

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

Approved by the Board of Directors on 21 September 2022<sup>1</sup>

**UZBEKISTAN**

**SARIMAY-DJANKELDY TRANSMISSION**

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

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

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

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

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**ABBREVIATIONS / CURRENCY CONVERSIONS**

CAGR	Compounded Annual Growth Rate
CO2	Carbon Dioxide
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
ECEPP	EBRD Client e-Procurement Portal
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
EUR	Euro
E&S	Environmental and Safety
FX	Foreign Exchange
FY	Financial Year
GDP	Gross Domestic Product
GET	Green Economy Transition
GoU	Government of Uzbekistan
IFI	International Financial Institution
IFRS	International Financial Accounting Standards
IPP	Independent Power Producer
JSC	Joint Stock Company
OHL	Overhead Transmission Line
PD	Probability of Default
PIU	Project Implementation Unit
PIS	Project Implementation Support
PP&R	Procurement Policies & Rules
TC	Technical Cooperation
TSO	Transmission System Operator
USD	US Dollar
UZS	Uzbek Som
YE	Year End

**CURRENCY EQUIVALENTS**

25/8/2022 EUR 1.00	=	USD 0.998
31/5/2022 EUR 1.00	=	USD 1.07
2021 UZS 10,838	=	USD 1.00 (EoP)
2021 UZS 10,623	=	USD 1.00 (AoP)
2020 UZS 10,477	=	USD 1.00 (EoP)
2020 UZS 10,064	=	USD 1.00 (AoP)
2019 UZS 9,508	=	USD 1.00 (EoP)
2019 UZS 8,851	=	USD 1.00 (AoP)

**MEASURES**

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

## **PRESIDENT’S RECOMMENDATION**

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

The facility will consist of a sovereign loan in the amount of up to USD 47.1 million (EUR 47.2 million equivalent) to finance construction of (i) a c. 128 km 500 kV transmission line in Uzbekistan between the settlements of Sarimay (Khoresm region) and Djankeldy (Bukhara region), and (ii) a c. 2 km 500kV transmission line connecting a new 500kV open switchgear with the 500kV Navoi transmission line, as well as required consultancy support.

The operation will enable the client to improve reliability, efficiency and stability of the transmission network as well as quality and security of electricity supply in Uzbekistan. The project is part of the power infrastructure that will enable the transmission of the electricity that will be produced by [REDACTED] wind farms [REDACTED]. The expected transition impact of the project is two-fold: 1) Green: the operation is 100% aligned with the Green Economy Transition approach and will entail policy dialogue and technical cooperation with the national control centre to facilitate the integration of renewable energy sources to the national grid in a safe and secure manner; and 2) Resilient: through the project, the region's power supply reliability will be improved by helping eliminate bottlenecks in the grid and reduce electricity outages, especially during peak demand periods. The project is part of the required grid extensions and reinforcements that the Republic of Uzbekistan needs to enable reliable and efficient transmission of energy generated from renewable sources from Bukhara and other northern regions to the energy users.

TC support for this operation has been provided [REDACTED]. Technical cooperation [REDACTED] includes environmental and social impact assessment and lender’s monitor support for the Project.

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

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

**Odile Renaud-Basso**

## BOARD DECISION SHEET

<b>UZBEKISTAN – Sarimay-Djankeldy Transmission - DTM 52874</b>	
<b>Transaction / Board Decision</b>	Board approval <sup>2</sup> is sought for a loan of up to USD 47.1 million (EUR 47.2 million equivalent) in favour of the Republic of Uzbekistan to finance construction of: (i) a c. 128 km 500 kV transmission line in Uzbekistan between the settlements of Sarimay (Khoresm region) and Djankeldy (Bukhara region), and (ii) a c. 2 km 500 kV transmission line connecting a new 500kV open switchgear with the 500 kV Navoi transmission line (the “Project”).
<b>Client</b>	The Republic of Uzbekistan (the “Borrower”), on-lending to Joint Stock Company National Electric Grid of Uzbekistan (the “Company”).
<b>Main Elements of the Proposal</b>	<p><u>Transition impact:</u> <i>Primary Quality – Green:</i> The Project is 100% aligned with the Green Economy Transition approach. It will support reduction of the daily power system losses in the network [REDACTED] in summer and winter days [REDACTED] as well as will facilitate development of renewable energy. EBRD will also provide capacity building to NEGU to improve the national dispatching practices to accommodate increasing renewable energy capacities.</p> <p><i>Secondary Quality – Resilient:</i> through the Project, the region's power supply reliability will be improved by reducing unplanned outages and eliminating bottlenecks in the grid. The Project will also support connection of renewable power plants of the Bukhara region to the national grid to diversify and improve security of supply. The Project is part of the required grid upgrades that the country needs in order to enable reliable and efficient evacuation of energy generated from renewable sources from the Bukhara and other northern regions to the energy users.</p> <p><u>Additionality:</u> <i>Financing structure</i> – EBRD offers financing that is not available in the market from commercial sources [REDACTED]. Such financing is necessary to structure the project. <i>Risk mitigation</i> – EBRD helps the client to move along a sector-wide low carbon transition pathway. <i>Policy, sector, institutional or regulatory change</i> – EBRD will work with NEGU to enhance grid management practices at the sector/country level. <i>Standard setting: helping projects and clients achieve higher standards</i> – EBRD will help the client achieve higher standards in ESG management. <i>Knowledge, innovation, and capacity building</i> – EBRD provides expertise, innovation, knowledge and capabilities that are material to the timely realisation of the Project's objectives, including support to strengthen the capacity of the client.</p> <p><u>Sound banking:</u> The EBRD loan will be backed by the sovereign debt capacity.</p>
<b>Key Risks</b>	Credit risk is mitigated by the moderate level of sovereign debt to GDP ratio, which stands at 38% of GDP as of YE2021 and remains manageable relative to the foreign exchange reserves. Implementation and project completion risk is mitigated by the client's experience with procurement under IFIs' requirements (including EBRD's) and involvement of PIS consultancy.
<b>Strategic Fit Summary</b>	By promoting green energy and regional integration and energy network connectivity, the Project is consistent with the Uzbekistan Country Strategy, the Energy Sector Strategy, the Green Economy Transition approach, and with the Agreement Establishing the Bank.

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

## ADDITIONAL SUMMARY TERMS FACTSHEET

<b>EBRD Transaction</b>	A sovereign loan of up to USD 47.1 million (EUR 47.2 million equivalent) in favour of the Republic of Uzbekistan to finance construction of: (i) a c. 128 km 500 kV transmission line in Uzbekistan between the settlements of Sarimay (Khoresm region) and Djankeldy (Bukhara region), and (ii) a c. 2 km 500kV transmission line connecting a new 500kV open switchgear with the 500kV Navoi transmission line (the “Project”).
<b>Existing Exposure</b>	Uzbekistan sovereign exposure as of May 2022: sovereign portfolio – c. EUR 911 million [REDACTED]. Exposure to the Company: [REDACTED]. Current TIMS rating: 70
<b>Maturity / Exit / Repayment</b>	Up to 18 years [REDACTED].
<b>Potential AMI eligible financing</b>	Not applicable
<b>Use of Proceeds</b>	The proceeds of the EBRD loan will be used to finance construction of high voltage transmission infrastructure connecting the Khoresm and Bukhara regions and the associated consultancy support to the client. The use of proceeds will be monitored through application of the EBRD PP&R and via conditions precedent to disbursement, review of the progress reports on the agreed Project Implementation Plan (PIP) and monitoring visits, as well as other standard provisions in the legal documentation.
<b>Investment Plan</b>	[REDACTED]
<b>Financing Plan</b>	[REDACTED]
<b>Key Parties Involved</b>	Borrower: Republic of Uzbekistan Company: JSC National Electric Grid of Uzbekistan
<b>Conditions to subscription / disbursement</b>	[REDACTED]
<b>Key Covenants</b>	[REDACTED]
<b>Security / Guarantees</b>	Sovereign loan
<b>Other material agreements</b>	None
<b>Associated Donor Funded TC and co-investment grants/concessional finance</b>	<p><b>Technical Cooperation (TC)</b></p> <p>Pre-signing:</p> <ul style="list-style-type: none"> <li>• <b>TC1:</b> Environmental and social impact assessment [REDACTED].</li> <li>• <b>TC2:</b> Project preparation study [REDACTED].</li> </ul> <p>Post-signing:</p> <ul style="list-style-type: none"> <li>• <b>TC3:</b> Central Asia: Energy Security Programme for Peer-to-Peer Assistance to Electricity Transmission System Operators [REDACTED].</li> <li>• <b>TC4:</b> Lender’s Monitor Support [REDACTED].</li> </ul> <p><b>Reimbursement:</b> The above assignments are non-reimbursable transactional TCs.</p> <p><b>Cost-Sharing:</b> The Client will provide a parallel contribution by covering the Project Implementation Support - including procurement and engineering supervision [REDACTED].</p>

[REDACTED]

## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

#### 1.1 STRATEGIC CONTEXT

Since the start of the power sector's turnaround, Uzbekistan has set out an ambitious plan to develop renewable energy generation capacity from scratch, currently targeting 12 GW of installed capacity by 2030. The first two large-scale solar power plants Nur Navoi and Samarkand Solar Power Plant, financed by the Bank) became operational in December 2021 and July 2022 respectively; multiple other projects are under construction and new renewables tenders are on-going or under preparation including multi-gigawatt solar programmes run by ADB and IFC and a wind programme by EBRD recently expanded from 1 to 2 GW. This makes national grid extensions and upgrades a priority for the power sector of the country. The grid in Uzbekistan currently has limited capacity and [REDACTED] bottlenecks, which results in occasional blackouts affecting citizens and businesses across the country, with the latest evidence being a Central-Asia-wide blackout in January 2022 that has had a [REDACTED] impact across Uzbekistan, Kazakhstan and Kyrgyz Republic.

The Project will finance construction of the power infrastructure that will help enable the evacuation of wind power generation from [REDACTED] wind farms [REDACTED] that will be installed in the region. It will also will help balance the load of the existing transmission lines and address the issue of bottlenecks in the North- and South-Western power regions. Implementation of the proposed Project will strengthen reliability and stability of the country's transmission network, improve capacity of the electricity system and help reduce grid losses. The growing intermittent renewables generation capacity in the country necessitates grid strengthening and improvements in the grid operator's balancing capabilities, which will be addressed by this Project.

In February 2021, the Government of Uzbekistan presented to the public the EBRD-supported Low-Carbon Pathway for the Power Sector of Uzbekistan up to 2050 (the "Pathway"). The Pathway aims at setting out a viable roadmap for the sector decarbonisation in line with the national climate commitments under the Paris Agreement and among other elements focuses on the scale-up of renewables that would require an extensive and reliable transmission grid. As the country is scaling up renewable power, a reliable transmission grid will be of paramount importance to unlock the country's potential for renewable power generation and to ensure smooth integration of renewables in the power system. The Project supports the operationalisation of the Pathway and will enable further diversification of the regional and national generation capacity towards zero-emissions options.

The Project will be implemented by JSC National Electric Grid of Uzbekistan (the "Company", or "NEGU"), an existing client of the Bank through two sovereign loans to construct transmission infrastructure (Navoi Transmission Upgrade and Uzbekenergo Muruntau Substation. The Company is a state power transmission company in Uzbekistan and a regulated natural monopoly. While the Company was established as part of Uzbekenergo unbundling in 2Q 2019 (delivered with the EBRD's capacity building assistance on the power sector market structures and unbundling), it has a long-standing operational history as part of the vertically integrated Uzbekenergo. [REDACTED].

The Project will enable grid connection for renewable energy projects that are expected to generate [REDACTED] green electricity corresponding to [REDACTED] CO2 reduction per year. Furthermore, it will reduce technical losses [REDACTED] annually corresponding to annual savings [REDACTED]

of CO2 and avoid wind energy curtailment [REDACTED] corresponding to annual savings [REDACTED] of CO2. The project has been classified as 100% GET project.

[REDACTED]. To meet the national climate change targets, it is necessary for Uzbekistan to increase significantly the amount of non-synchronous renewable energy on the power system in a safe and secure manner. Achieving this will require new approaches to power system policies, performance and tools to be developed and adopted by NEGU. To this end, the Project will include technical cooperation where the Bank, with the help of external experts, will focus on capacity building in this area, helping NEGU enhance its management practices and ensure the system stability going forward. The assignment will be a call-off under the System Integration of Renewables Capacity Building activity under the Central Asia: Energy Security Programme for Peer-to-Peer Assistance to Electricity Transmission System Operators. Over the course of the project, the Bank will support NEGU to strengthen its corporate management system to allow for the development of a corporate Environmental, Social and Governance (ESG) management system to enable future disclosure of sustainability data.

The Project is consistent with the Bank's Energy Sector Strategy, the Country Strategy for Uzbekistan and with the Bank's Green Economy Transition approach. The Project is aligned with the Paris Agreement, helping strengthen the national electricity grid and unlock the potential of renewables. The Project is also important in view of the macroeconomic developments stemming from the impact of the crisis in Ukraine. The crisis and associated cross-border impacts are expected to affect Uzbekistan [REDACTED].

## 1.2 TRANSITION IMPACT

The table below sets out the TI Objectives and details of the Project.

Obj	Objective	Details
<b>Primary Quality: Green</b>		
1.1	<i>The percentage of EBRD use of proceeds allocated to the Project that qualifies as GET is 50% or higher.</i>	The Project is 100% GET. The Project will significantly reduce technical losses of the grid, generating carbon emissions savings. The Project will reduce technical losses of the grid [REDACTED] and avoid wind energy curtailment [REDACTED]. Both these benefits correspond to annual savings of [REDACTED] CO2.
1.2	<i>The Project entails a package of policy dialogue, which fulfils the following conditions: a) covers one or more green topics related to the GET approach; b) aims to achieve a clear policy outcome; c) a relevant counterparty in a position to implement the policy reform is part of the dialogue; d) policy outcome has a systemic and long term impact beyond project boundaries so it will influence other stakeholders and result in structural change; e) is new in the context of the market/country/industry and is aligned with international best practices; and f) The dialogue has a well-defined budget, resources, work plan and timeline as well as appropriate benchmark indicators that monitor success in implementation.</i>	The policy dialogue and technical cooperation of EBRD are intended to facilitate the integration of renewable energy sources to the national grid by providing capacity building to NEGU to establish best practice in grid management practices that will help enable the national dispatching centre to accommodate increasing renewable energy capacities. The assistance will provide a gap analysis of the current NEGU grid management practices against best practice. In addition, it will provide a roadmap of required changes to the grid management practices that will need to be incorporated into TSO's standards and codes. This assistance will be a specific call-off on the system integration of renewables under the Energy Security Programme for Peer-to-Peer Assistance to Electricity Transmission System Operators.
<b>Secondary Quality: Resilient</b>		
2.1	<i>The Project will help client move towards international best practice in terms of system reliability or flexibility.</i>	The Project will help reduce grid bottlenecks (namely between the North-Western and South-Western power areas of Uzbekistan), system losses and unplanned



		electricity outages, making the region's power supply more reliable. It will increase power system reliability and the balancing capability of the TSO. It will also mitigate the threat of blackouts that has recently occurred in the region. This investment is part of the grid strengthening programme the Company has committed to undertake in Khoresm, Bukhara and Navoi regions.
2.2	<i>The Project will allow the connection of planned renewable energy installations which currently are not possible due to inadequacy of the grid, or lead to a decrease in the curtailment of existing renewable energy installations, as verified by ESD.</i>	The Project will facilitate connection of [REDACTED] wind power plants [REDACTED] to the national grid in the Bukhara region. It will enable the development of further private sector renewable investment in the region and correspondingly help diversify the fuel mix in the country that will contribute to increased security of supply.

Key risks to delivery include construction overruns and delays risks.

### 1.3 ADDITIONALITY

<b>Identified triggers:</b> A subsequent/consecutive transaction (issuance) with the same client/group either with the same use of proceeds or in the same destination country (repeat transaction)	<b>Description:</b> Government of Uzbekistan is an existing client of the Bank and NEGU is a project entity under a number of existing sovereign operations and. Infrastructure gaps in Uzbekistan are large, and this operation will support construction of transmission infrastructure that is part of NEGU's investment programme aimed to address the infrastructure gap in the electricity transmission sector.
<b>Additionality sources</b>	<b>Evidence of additionality sources</b>
<b>Financing Structure</b> - EBRD offers financing that is not available in the market from commercial sources [REDACTED]. Such financing is necessary to structure the project.	[REDACTED]
<b>Financing Structure</b> - EBRD offers a tenor, which is longer than available to the client in the market on reasonable terms and conditions.	EBRD's financing terms include a longer tenor compared to other funding opportunities available in the market, which should give the client space to progress towards the set goal of cost-reflective tariffs [REDACTED]. The Project will allow NEGU to proceed with the high priority grid enhancement initiatives [REDACTED].
<b>Financing Structure</b> - Public sector: EBRD investment is needed to close the funding gap. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.	Given the tight timeline of the Project driven by the Company's commitments under multiple renewable energy development initiatives, the Bank is providing the funding not currently available to the client from local sources on comparable terms.
<b>Risk mitigation</b> – EBRD helps the client to mitigate carbon transition risks and take climate action, such as to move along a low carbon transition pathway.	The Project helps the client progress along the low carbon pathway (developed earlier with EBRD's support for the power sector of Uzbekistan) as it will support a scale-up in renewables and grid strengthening.

<p><b>Policy, sector, institutional, or regulatory change</b> – EBRD’s involvement in a project is considered additional when it is designed to trigger a change in the policy, sector, institutional or regulatory framework, or enhance practices at the sector or country level (e.g., an introduction of cost-reflective pricing of energy, water etc.).</p>	<p>The Project-related TC aiming to enhance NEGU’s ability to function as a transmission system operator will advance respective practices at the national level.</p>
<p><b>Standard-setting: helping projects and clients achieve higher standards</b> – Client seeks/makes use of EBRD expertise on corporate governance improvements, including for climate risk management.</p>	<p>The Bank will work with NEGU in terms of strengthening its corporate management system to allow for the development of a corporate Environmental, Social and Governance (ESG) management system to enable future disclosure of sustainability data.</p>
<p><b>Knowledge, innovation, and capacity building</b> – EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project’s objectives, including support to strengthen the capacity of the client.</p>	<p>Through the Project, the EBRD will introduce high standards and practices via ESAP, procurement and ESG recommendations for implementation that are still innovative for the country and the industry. The EBRD will involve external consultants and in-house experts in the implementation of technical cooperation activities of the Project.</p>

#### 1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Sovereign risk	Medium/ High	<p>Uzbekistan is vulnerable to risks arising from inflationary pressures, international commodity price volatility and fiscal policy from on and off-budget operations. The pandemic has particularly resulted in an increase in government debt.</p> <p><i>Mitigating factors:</i> (i) foreign exchange liberalization which improved foreign investor sentiment and substantial foreign exchange reserves (USD 35.4 billion as of March 2022) can provide a buffer against external shocks; (ii) while global energy, food and commodities prices are on the rise, Uzbekistan being a net energy, metals and wheat exporter will enjoy increased FX earnings and budget revenues; the country being gold exporter benefitted from increased gold prices during the pandemic; (iii) pandemic impact mitigation measures implemented by the Government helped preserve economic growth as GDP increased by 7.4% in 2021 and is expected to grow [REDACTED].</p>
Credit risk	Medium/ High	<p>Creditworthiness of the Company depends on the tariff increases and efficient revenue collection. Following the outbreak of Covid-19, end-user electricity tariffs remained unchanged over 2020 and 2021.</p> <p><i>Mitigating factors:</i> (i) recently changed regulatory framework, including introduction of a new cost-reflective tariff methodology, is expected to be operationalised [REDACTED] in respect of NEGU; (ii) [REDACTED] pending implementation of these measures, [REDACTED] and tenor of the loan as well as its sovereign nature should help limit risks to the financial stability of the Company and enable debt service.</p>
Implementation risk	Medium/ High	<p>Project implementation may see cost overruns and/or completion delays.</p> <p><i>Mitigating factors:</i> (i) The Company is familiar with the EBRD’s procurement rules through the two ongoing projects with the Bank (Navoi</p>

		<p>Transmission Upgrade and Uzbekenergo Muruntau Substation), and has experience of projects funded by other IFIs where open international tenders have been conducted; (ii) Cost estimates include adequate contingencies; (iii) A Project Implementation Unit (PIU) will be established and will be assisted by consultants selected in accordance with the Bank's procurement rules. Advance procurement of a PIS consultant's services is envisaged to enable timely implementation of the Project. The PIU with the PIS consultant/s on procurement and Supervision Engineer will ensure implementation support throughout all phases of project life cycle, from tendering to installation and commissioning of the Project; [iv]) a Lender's Monitor will also be hired by the Bank to monitor implementation up to the commissioning of the line; [v]) Works, goods and services will be procured in line with EBRD's procurement rules [REDACTED] and the Bank will be closely involved in the selection of the final contractor.</p>
Regulatory/ restructuring risk	Medium/ High	<p>Power sector reforms and restructuring of the Company may face challenges.</p> <p><i>Mitigating factors:</i> the Government has expressed its commitment to sector reform and has to date demonstrated a solid track record of reform implementation. The Bank's extensive policy dialogue with the GoU provides reasonable comfort that sector reform will be continued [REDACTED]. The Company is a key infrastructure provider in the country and remains strategically important for the state [REDACTED].</p>
Foreign exchange risk	Medium/ Medium	<p>FX pressures have increased in view of the spillover effects from Russia given substantial economic ties between the countries. The devaluation of the Som could adversely affect the ability of the Borrower to repay the hard currency loan.</p> <p><i>Mitigating factors:</i> It is expected that the Government will continue to manage the foreign exchange risk effectively. The Central Bank of Uzbekistan adheres to a conservative monetary policy stance. It raised the policy rate by 300 basis points to 17% in March 2022 and reduced by 100 basis points to 16% June 2022, and the nominal UZS/USD exchange rate depreciated by less than 1% (as of 1 July 2022) compared to early January 2022. Risk of external debt distress is also manageable given Uzbekistan's significant foreign exchange reserves that stood at solid USD 35.4 bn in March 2022.</p>
COVID impact	Low/ Low	<p>Lockdowns and other restrictive measures if re-introduced may affect demand and Company's operations, putting pressure on the Company's cash flows and threatening business continuity.</p> <p><i>Mitigating factors:</i> the track record of the Uzbek Government dealing with the effects of Covid-19 over the past two years has been overall reassuring, as the impact on the country was contained and NEGU ensured continuity of its operations at all times. The Government put in place a set of policy measures to support end-users and the most vulnerable industries, and the Bank-supported sector stress-testing in the wake of Covid-19 helped swiftly take measures to support the power sector.</p>

## 2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
- On-time project implementation	- Completion according to the timeline and within the budget	[REDACTED]

### TI indicator(s), primary Quality: Green

<b>Obj. No.</b>	<b>Monitoring indicator</b>	<b>Details</b>	<b>Baseline</b>	<b>Target</b>	<b>Due date</b>
1.1	Policy advice delivered: draft recommendations for improved policy submitted	Gap analysis identifying gaps between current practices and best practices of NEGU around dispatch operations will be completed. Best practice in grid management practices will be established that will be incorporated in TSO standards and codes to help enable the national dispatching centre to accommodate increasing renewable energy capacities.	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Technical losses of the grid reduced (MWh/year)	The Project will reduce technical losses of the grid [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Renewable energy curtailment avoided (MWh/year)	The Project will help avoid wind energy curtailment [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]
1.4	CO <sub>2</sub> e emissions reduced (tonnes/year)	The Project will reduce technical losses of the grid [REDACTED] and avoid wind energy curtailment [REDACTED]. Both these benefits correspond to annual savings of [REDACTED] CO <sub>2</sub> .	[REDACTED]	[REDACTED]	[REDACTED]

### TI indicator(s), secondary Quality: Resilient

<b>Obj. No.</b>	<b>Monitoring indicator</b>	<b>Details</b>	<b>Baseline</b>	<b>Target</b>	<b>Due date</b>
2.1	Number of new/improved electricity/energy service(s) connections	130 km 500 kV transmission lines are operational and available for connection to the system	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Capacity of renewable energy power plants connected to the national grid through the Project	[REDACTED] [W]ind power plants [REDACTED] connected to the national grid via the transmission lines to be constructed as part of this Project [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]

### 3. KEY PARTIES

#### 3.1 BORROWER

In 2021, the economy of Uzbekistan has been on a rapid recovery path growing by 7.4% led by expansion in industry (+8.7% y/y), services (+19.2% y/y), retail trade (+12.5% y/y), and construction (6.8%). On the demand side, fixed investment was up by 5.2% and exports increased by almost 10%. Imports soared by 20.3%, reflecting an improvement of the epidemiological situation, a gradual easing of border restrictions, and a significant increase in remittances from Russia. In January-February 2022, expansion continued.

The ongoing military conflict in Ukraine has led to a downward revision of the growth projection for Uzbekistan. The economy is now expected to grow [REDACTED]. The crisis in Ukraine and subsequent spillovers will affect Uzbekistan through several channels:

- As a net-energy, metals and wheat exporter, Uzbekistan will enjoy increased FX earnings and budget revenues. [REDACTED]
- As of 2020, remittances accounted for 11.6% of GDP in Uzbekistan. The Rouble's devaluation relative to the Som will decrease the USD and local currency value of remittances [REDACTED]. According to KNOMAD-World Bank preliminary assessment, the first-round effect of a contraction in Russia will cause remittances to Uzbekistan to drop by 21% in 2022 y/y. Additionally, money transfers from Russia to Uzbekistan are likely to be subject to higher transactional costs, further decreasing receipts.
- Uzbekistan's external trade is relatively diversified, with Russia accounting for 8% of exports and 20% of imports. That said, Uzbekistan's exports to Russia are very much concentrated in the fresh fruit and vegetable category, [REDACTED]. On the positive side, the inflow of Russian, Belarusian and Ukrainian migrants in Uzbekistan may provide the knowledge-intensive sectors of the country with additional impetus.

Uzbekistan's public debt is relatively low and sustainable. Public debt stood at around USD 26 billion, or 38% of GDP in 2021. External public debt increased in nominal terms by 11% y/y due to government securities issuance, and accounted for 34% of GDP (as compared with 36% in 2020 and 41% in 2019). It remains low relative to FX reserves of USD 35.4 billion as of March 2022. [REDACTED]. As a part of on-going capital market reform, a 10-year government bond was issued at the Uzbek Republic Currency Exchange auction on 25 January 2022, a further step towards diversification of financial instruments and attracting new market participants. Moreover, in February 2022, individuals and non-residents were allowed to purchase government bonds. The country is expected to carry on with the reform agenda and to maintain its commitment to sovereign debt sustainability.

Fitch rating agency expects the current account deficit to widen to 9.7% amid a fall in remittances and government debt to reach 42% of GDP in 2022. At the same time, on April 1 2022, Fitch affirmed Uzbekistan's sovereign rating at "BB-" with a stable outlook given the country's external buffers, high international reserves, strong growth performance and a moderate level of external debt.

#### 3.2 PROJECT IMPLEMENTING ENTITY

The loan will be extended to the Republic of Uzbekistan and on-lent to JSC National Electric Grid of Uzbekistan (NEGU).

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

[REDACTED]. Ongoing sovereign operations with NEGU as a project implementing entity entail a comprehensive set of measures that target operational and financial management improvements in the Company, including a number of financial covenants set for NEGU. The current financial statements for 2019-20 are based on IFRS and audited by Ernst and Young. [REDACTED]. Please see *Annex 2* for the shareholding structure.

## **4. MARKET CONTEXT**

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

As of early July 2022, the end-user tariffs of UZS 391 (USc 3.56) and UZS 257 (USc 2.34) (excl. VAT) per kWh apply to industrial and residential consumers respectively [REDACTED]. The new tariff policy was adopted in 2019, stipulating a cost-reflective tariff methodology. In 2020, following the outbreak of Covid -19, the Government froze electricity tariffs to support the population. At the same time, a Concept Note for Ensuring Electricity Supply in Uzbekistan in 2020-2030, issued by the Ministry of Energy in April 2020, reiterates the Government's commitment to proceed with the power sector reform. In summer 2022, a tariff increase has been proposed [REDACTED].

Uzbekistan has more than 9,700 km of 220-500 kV lines and over 28,600 km of 35-110 kV lines, as well as almost 224,000 km of 0.4-10 kV lines. Over 66% of transmission grid and over 62% of distribution grid are over 30 years old. NEGU is a state-owned power utility company responsible for transmission and dispatch and acts as a single buyer and off-taker for the energy sector in Uzbekistan. [REDACTED].

## **5. FINANCIAL / ECONOMIC ANALYSIS**

### **5.1 FINANCIAL PROJECTIONS**

[REDACTED]

### **5.2 SENSITIVITY ANALYSIS**

[REDACTED]

### **5.3 PROJECTED PROFITABILITY FOR THE BANK**

[REDACTED]

## 6. OTHER KEY CONSIDERATIONS

### 6.1 ENVIRONMENT

Categorised A (ESP 2019). The construction of a high voltage line may be associated with potentially significant E&S impacts, and requires a full Environmental and Social Impact Assessment ("ESIA") in line with the EBRD Environmental and Social Policy ("ESP") as well as EU legislation. The Project will be subject to the national EIA and permitting.

The Project is the construction of (i) a c. 128 km 500 kV transmission line in Uzbekistan between the settlements of Sarimay (Khoresm region) and Djankeldy (Bukhara region), and (ii) a c. 2 km 500kV transmission line connecting a new 500kV open switchgear with the 500kV Navoi transmission line. Implementation of the Project will significantly improve reliability, efficiency and stability of the transmission network as well as quality and security of electricity supply. The Project will be implemented by NEGU, a state power company in charge of the country's transmission network.

An independent consultant has been retained to undertake an Environmental and Social Due Diligence ("ESDD") of the Project and prepare ESIA disclosure package inclusive of Non-technical Summary ("NTS"), Stakeholder Engagement Plan ("SEP"), Land Acquisition and Resettlement Framework ("LARF") and Environmental and Social Action Plan (ESAP). The ESIA was disclosed on 16 March 2022 in English and national languages for the period of 120 days prior to Board consideration. No comments or complaints from stakeholders have been received to date.

An ESIA of the Project has been undertaken taking into account current and potential environmental and social impact, including cumulative, and the Bank's Performance Requirements ("PRs"). The independent ESDD has confirmed that the Project is structured to meet the Bank's PRs and national and EU requirements, and adequate mitigation measures have been developed through the implementation of the ESAP and the Environmental and Social Management and Monitoring Plan ("ESMMP") developed as part of the ESIA.

A series of comprehensive biodiversity studies have been undertaken during 2021-2022 including autumn and spring bird surveys, bats surveys, critical habitat assessment, and other flora and fauna surveys which have been included in the ESIA documentation. It has been confirmed that the Project will not have material impacts on biodiversity and any residual impacts are addressed through ESAP and ESMMP.

Major impacts associated with the Project will include mainly contractor management and construction and operation health and safety. Physical impacts on livelihoods, associated with construction process (noise, emissions, traffic) will be temporary and negligible.

Specific attention was placed on the route selection and avoidance of land acquisition and resettlement impacts. The Project is compliant with PR 2 and PR 5 in terms of labour influx, land use and other social impacts. The Project is deemed not to be significantly exposed to physical climate risks.

As part of the ESDD company-wide environmental and social management practices have been assessed, as well as progress in implementing corrective actions for the previous deals. While there are some elements of the E&S management systems implemented and relevant staff is appointed, the company is mainly following the Uzbek national regulation. [REDACTED].

The Bank will work with NEGU in terms of strengthening its corporate management system to allow for the implementation of the Project and ESAP as well as development of a corporate Environmental, Social and Governance (ESG) management system to enable future disclosure of sustainability data. In order to bring the project into the full compliance with EBRD PRs, the Bank will develop a PIS TC to assist NEGU with the implementation of the required actions and strengthen their overall E&S capacity.

The Bank will be monitoring the Project implementation through review of Annual Environmental and Social Reports (AESR) and site visits as required.

## **6.2 INTEGRITY**

In conjunction with OCCO, integrity due diligence was undertaken on the Company, its shareholder, senior management and other relevant parties. NEGU is an existing client of the Bank and has also been subject to integrity checks [REDACTED]. The review did not identify any material integrity issues and therefore it was concluded that this project does not pose an unacceptable reputational risk to the Bank. [REDACTED]. The Bank's PP&R will apply for the Project and thus provide additional safeguard. [REDACTED].

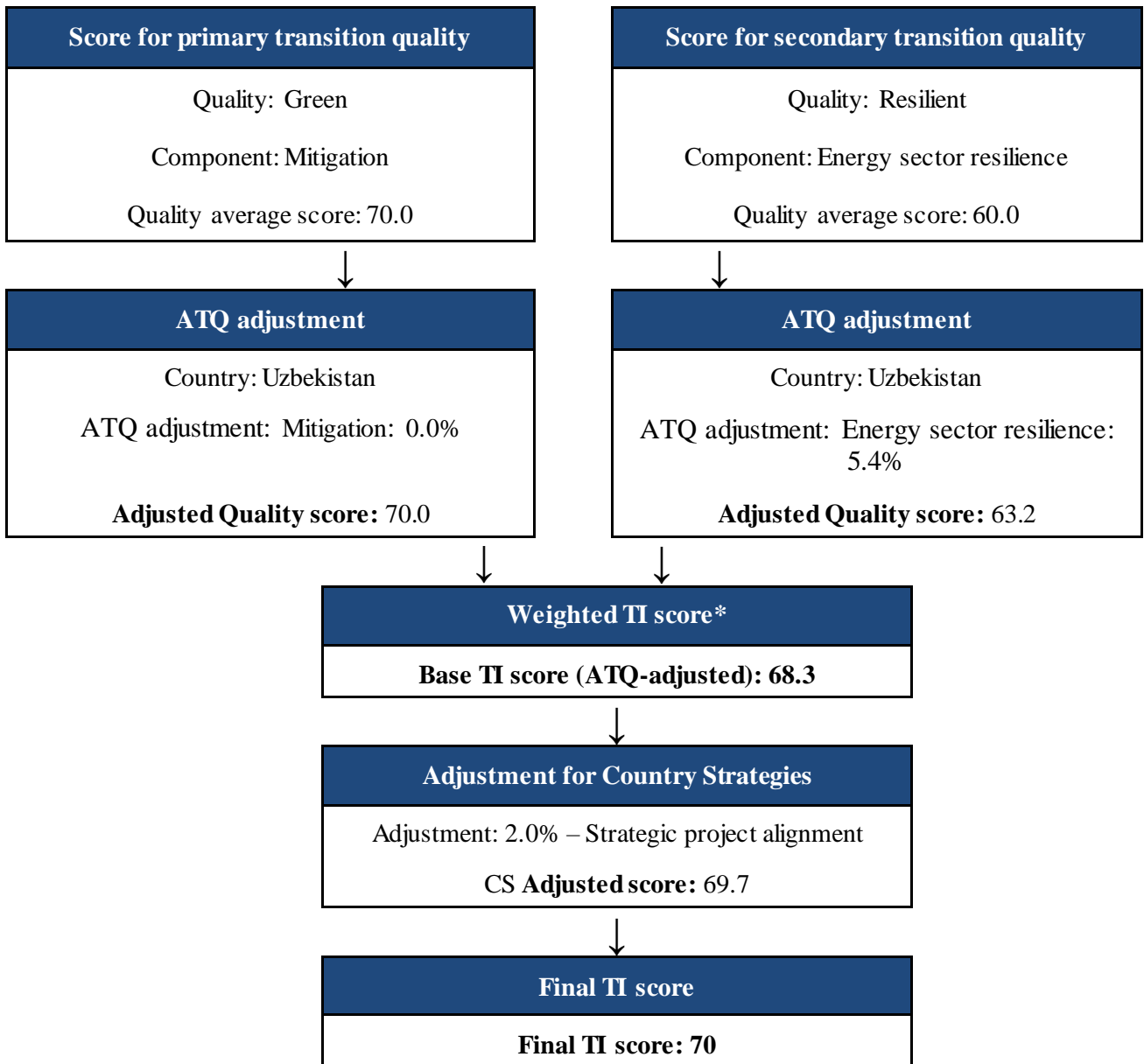
All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues were taken with respect to the Project, and the Project files contain the integrity checklists and other required documentation which have been properly and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



**ANNEXES TO OPERATION REPORT**

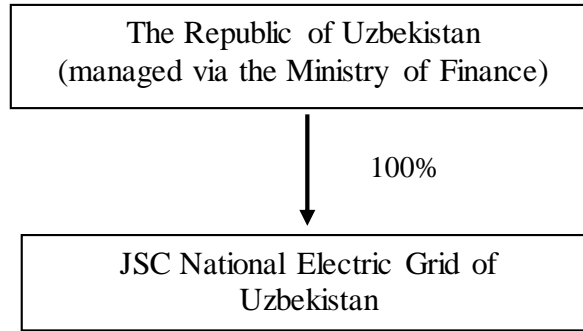
ANNEX 1	TRANSITION IMPACT SCORING CHART
ANNEX 2	SHAREHOLDING STRUCTURE
ANNEX 3	GREEN ASSESSMENTS
ANNEX 4	HISTORICAL FINANCIAL STATEMENTS
ANNEX 5	PROJECT IMPLEMENTATION

## ANNEX 1 – TRANSITION IMPACT SCORING CHART



\*The Primary Quality score is weighted 75% for the calculation of the Base TI Score. The Secondary Quality is weighted 25%.

## ANNEX 2 – SHAREHOLDING STRUCTURE



## ANNEX 3 – GREEN ASSESSMENTS

### **Introduction**

The Project has been assessed for alignment with the mitigation and adaptation goals of Paris Agreement. Assessment for Climate Risk: Physical Climate (PC) risk and Carbon Transition (CT) risk is not applicable for the sovereign Project.

### **Paris alignment assessment**

The Project is aligned with the climate change mitigation goals of the Paris Agreement as it features in the joint MDB “aligned list”.

### **GET attribution**

100% of proceeds will go towards construction of a transmission line that will facilitate delivery to the national grid of renewable energy generated by the wind power plants to be constructed in the region. The Project is also expected to support a reduction in GHG emissions by reducing technical transmission losses, estimated to save [REDACTED] CO2 annually.

## **ANNEX 4 – HISTORICAL FINANCIAL STATEMENTS**

[REDACTED]

## ANNEX 5 – PROJECT IMPLEMENTATION

### Procurement classification – *Public sovereign*

#### **Project risk assessment:**

[REDACTED]. NEGU has earlier experience with the EBRD, World Bank (WB) and the Asian Development Bank (ADB) funded projects and respective open international tenders. [REDACTED]. It is confirmed that the qualified consultancy support is required to facilitate the timely implementation of the Project.

#### *Contracts risk assessment*

- *High*

The Project contracts envisages the construction of overhead transmission line and respective Project implementation support services, including supervision. These are moderate / low risk contracts, although significant overruns during the construction of the TL may be caused by the protracted land allocation / resettlement issues, design mistakes, if any, as well as current inflation uncertainties and supply chain constraints.

#### **Project implementation arrangements:**

The Company will establish a Project Implementation Unit which will be responsible for day to day management of the project. [REDACTED][Q]ualified Project Implementation Support consultants will support the PIU with the project preparation and implementation, including procurement, works supervision, monitoring and loan reporting. [REDACTED].

The team will engage a Lender's Monitor to assist the Bank with monitoring of the Project implementation up to the installation and commissioning of the transmission infrastructure.

#### **Procurement arrangements:**

Procurement of all works, goods and services including consulting services for the Project will follow open competitive procedures via ECEPP in accordance with the requirements of the EBRD PP&R, 2022 edition, for public sector operations. The Bank's appropriate Standard Procurement Documentation will be used and FIDIC Conditions of Contract for Construction based on the Employer's design are expected to form General Conditions of Contract for works.

The detailed design, including the Employer's requirements and BoQ sections of the TDs are expected to be prepared by the local design institute, including in English, on request of NEGU and NEGU has to ensure that this design institute carries out the designer's supervision throughout the construction period. The outputs will be reviewed and finalised, as necessary, by the PIS consultant in order to ensure that they are acceptable for the open international tender while not unnecessarily restricting the completion.

All loan financed contracts will be procured using ECEPP and subject to prior review by the Bank. [REDACTED].