Submission by EBRD

Tajikistan: Enhancing the Climate Resilience of the Energy Sector

Approved PPCR funding: USD 21 million

- USD 11 million in PPCR grants (approved on August 20, 2013)
- Additional USD 10 million in PPCR near-zero interest credits (approved on March 6, 2014 under the PPCR private sector set-aside)

The PPCR project "*Tajikistan: Enhancing the Climate Resilience of the Energy Sector"* was identified under Tajikistan's Strategic Programme for Climate Resilience[1] and subsequently developed by the European Bank for Reconstruction and Development (EBRD). The project focuses on the rehabilitation of Kairakkum hydropower plant, including the integration of structural and non-structural climate resilience measures through a programme of investment, technical assistance and policy dialogue. This is an important pilot that will generate lessons and experience on making hydropower operations more climate-resilient, which could be transferred across Tajikistan and beyond.

The financing for the project consists of a USD 71.0 million investment plus USD 4.0 million in consultancy services. The PPCR Sub-Committee approved a total of USD 21 million in PPCR resources for the project[2]. EBRD intends to provide a further USD 50.0 million loan and USD 4.0 million in technical assistance grants from its own resources. The beneficiary and borrower is Barki Tojik ("the Borrower"), a state-owned Tajik electricity company that owns and manages most of the country's hydropower facilities.

The PPCR concessional finance is accompanied by a much larger, commercially priced EBRD loan. Accordingly, the funding approval of the near-zero interest PPCR credit allowed the PPCR concessional finance to be extended to the Borrower on public sector lending terms[3]. This financing structure allows the project to be affordable to the Borrower while respecting the principle of minimum concessionality as set out in the paper "*PPCR Financing Modalities*"[4].

As EBRD considers that the short-term risk of non-payment by the Borrower is relatively high, a sovereign guarantee is required for the EBRD loan. In the longer term, EBRD expects the Borrower to improve its financial situation through an ongoing corporate restructuring program, the implementation of cost-recovery tariffs, reductions in electricity losses and increased collections rates for sold electricity. The EBRD loan agreement will have specific conditionalities designed to improve the Borrower's financial and operational efficiency. EBRD's credit analysis suggests that the Borrower should be able to repay the PPCR concessional finance comfortably when it becomes due in 2025.

The specific financing terms are the following:

[1] Endorsed by the PPCR Sub-Committee in November 2010
[2] Please see Annex I for the PPCR Subcommittee approval decisions
[3] Paragraph 33, PPCR Financing Modalities, June 15, 2010
[4] Paragraph 44, PPCR Financing Modalities, June 15, 2010

i) The EBRD loan has a grace period of three years from the date of signing of the loan agreement with Barki Tojik, whereas the PPCR concessional finance has a grace period of ten years;
ii) The EBRD loan has repayment period of 12 years, whereas the PPCR concessional finance has a repayment period of 30 years; and
iii) EBRD semi-annual loan repayments will be approximately USD 2.4 million, whereas repayments on the PPCR concessional finance will be approximately USD 210,000 for years 11-20 and USD 407,000 for years 21-40.

While paragraphs 30 and 31 of "PPCR Financing Modalities" require the PPCR concessional finance to be guaranteed if "MDB sub-sovereign lending requires such guarantees", in this case EBRD is seeking the PPCR Sub-Committee's permission for the PPCR concessional finance not to be guaranteed, despite the fact EBRD's loan is guaranteed because the risk profile of the PPCR concessional loan is significantly different from that of EBRD's loan.

Annex 1: PPCR Sub-Committee Original Approval:

PPCR Funding Approval: August 20, 2013

Dear PPCR Sub-Committee Members:

We are writing regarding the proposed decision approving PPCR funding for the project document entitled, ***Enhancing the Climate Resilience of the Energy Sector*, submitted by the Government of Tajikistan and European Bank for Reconstruction and Development (EBRD),** for your review and approval of a PPCR allocation of USD 11.0 million in grant funding.

The time period provided for submission of comments and any objection to the decision has now expired. No objections were received.

We are, therefore, pleased to inform you that the following decision is approved:

> **The PPCR Sub-Committee approves USD 11.0 million in PPCR grant funding for the project, *Tajikistan: Enhancing the Climate Resilience of the Energy Sector*, submitted by the Government of Tajikistan and EBRD.**
>
> **The Sub-Committee notes the final estimate of USD 350,000 for project implementation and supervision services and approves USD 175,000 for the final tranche of funding for such costs for EBRD.**

Please note that comments from Committee Members have been posted on the CIF website here.

PPCR Funding Approval: March 6, 2014

Dear PPCR Sub-Committee Members:

We are writing to you regarding the project proposal entitled, *Tajikistan: Enhancing the Climate Resilience of the Energy Sector*, submitted by the European Bank for Reconstruction and Development (EBRD), to be financed from resources under the PPCR private sector set aside for your review and approval of a PPCR allocation of USD 10.0 million in concessional finance to be funded by the PPCR competitive set-aside.

The time period provided for submission of comments and any objection to the decision has now expired. No objections were received.

We are, therefore, pleased to inform you that the following decision is approved, subject to the comments received from the Sub-Committee:

> **The PPCR Sub-Committee approves USD 10.0 million in PPCR concessional finance for the project entitled: Tajikistan: Enhancing the Climate Resilience of the Energy Sector, submitted by the European Bank for Reconstruction and Development (EBRD).**

Please note that comments from Committee Members have been posted on the CIF website.