seek EBRD expertise on the best international procurement standards. The on-going procurement will follow the EBRD's procurement policies and rules ("PP&R") including EBRD Client e-Procurement Platform ("ECEPP") in order to maintain eligibility for the EBRD financing.</p> <p>Through the TEEF, the EBRD will introduce high standards beyond local requirements and practices on ESAP and procurement that are still innovative for the country. In particular, ESAP will require implementation of an Environmental and Social Management System (ESMS) for the Project Entities structured according to ISO 9001/14001 standards. It will be replicable across distribution branches, and likelihood of replication is reinforced by the ESAP requirement to develop and implement an environmental and social management system (ESMS) aligned to ISO14001 and ISO45001 standards at a corporate level.</p> <p>The Project Entities will also rely on EBRD expertise in higher inclusion and gender standards. Building on the gender component of the Qairokkum HPP project, the client will reach higher standards of gender equality and inclusion through the promotion of gender mainstreaming activities. The dual-learning programme will aim to reach 20% of female participants. It will be developed with a gender lens to contribute to enhancing the role of women in this traditionally male dominated sector, as well as narrowing the gaps between young women and men in science, technology, engineering and maths (STEM) subjects in Tajikistan.</p>

<p>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.</p>	<p>In order to attract broader investment into the sector, EBRD and the Government agreed to reform the legal and regulatory base for the power sector to better reflect good international practices, and will work together on their effective implementation in the country.</p> <p>Within the umbrella of the Donor Coordination Committee combining all the IFIs working in the sector and with strong support from the Ministry of Energy and Water Resources, EBRD agreed to expand on the existing Regulatory Development Technical Cooperation Programme including provision of trainings on the new tariff methodology, development of a new tariff model and regulatory by-laws for the regulatory unit, and peer-to-peer learning in collaboration with CEER.</p>
<p>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.</p>	<p>The Bank has accumulated significant experience in financing the distribution sector in the region including Sugd project in Tajikistan (signed in 2011) which has become a showcase project with network losses in the Khujand city network reduced from 27% to below 10% as a result of project implementation.</p> <p>Through the TEEF, the EBRD will introduce high standards and practices on ESAP, IFRS reporting and open tender procurement by the use of ECEPP that are still innovative for the country.</p> <p>The Bank will support engagement of an experienced PIU consultant who will work closely with the Project Entities to assist with procurement, tendering, contract implementation, compliance and reporting obligations and other Project implementation procedures.</p>

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
<p><i>Tajikistan sovereign risk and fiscal space</i></p>	<p>Medium / High</p>	<p>According to the IMF, Tajikistan's Government debt to GDP ratio amounted to 44.6% as of YE2019. The bulk of public debt is external largely due to the issuance of the USD 500 million Eurobond and international loans to finance government investment programmes.</p> <p><i>Mitigation:</i> While the macroeconomic stress and pressures on the budget are high, the external public debt remains manageable. To address the impact of the COVID-19 crisis, Tajikistan received USD189.5 million in emergency financing from the IMF for budget support and grant funding from ADB, WB and other development partners. The country was also granted temporary debt relief from the IMF. The country agreed with the IMF on the implementation of fiscal consolidation measures in 2021-22 to ensure debt sustainability.</p> <p>The Framework will target efficiency improvement in the power sector to bring higher energy export revenue and as such will have positive impact on debt sustainability over the longer term.</p>
<p><i>Restructuring risk</i></p>	<p>Medium / High</p>	<p>Power sector reforms and finalisation of BT restructuring may face challenges due to macroeconomic instability.</p>

		<i>Mitigation:</i> the Government expressed support and commitment to restructuring of BT and to necessary sector reforms that have been further covenanted by the Bank. BT demonstrated significant progress in terms of implementation of the restructuring plan (unbundling into generation, transmission and distribution; regular tariff increases).
<i>Implementation and procurement risk</i>	To be determined at the sub-project level.	Sub-projects under the Framework may face cost overruns, delays in implementation and failure to achieve expected technical outcomes. <i>Mitigation:</i> The Bank is planning to provide TC support to engage PIU consultant for supervision and implementation of sub-projects to ensure appropriate preparation of contracts and implementation. PIU consultant will provide assistance within the project design phase, tendering phase, tender evaluation, contract finalization and implementation phase.
<i>The Project Entities' creditworthiness</i>	To be determined at the sub-project level.	The Project Entities creditworthiness may be weak. <i>Mitigating factors:</i> Financial analysis will be prepared for each sub-project, taking into consideration the existing exposure and proposed loan amount. The EBRD loans will be backed by the sovereign debt capacity.
<i>Foreign exchange risk</i>	Medium / Medium	Tajik Somoni devaluation could adversely affect the ability of the Borrower to repay the hard currency loan. <i>Mitigating factors:</i> The recently approved tariff methodology should help ensure that tariffs are cost reflective.

2. MEASURING / MONITORING SUCCESS

For the TEEF all sub-projects will receive TEEF assigned ETI, and sub-operations PTI will be awarded at the Framework level. The TEEF will be monitored both at the Framework and sub-project level.

Primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Duration
1.1	Legal and regulatory frameworks in target areas improved	Adoption of regulatory charter	[REDACTED]	[REDACTED]	[REDACTED]
		Adoption of regulatory bylaws necessary for the functioning of the energy regulatory unit	[REDACTED]	[REDACTED]	[REDACTED]
		Operationalization of tariff methodology through adoption of operational guidelines, and strengthening the technical knowledge of staff through training.	[REDACTED]	[REDACTED]	[REDACTED]
		Restructuring of functions and staffing of the energy regulatory department.	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Operational performance of the client (collection rates)	Improvement in collection rate [REDACTED] in target regions in which billing and metering system is installed.	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Operational performance of the client (losses)	Reduction in commercial and technical losses [REDACTED] in target regions where electricity network is modernized.	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Inclusive

Obj. No.	Monitoring indicator	Details	Baseline	Target	Duration
2.1	Number of partnerships between private sector and education providers established to support new learning opportunities	All sub-projects will entail new or substantially improved cooperation with educational institutions, including local Technical and Vocational Education & Training (TVET) institutes and technical colleges –to be selected among potential feeders of senior students for the dual learning programme.	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Tailored training programme developed and implemented	A joint course will be developed with the partner educational institution. The curriculum will follow the principles of work-based learning, reflect the requirements of the industry and be tailored to the needs of different workers such as system operators and controllers or account and payment officer.	[REDACTED]	[REDACTED]	[REDACTED]

2.3	Number of youth enhancing their skills as a result of training	Number of youth benefiting from skilling opportunities under the accredited dual-learning training programme on energy efficiency technologies.	[REDACTED]	[REDACTED]	[REDACTED]
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3. KEY PARTIES

3.1 GUARANTOR / BORROWER

The Republic of Tajikistan.

3.2 PROJECT ENTITY

Each Project Entity will be assessed during due diligence for each sub-project.

4. MARKET CONTEXT

The power system of Tajikistan has total installed capacity of around 5.8 GW (hydropower accounts for 90% of installed capacity and coal-fired combined heat and power plant accounts for the remaining 10%). In 2019 the power system generated circa 20 billion kWh, of which 17% was exported (to Uzbekistan and Afghanistan) and the rest consumed by households (28%), industry (19%), agribusiness (11%), others (13%). Total network losses are estimated at 28%.

For a long time the power sector was dominated by BT, a state-owned vertically integrated power utility responsible for generation, transmission and distribution of electricity. In addition to BT's generation assets, there are two large independent power producers ("IPPs") – 670 MW Sangtuda 1 hydropower plant, 220 MW Sangtuda 2 hydropower plant, and the state Rogun hydropower plant (currently operating at 200 MW). IPPs sell the generated electricity to BT under bilateral power purchase agreements. Pamir Energy, a private IPP with 40 MW hydro capacity, operates in the isolated Gorno-Badakhshan region, in the east of Tajikistan.

Electricity is sold at regulated tariffs currently established by the Government. The end-user tariffs as of YE19 amounted to USDc 5.7/kWh for industrial customers and USDc 2.3/kWh for residential customers. The new electricity sector regulatory unit was established in July 2019 within the Antimonopoly Service under the technical cooperation assistance provided by the Bank. The unit will perform the regulatory function and is envisioned to ultimately evolve to a full scope regulator.

While BT has recorded positive EBITDA and stable profitability with collection rates improving over the last few years, the debt portfolio remains under the pressure of the Tajik Somoni devaluation resulting in a widening negative equity position. Further collection rate improvement, tariff increases and debt restructuring are necessary to bring the utility to a sound financial position. This was reflected in the financial recovery action plan adopted in 2019 with the Bank's support and targeting debt restructuring, working capital management, introduction of a new tariff methodology and gradual move to cost-recovery tariffs, as well as creation of the power sector regulator and rehabilitation of the largely obsolete power sector infrastructure. As part of the sector transformation effort, BT is currently undergoing unbundling with transmission and distribution

businesses recently transformed into OJSC “Shabakahoi intikoly bark” (transmission) and OJSC “Shabakahoi taksimoti bark” (distribution).

In addition, a new tariff policy and tariff methodology based on a gradual switch to the cost-reflective basis was adopted in 2019 in close consultation with the IFIs. Fixed and variable operating and maintenance expenses (including interest payments) as well as depreciation and return on invested capital are expected to be taken into account when calculating the tariff levels, thus providing full cost recovery for power companies in the generation, transmission and distribution expected to be reached by 2025.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 GUARANTOR / BORROWER

In 2019, Tajikistan reported real GDP growth at 7.5%, following 7.3% growth in 2018. Growth was driven by services and industry. Exports increased by 9% year-on-year in US dollar terms in 2019, while imports grew by 6%. The country has historically been dependent on remittances that accounted for about one third of the country’s GDP. In 2014-2016, the amount of remittances saw a sharp decline and since then has not yet rebounded to the 2013 level, both as percentage of GDP and in absolute terms. The economy remains vulnerable to external shocks including the negative spill-over effects from potential escalation of trade tensions and hikes of interest rates abroad.

According to the Ministry of Finance, external public debt / GDP ratio stood at c. 36% as of YE2019. Apart from the USD 500 million Eurobond issued in 2017, the external public debt portfolio is comprised of loans granted by international financiers on concessional terms.

The IMF consultation concluded in January 2020 references, among other, the IMF Directors urging the authorities to avoid non-concessional borrowing and implement a comprehensive debt management strategy, with IMF’s technical assistance, to manage risks from large infrastructure projects and SOEs. ADB and WB finance their energy sector projects in the Republic of Tajikistan largely with grant funding³.

Upon the onset of the COVID-19 crisis, Tajikistan received USD 189.5 million in emergency financing from the IMF for budget support to implement the anti-crisis measures. The government also attracted a USD 52.5 million grant from the Asian Development Bank, USD 11.3 million grant from the World Bank and support from other development partners. IMF and the authorities agreed on the implementation of fiscal consolidation measures of 2% of GDP in 2021-22 to ensure debt sustainability. In addition, Tajikistan has received 6 month debt relief from the IMF (amounting to USD 10 million), with potential extensions, up to a maximum of full two years from April 2020. Tajikistan was also granted debt relief around USD 50 million under G20 debt service suspension initiative.

³ WB approved the full grant energy project financing in 2020 (Power Utility Financial Recovery Project, USD 134 million equivalent grant) and in 2019 (Rural Electrification Project, USD 31.7 million equivalent grant), the Nurek Hydropower Rehabilitation Project Phase I approved in 2017 was partly grant funded and WB financing carried a 51.5% grant element. All ADB’s projects in the energy sector of Tajikistan are grant funded.

5.2 PROJECT ENTITY

Detailed financial forecast and sensitivity analysis of each project entity will be presented as part of the relevant sub-project's submission.

5.3 PROJECTED PROFITABILITY FOR THE BANK

Projected profitability will be calculated and presented separately for each sub-project.

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

The Framework itself is not categorised under the Bank's 2014 Environmental and Social Policy; however each sub-project will be categorised on a case by case basis and will be subject to individual environmental and social due diligence (ESDD) with the support of an independent consultant. A Non-Technical Summary (NTS), environmental and social action plan (ESAP) and SEP (if required) will be developed for each sub-project to ensure compliance with the EBRD PRs. It is anticipated that the sub-projects will be categorised B. Any sub-project that is categorised A will be subject to the Bank's full ESIA requirements and will require Board approval.

Preliminary analysis of sub-projects under the currently envisaged pipeline indicates that potential environmental and social risks and impacts could include occupational health and safety, demobilisation of fee collectors and stakeholder engagement associated with the introduction of new payment methods (smart metering).

TC funds will be mobilised to support the Framework implementation with i) capacity building program targeting BT environmental specialists, ii) support to development of good international practice at corporate level. Discussions about the scope of this E&S support assignment have been initiated with BT.

6.2 INTEGRITY

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues will be taken with respect to each sub-project. The files containing the integrity checklists and other required documentation will be properly and accurately completed to proceed with each sub-project.

Integrity checks will be conducted separately for each sub-project, according to the Bank's procedures.

6.3 OTHER ISSUES

Concessional Finance will be considered separately for each sub-project.

Affordability Analysis. The Framework is intended to focus on rehabilitation of the electricity grid which plays an important role in moving the economy of Tajikistan towards sustainability. Grant financing is expected to be required due to the constrained power sector and macroeconomic situation and will address affordability issues. The capital costs associated with the implementation of the Framework might result in the system facing affordability constraints if fully passed through to consumers. By receiving soft funding as part of the Framework, the costs to be passed through to end consumers are reduced, thus alleviating potential negative social impacts arising from affordability concerns for the poorest households of Tajikistan. Backed by the presence of grant funding, the burden resulting from rising tariff will be mitigated for the poorest consumers.

ANNEXES TO OPERATION REPORT

ANNEX 1	PROJECT IMPLEMENTATION
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ANNEX 1 – PROJECT IMPLEMENTATION

Procurement classification – *Public [sovereign]*

[REDACTED] BT has earlier proven procurement and project implementation experience on a number of EBRD funded projects, hence the Company is used to undertaking procurement in line with the requirements of EBRD's PP&R for public sector operations.[REDACTED]

Project implementation arrangements:

The company's centralised and established PIU for distribution projects will stay in place and will act as the focal PIU for each sub-project. Procurement plans will be presented for each of sub-project separately and be subject to the Bank's review and approval.

The procurement plan for the Khatlon Energy Loss Reduction Project is presented below. It should also be noted that the Dushanbe Energy Loss Reduction Project will be co-financed with ADB, and hence a Project Implementation Agreement will be signed between ADB and EBRD under which ADB is meant to act as the Lead Financier for procurement under that project.

The company has earlier experience in applying EBRD's Client e-Procurement platform (ECEPP) and will use this platform for all procurement activities under each sub-project except the Dushanbe Energy Loss Reduction Project, which will be procured using ADB's procurement system.

The selection process of the PIU Consultant for the Khatlon Energy Loss Reduction Project was completed and the Contract was signed.

Similar consultancy arrangements are expected for the other sub-project and shall be agreed upon on need basis to ensure that the clients will be in a position to successfully implement the projects.

Procurement arrangements:

Khatlon Energy Loss Reduction Project

All contracts under the Khatlon Energy Loss Reduction Project will be procured following open tendering procedure by using ECEPP in accordance with the requirements of the EBRD PP&R for public sector operations.

There will be three works contracts under this project consisting of (i) Billing and Metering Infrastructure, (ii) Substations in Kulob, and (iii) Rehabilitation of workshops.

There will be two consultancy contracts financed by TC funds (including EU/IFCA), (1) PIU Consultant, selection completed and contract awarded, and (2) Gender Consultant.

Dushanbe Energy Loss Reduction Project

A Project Implementation Agreement will be signed between ADB and EBRD under which ADB will act as the Lead Financier for procurement under this project. The procurement plan is under discussion and will be presented as a part of the approval documentation.

Procurement Plan

[REDACTED]