Executive Summary

1. USD 350 million in Supplemental Financing is proposed to help the Government of Uzbekistan sustain reform momentum in its ongoing transition to a green economy amid fiscal pressures and risks arising from the situation in the Middle East. The loan is proposed under the Energy, Food Security and Economic Recovery Facility.

2. The proposed loan will have a 25-year final maturity, including a 4.5-year grace period, and standard variable-spread terms, with an average maturity of 14.91 years. It supplements the WB-cofinanced USD 500 million Uzbekistan Green and Resilient Market Economy Climate Policy-based Financing ("Program"), which was approved in November 2025.

3. The current situation in the Middle East is an external shock to Uzbekistan. It works through higher and more volatile energy and commodity prices, imported inflation, and trade and logistics disruptions. These pressures reach the reform program through four channels: tariff reform, subsidy reform, SOE reform, and green-transition expenditure. They risk deferring reforms and compressing public expenditure supporting climate transition. Supplemental Financing will provide fiscal space to sustain reform implementation during heightened external uncertainty and avoid a gap in support. It bridges the first CPBF and the second CPBF, planned for approval in 2027. It preserves the foundations of the first CPBF for the second CPBF to advance, including reforms whose results are still emerging.

4. AIIB's Environmental and Social Policy (ESP), including the Environmental and Social Exclusion List (ESEL) and provisions related to CPBF set forth in Section 16 of the ESP, are applicable to this Program.

5. Supplemental Financing does not introduce any new policy actions, physical investments, or changes to the Program's implementation arrangements that would increase its ES risk profile. Accordingly, the incremental ES risk associated with the Supplemental Financing is expected to be minimal, and no changes are required to the ES management framework or assessment undertaken for the Program. In addition, while the AIIB-supported policy actions under this Program do not include gender as a primary objective, several reform areas present opportunities for gender co-benefits aligned with the government's gender equality policy framework, such as the National Strategy on Gender Equality to 2030 and related action programs.

Project No. and Name	P001243 Supplemental Financing to Uzbekistan Green and Resilient Market Economy Climate Policy-Based Financing		
AIIB Member	Uzbekistan		
Borrower	Republic of Uzbekistan		
Guarantor	Not Applicable		
Project Implementation Entity	Ministry of Economy and Finance, Uzbekistan		
Proposed AIIB financing (USDm)	USD350.00	**Instrument type/subtype**	Loan/Direct Sovereign
		Currency of financing requested	US Dollar
Sector (Subsector)	ERF - Policy-Based Financing (N/A)	**E&S Category and Comments (if any)**	Not applicable
Project Objective	To help the Government of Uzbekistan sustain the reform momentum in its ongoing transition to a green economy amid the macro-fiscal pressures arising from the situation in the Middle East.		
Project Description	Project Scope In its letter to AIIB dated Aug. 6, 2026 (Ref. 02/45-2-19402-son), the Ministry of Economy and Finance of Uzbekistan requested USD 350 million under the Energy, Food Security and Economic Resilience Facility ("Facility"). The requested financing is proposed as Supplemental Financing for the WB-cofinanced USD 500 million Uzbekistan Green and Resilient Market Economy Climate Policy-based Financing ("Program"), approved in November 2025. Supplemental Financing is proposed to help the Government of Uzbekistan sustain reform momentum in its ongoing transition to a green economy amid fiscal pressures and risks arising from the situation in the Middle East. The current situation in the Middle East is an external shock to Uzbekistan. It works through higher and more volatile energy and commodity prices, imported inflation, and trade and logistics disruptions. These pressures reach the reform program through four channels: tariff reform, subsidy reform, SOE reform, and green-transition expenditure. They risk deferring reforms and compressing public expenditure supporting climate transition. Supplemental Financing will provide fiscal space to sustain reform implementation during heightened external uncertainty and avoid a gap in support. It bridges the first CPBF and the second CPBF, planned for approval in 2027. It preserves the foundations of the first CPBF for the second CPBF to advance, including reforms whose results are still emerging.		

	Institutional Arrangements The MOEF is the executing agency for the Program. There are a number of implementing agencies; however, the MOEF is the nodal agency that will coordinate the implementation of the actions supported by the Program. The implementing agencies include the Ministry of Energy, State Assets Management Agency, National Energy Efficiency Agency, and the National Committee of Ecology and Climate Change. Financing Modalities AIIB will provide supplemental financing of USD 350 million from the Energy, Food Security and Economic Resilience Facility. Analytical Work Strong analytical foundations underpin Uzbekistan's climate policy reforms. The body of analytical work include national climate strategies, such as the Green Economy Strategy (2019–2030) and Uzbekistan-2030 Development Strategy, and multilateral development bank (MDB) reports, especially by the WB. Uzbekistan's Nationally Determined Contribution (NDC) under the Paris Agreement provide the core analytical basis for setting climate mitigation and adaptation goals, including emissions targets and vulnerability assessments. The NDC 3.0 (2025) itself represents an evolving analytical platform with new targets and associated analytics on emission baselines, sectoral plans, and transparency arrangements. The WB's 2023 Country Climate and Development Report (CCDR) for Uzbekistan also provides a comprehensive analysis of how climate change and development interact in the country. The CCDR provides actionable recommendations for integrating climate action into Uzbekistan's overall development strategy. In addition, WB's Green Growth and Climate Change Policy Dialogue Series — a series of analytic and consultative reports with then Ministry of Economic Development and Poverty Reduction and partners – identify priority climate actions (such as greening cities, energy transition, green finance). It provided an intersectoral and interdisciplinary forum for examining the country's progress in meeting Uzbekistan's climate commitments and accelerating transition to green economy. The United Nations Development Program (UNDP) supports analysis on carbon market readiness and gender/social inclusion in climate policy frameworks. Any gaps that remain are being progressively addressed by government reforms, WB and ADB analytical work, and complementary partner projects. Progress Update on Reform Implementation The government has demonstrated sustained commitment to the reform program. All prior actions were completed, the Program supported by the Original Financing remains in compliance with the provisions of the legal agreements, and the government has continued to advance the reform agenda, including in response to the current external pressures. The Program supports Uzbekistan's transition to a

	green economy by advancing three interconnected objectives: the decarbonization of the energy system, the mobilization of private and green investment, and the strengthening of market and institutional governance. The Program is overall, progressing according to plan and schedule. Of the nine output indicators under the Program's Results Matrix, two have already achieved their end-2028 targets, four are on track, and three remain at or near baseline. Weighted average cost recovery for district heating tariffs rose from a 29% baseline (October 2024) to 32% (June 2026), against a 45% target for 2028. New distributed renewable energy capacity installed in homes, businesses, and buildings increased from 971 MW to 2,114 MW, reaching 70% of the 3,000 MW end-target. The share of the value of green public procurement has already exceeded its end-2028 target, reaching 22% against a 20% target, reflecting faster-than-expected adoption of the green procurement criteria by procuring entities. On the institutional side, the establishment of a publicly accessible state aid registry has also been achieved ahead of schedule. With the registry now operational, and the number of SOEs with public stakes between 20% and 40% included in the single Initial Public Offering (IPO) of the National Investment Fund (NIF) has reached 13 against a target of 15, indicating substantial early progress. Several results, including green public procurement and the state aid registry, were achieved ahead of schedule, reflecting strong government ownership. The remaining indicators depend on regulatory frameworks and transactions that, by design, are sequenced for the later stages of the programmatic series. Their current progress are consistent with the implementation timeline, and the enabling frameworks are in place or under consultation. The share of customers served by privately operated electricity distribution networks remains at 0% against a 15% target, but consistent with the implementation timeline. The enabling framework has been put in place, but the transaction process and commencement of private operations are expected only in the later stages of implementation. Similarly, regulatory licensing of a private gas distribution operator has not yet occurred, although a draft policy framework is under consultation, and operator licensing is anticipated once the framework is approved and a pilot public-private partnership (PPP) is implemented. Private investment for energy efficiency through energy service companies (ESCOs) remains at zero against a USD10 million target, with current efforts focused on establishing the legal and institutional framework for the ESCO market. Finally, GHG reductions under the carbon market decree and fuel price measures remain at zero metric tons of carbon dioxide equivalent (mtCO2eq) against a target of 25 mtCO2eq. This reflects the phased nature of carbon market development, with institutional arrangements in place while the national carbon registry; monitoring, reporting, and verification (MRV) procedures; and project pipeline are still under development.

	The Program's results framework is designed to be completed across both programs of the programmatic series of CPBFs, co-financed with the World Bank (WB). This Program was the first in the series. The second Program, which is now under preparation and is targeted for approval in 2027, carries the market rules that make the central buyer model workable, establishes an independent gas regulator, phases out highly polluting gasoline, revises building codes, and moves SOE reform from preparatory consolidation into actual privatization . The indicators on privately operated distribution networks, private gas distribution, ESCO investment, GHG reduction, and carbon market development therefore depend on continuity of reform implementation. Momentum gained under the current Program is crucial to the outcome of the series, as the IMF noted that faster structural reform implementation is the principal source of upside to Uzbekistan's outlook. The Supplemental Financing is designed to protect this momentum. The reforms are in place, and the Program is progressing well; the risk lies in the political economy of continuing them under external stress. Tariff increases toward cost recovery; the removal of fossil fuel subsidies and the privatization of large enterprises are hardest to sustain when fuel prices are rising and household purchasing power is under pressure. Without additional fiscal space, the external shock would put pressure on the government to defer or slow planned adjustments to mitigate social and economic pressures, notwithstanding its demonstrated commitment. Such delays could weaken reform credibility, erode the gains of the first operation, and undermine the foundations on which the second Program's policy actions are built. The Supplemental Financing addresses these challenges by helping the government manage the fiscal and social pressures arising from the external shock while maintaining implementation of the reform agenda. It allows the government to (a) maintain the reform calendar, particularly on tariff adjustment toward cost recovery in district heating along with the phased reduction of natural gas and heat subsidies, SOE privatization, and improving energy efficiency and increasing renewable energy generation and utilization through the provision of financial incentives; (b) fund well-targeted compensation for vulnerable households through the adjustment, consistent with IMF advice against generalized subsidies; and (c) do both without depending on commodity-price gains that the IMF expects to moderate from 2027 and identifies as a high-likelihood source of volatility. This is the essence of resilience-building: the capacity to hold a reform trajectory and preserve the fiscal room needed to carry the Program forward simultaneously through an external shock.		
Implementation Period	Start Date: November 30, 2025	**Expected Loan Closing Date**	June 30, 2027

	End Date: June 30, 2027		
Co-financing type	Co-financing led by another financier	**Following other Financier's E&S Policy?**	No
Lead financier	World Bank	**Following other Financier's Procurement Policy?**	No
Financing Plan	AIIB will provide supplemental financing of USD350 million from the Energy, Food Security and Economic Resilience Facility, to be disbursed in a single tranche.		

Risk	
Key Risks	**Mitigation Measures**
- Crisis-related spending, including household compensation and energy support measures, may exacerbate existing weaknesses in medium-term budgeting and program classification, leading to unplanned budget reallocations and shifting resources away from climate-related and other strategic priority expenditures. - Poor targeting or limitations in controls in compensation for vulnerable households could	- The 2025–2030 PFM Reform Strategy, supported by AIIB, WB, ADB, IMF and UNDP, is strengthening medium-term and climate-responsive budgeting and the tracking of spending priorities. Any additional budget allocation is approved through the regular legal process and reported in published budget execution reports. - Compensation is designed to be well-targeted, in line with IMF advice against generalized subsidies. Existing grievance redress channels, including the e-government system, are available to affected people. Coordination with the WB on beneficiary registries and payments.

reduce effectiveness and increase the risk of misuse.	
- Distributional impact of energy price reforms under crisis conditions. Tariff increases and subsidy phase-out on top of higher fuel prices may hurt low-income and vulnerable households, including through food and transport costs. - Social acceptability and risk of reform reversal. Public pressure during the price shock could weaken social acceptance and lead to delays. - Institutional capacity to manage downstream E&S risks and impacts related to the future increase in renewables investment	- The government has strengthened the social safety net and raised social benefit allocations 2% above the original budget. The supplemental financing funds well-targeted compensation for vulnerable households instead of generalized subsidies, in line with IMF advice. Uzbekistan also has established social-protection and targeted compensation mechanisms, including the Social Protection Registry and compensation measures linked to electricity and natural-gas tariff increases, which can be used to mitigate affordability impacts on vulnerable households. The adequacy and coverage of these measures should be assessed against the number and characteristics of affected households and the expected increase in their costs. Compensation coverage and benefit adequacy relative to cost increases will be monitored jointly with the WB. - The WB is providing TA across several policy reform areas, with targeted support for new areas (e.g., setting up grievance redress systems for sexual harassment). In addition, Uzbekistan has established environmental assessment and permitting, land, labor and occupational health and safety, and other sectoral regulatory requirements applicable to downstream investments. These systems provide a basis for managing the E&S risks associated with increased renewable-energy investment, while continued institutional capacity building and supervision will be important as investment scales up.
Impact of external economic volatility on government revenue and its ability to fund climate expenditures	The supplemental financing will provide support to ensure that the Program continues amid external volatility
Pressure to defer or slow down reforms under external fiscal stress, and public sector capacity constraints that	- The risk of reform deferral is mitigated by the programmatic design of the Development Policy Operation (DPO) led by WB, which creates incentives to continue reforms and safeguard against reversal and reform sustainability. - Additionally, this supplemental financing will help maintain the reform trajectory and preserve the fiscal room needed to carry the Program

could affect the pace of implementation	forward through an external shock and mitigate the risk of reform slow down. - The government has introduced measures to mitigate social impacts, supported by continued engagement with AIIB and development partners. AIIB and other key development partners are committed to continuing collaboration with the government to enhance institutional capacity and support sustainable progress.
ECap	32.78USDm 9.37%

Strategic Alignment	
Alignment with AIIB's thematic priorities	Other
Alignment with AIIB's strategies	Sustainable Energy for Tomorrow Strategy

Key Outcomes			
Indicator	**Unit of measure**	**Baseline (Year)**	**Target (Year)**
Greenhouse Gas emission reduction (tCO2eq/year)	tCO_2e/year	0 (2025)	25mtCO2/year (2028)
Weighted average cost recovery for district heating tariffs across all consumer groups	Percentage	29 (2024)	45 (2028)
New distributed renewable energy capacity installed annually in homes and buildings	MW	971 (2024)	3,000 (2028)

Climate Action		
Climate Finance	Adaptation Finance (USDm)	USD0.0000
	Mitigation Finance (USDm)	USD248.5000
	Dual Benefit (USDm)	USD0.0000
	Total (USDm)	USD248.5000

Other Key Financing Requirements	
Conditions of Effectiveness	n/a
Key Conditions for 1st Disbursement	n/a
Key Covenants	n/a

President	Jiayi Zou
Chief Investment Officer	Konstantin Limitovskiy
Director General	Xiaohong Yang
Manager	Evren Dilekli
Project Team Leader	Emil Zalinyan
Co-PTL	Kathreen Miralles
Project Team Members	Rashmi Ramanath, Project Lawyer Samet Sevket Bulut, Climate Specialist Shonell Robinson, Financial Management Specialist Vladimir Hecl, Environment & Social Development Specialist Yorkinjon Alimov, Procurement Specialist Yuyou Guo, Senior Project Assistant

ASIAN INFRASTRUCTURE INVESTMENT BANK

Supplemental Financing

Climate Policy-Based Financing

Project Document and Recommendation
P001243 Uzbekistan: Supplemental Financing to Uzbekistan Green and Resilient Market Economy Climate Policy-Based Financing
[Energy, Food Security and Economic Resilience Facility]

Currency Equivalents

As of September 30, 2026

Currency Unit – Uzbekistan Sum (UZS)
USD1.00 = UZS11,821.18

Fiscal Year

Jan. 1 – Dec. 31

Abbreviations

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
CBU	Central Bank of Uzbekistan
CoA	Chamber of Accounts
CPBF	Climate Policy-Based Financing
DPO	Development Policy Operation
ESCO	Energy Service Company
ESP	Environmental and Social Policy
GDP	Gross Domestic Product
GHG	Greenhouse Gas
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPO	Initial Public Offering
MOEF	Ministry of Economy and Finance
MRV	Monitoring, Reporting, and Verification
NDC	Nationally Determined Contribution
NEEA	National Energy Efficiency Agency
PA	Prior Action
PFM	Public Financial Management
PIM	Public Investment Management
PPP	Public-Private Partnership
SOE	State-owned Enterprise
WB	World Bank

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1. Program Information and Context

1.1 **Introduction and Member Context.** The proposed supplemental financing of USD 350 million (Loan) is submitted for approval to support Uzbekistan: Green and Resilient Market Economy Program Climate Policy-Based Financing[1] (Program). The Program is the original operation under Project No. P001011. The Loan seeks to support the Government of Uzbekistan in addressing an unanticipated financing gap arising from the impacts of the current situation in the Middle East, which could otherwise jeopardize the implementation of the government's reform agenda. The Loan is proposed as a supplemental Climate Policy-Based Financing (CPBF) under the Asian Infrastructure Investment Bank's (AIIB) Energy, Food Security and Economic Resilience Facility (ERF or the Facility).

1.2 The Program's development objective is to help the Government of Uzbekistan implement key policy and governance reforms aimed at accelerating Uzbekistan's transition to a green economy. The Program is being successfully implemented and remains in compliance with the provisions of the legal agreement. AIIB's Board of Directors approved financing of USD 500 million on Nov. 19, 2025 (Original Financing) to support the Program. Following the approval, the Original Financing was disbursed on Dec. 4, 2025.

1.3 The Program supports the following seven prior actions (PAs) to advance Uzbekistan's transition to a green economy:

(a) PA1: Increasing energy prices to cost recovery to incentivize energy efficiency and reduce greenhouse gas (GHG) emissions.
(b) PA2: Moving toward a wholesale market in electricity and promoting renewable energy generation.
(c) PA3: Supporting private investment by enhancing state-owned enterprise (SOE) reforms, competition and leveling the playing field.
(d) PA4: Advancing energy efficiency, low-carbon economic transition and reductions in GHG emissions through setting the rules for carbon credits.
(e) PA5: Boosting energy efficiency by establishing a national agency with a dedicated mandate on energy efficiency.
(f) PA6: Improving energy efficiency and increasing renewable energy generation and utilization through the provision of financial incentives by the government.
(g) PA7: Advancing the climate agenda through climate-sensitive public procurement.

1.4 **Challenges, Risks, and Vulnerabilities arising from the Current Situation.** The current situation in the Middle East constitutes an external shock to Uzbekistan's economy, affecting it through two main channels: higher and more volatile energy and commodity prices, which feed into domestic prices, and disruptions to trade and logistics, which raise import costs and contribute to imported inflation. In Uzbekistan's Fiscal Strategy 2027-2029,[2] the government envisaged an adverse scenario, in the event that these conditions, higher oil prices and disruptions, persist. This scenario is now materializing. Relative to the counterfactual, gross domestic product (GDP) growth could be around 0.8 percentage points (ppts) lower, and inflation 0.3–0.5 ppts higher. Weaker economic activity and revenues, combined with higher expenditure pressures, would widen the fiscal deficit by around 0.24 ppts of GDP relative to the baseline.

1.5 Domestic fuel markets have come under pressure. Uzbekistan is increasingly reliant on imports to meet domestic energy needs, with gasoline imports reportedly accounting for around half of domestic demand. These pressures additionally reflect reduced output and export restrictions in Russia, a key supplier of gasoline, refinery feedstock, and aviation fuel. Because of the current situation in the Middle

[1] AIIB. 2025. Uzbekistan: Green and Resilient Market Economy Climate Policy-Based Financing.
[2] Government of Uzbekistan, Ministry of Economy and Finance (MOEF). 2026. Fiskal Strategiya 2027-2029.

East, these supply disruptions have not been fully offset. As a result, gasoline prices reached a record high in late June, increasing by around 11%–12% since the beginning of the month, and retail fuel costs have increased.

1.6 Additional impact stems from trade logistics. In 2025, approximately USD3.9 billion imports, equivalent to 9% of total imports, and USD1.4 billion of non-gold exports, equivalent to 10% of such exports, transited through southern transit corridors affected by the current situation. Disruptions to these routes would require rerouting through alternative corridors, increasing transportation costs and delivery times. In the event of severe or prolonged disruptions, the government estimates the potential impact through the trade and logistics channel at around 0.7%–1.0% of GDP.

1.7 **Government Strategies, Programs, and Priorities.** The Government of Uzbekistan is executing one of the most demanding energy market reforms in the region. Energy tariffs are being raised toward cost recovery, fossil fuel subsidies are being phased down, wholesale electricity market rules are being introduced, and large SOEs are being prepared for privatization. The key challenge lies in maintaining the speed and trajectory of reforms, while managing the social impacts.

1.8 Gradual phase-out of energy subsidies and tariff adjustment toward cost recovery strengthen public finances but can raise household energy costs in the near term, which leaves such reforms particularly vulnerable to reversal when external shocks occur. To safeguard the reform momentum, which is supported by the Program, and to absorb the fiscal pressures arising from the Middle East situation and higher energy prices, the government has undertaken expenditure optimization measures amounting to nearly USD850 million. At the same time, to mitigate the impact on households, the government has strengthened the social safety net, and increased allocations for social benefits and other welfare payments by 2% above the amount initially budgeted. The government continues to provide substantial support to the energy and heating sectors. Planned energy and heating subsidies amount to around USD820 million in 2026 (0.45% of GDP), of which around USD500 million covers the cost of supplying natural gas to households at below-cost tariffs and USD320 million finance heating from local budgets.

1.9 **Macroeconomic Outlook.** Despite Uzbekistan’s favorable macroeconomic performance underpinned by continued reforms, strong investment, and remittance flows, the International Monetary Fund (IMF) characterizes the outlook as subject to elevated uncertainty, and identifies commodity price volatility, including a fall in gold prices, as a high-likelihood external risk in its Risk Assessment Matrix (2026 Article IV Consultation). Fuel-market pressures and logistics disruptions, as described in paragraphs 2.4-2.6, have become more pronounced.

1.10 The main near-term financing challenge is a gross public financing requirement of approximately USD5.9 billion in 2026. Around USD2.1 billion is expected from external budget-support loans, while the government raised USD1.0 billion through a local-currency Eurobond in April 2026 and plans to raise a further USD2.4 billion domestically. This leaves an estimated financing gap of around USD400 million. Hence, Energy, Food Security and Economic Resilience Facility (Facility) financing would help meet this deficit and preserve priority spending on social protection, energy-sector reform, climate resilience, and green-transition investments. The residual financing gap after AIIB’s Facility financing is expected to be covered through additional financing from another international financing institution.

1.11 As discussed in paragraphs 2.4-2.6, the external shock affects the budget through three channels: higher fuel and energy costs, which raise the cost of maintaining household energy supply during tariff transition; slower growth (an estimated 0.8 percentage points lower than baseline), which weakens revenue; and higher logistics costs from re-routed trade. The government's adverse scenario places the resulting deterioration at 0.24 percentage points of GDP, broadly equivalent to the estimated USD400 million financing gap. The gap remains after nearly USD850 million in expenditure

optimization. Absent external financing, delaying tariff increases, extending generalized subsidies, or compressing priority spending would directly undermine the reforms supported by the Program.

1.12 **Transmission to the Reform Program**. Higher fuel and energy costs affect the reform program through four channels:

1.12.1 ***Tariff reform***: Rising input costs widen the gap between cost-recovery levels and existing tariffs. Maintaining the planned tariff-adjustment path therefore requires larger increases at a time when household incomes and firms are under pressure from rising living and operating costs. This raises the fiscal cost of the compensatory social protection needed to make those increases socially acceptable and maintain support for the reform program.

1.12.2 ***Subsidy reform***: Higher import and fuel prices increase the budgetary cost of below-cost gas and heating supply. This creates pressure to extend generalized subsidies rather than phase them down, potentially delaying progress towards more targeted and fiscally sustainable support mechanisms.

1.12.3 ***SOE reform***: Energy sector SOEs face higher costs and weaker finances, which may delay privatization and commercialization, or may require budget transfers or contingent fiscal liabilities.

1.12.4 ***Green-transition expenditure***: When financing is tight, capital spending, including on energy efficiency and renewable energy, is typically the first area to be compressed.

1.13 The Supplemental Financing addresses the above transmission channels by providing the fiscal space to finance targeted compensation for vulnerable households and protect priority expenditure, allowing the reform calendar to be maintained and mitigating the risk of slowing down Uzbekistan's progress towards its green economy and energy transition and decarbonization objectives.

1.14 **Financing Request.** On May 20, 2026, the AIIB Board of Directors approved the establishment of the Facility to support Members' response to the impacts of the current situation in the Middle East. In this context, the Government of Uzbekistan, through its Ministry of Economy and Finance (MOEF), requested a supplemental financing of USD350 million[3] to support the Program's objective and address an unanticipated financing gap arising from the impacts of the recent developments in the Middle East, which could otherwise jeopardize the implementation of the government's reform agenda. The Supplemental Financing, therefore, aims to address external shock pressures and preserve the continuity of the broader structural reform agenda and avoid delay of progress in Uzbekistan's energy sector reform.

2. Update on the Program

2.1 **Program Implementation.** The government has demonstrated sustained commitment to the reform program. All prior actions were completed, the Program supported by the Original Financing remains in compliance with the provisions of the legal agreements, and the government has continued to advance the reform agenda, including in response to the current external pressures. The Program supports Uzbekistan's transition to a green economy by advancing three interconnected objectives: the decarbonization of the energy system, the mobilization of private and green investment, and the strengthening of market and institutional governance.

2.2 The Program is overall, progressing according to plan and schedule. Of the nine output indicators under the Program's Results Matrix, two have already achieved their end-2028 targets, four are on

[3] The MOEF of Uzbekistan, through its letter to AIIB dated Aug. 6, 2026 (Ref. 02/45-2-19402-son), has officially requested USD350 million under the Facility.

track, and three remain at or near baseline. Weighted average cost recovery for district heating tariffs rose from a 29% baseline (October 2024) to 32% (June 2026), against a 45% target for 2028. New distributed renewable energy capacity installed in homes and buildings increased from 971 MW to 2,114 MW, reaching 70% of the 3,000 MW end-target. The share of the value of green public procurement has already exceeded its end-2028 target, reaching 22% against a 20% target, reflecting faster-than-expected adoption of the green procurement criteria by procuring entities. On the institutional side, the establishment of a publicly accessible state aid registry has also been achieved ahead of schedule. With the registry now operational, and the number of SOEs with public stakes between 20% and 40% included in the single Initial Public Offering (IPO) of the National Investment Fund (NIF) has reached 13 against a target of 15, indicating substantial early progress. Several results, including green public procurement and the state aid registry, were achieved ahead of schedule, reflecting strong government ownership.

2.3 The remaining indicators depend on regulatory frameworks and transactions that, by design, are sequenced for the later stages of the programmatic series. Their current progress is consistent with the implementation timeline, and the enabling frameworks are in place or under consultation. The share of customers served by privately operated electricity distribution networks remains at 0% against a 15% target, but consistent with the implementation timeline. The enabling framework has been put in place, but the transaction process and commencement of private operations are expected only in the later stages of implementation. Similarly, regulatory licensing of a private gas distribution operator has not yet occurred, although a draft policy framework is under consultation, and operator licensing is anticipated once the framework is approved and a pilot public-private partnership (PPP) is implemented. Private investment for energy efficiency through energy service companies (ESCOs) remains at zero against a USD10 million target, with current efforts focused on establishing the legal and institutional framework for the ESCO market. Finally, GHG reductions under the carbon market decree and fuel price measures remain at zero metric tons of carbon dioxide equivalent ($mtCO_2eq$) against a target of 25 $mtCO_2eq$. This reflects the phased nature of carbon market development, with institutional arrangements in place while the national carbon registry; monitoring, reporting, and verification (MRV) procedures; and project pipeline are still under development.

2.4 The Program's results framework is designed to be completed across both programs of the programmatic series of CPBFs, co-financed with the World Bank (WB). This Program was the first in the series. The second Program, which is now under preparation and is targeted for approval in 2027, carries the market rules that make the central buyer model workable, establishes an independent gas regulator, phases out highly polluting gasoline, revises building codes, and moves SOE reform from preparatory consolidation into actual privatization. The indicators on privately operated distribution networks, private gas distribution, ESCO investment, GHG reduction, and carbon market development therefore depend on continuity of reform implementation. Momentum gained under the current Program is crucial to the outcome of the series, as the IMF noted that faster structural reform implementation is the principal source of upside to Uzbekistan’s outlook.

2.5 The Supplemental Financing is designed to protect this momentum. The reforms are in place, and the Program is progressing well; the risk lies in the political economy of continuing them under external stress. Tariff increases toward cost recovery; the removal of fossil fuel subsidies and the privatization of large enterprises are hardest to sustain when fuel prices are rising and household purchasing power is under pressure. Without additional fiscal space, the external shock would put pressure on the government to defer or slow planned adjustments to mitigate social and economic pressures, notwithstanding its demonstrated commitment. Such delays could weaken reform credibility, erode the gains of the first operation, and undermine the foundations on which the second Program’s policy actions are built.

2.6 The Supplemental Financing addresses these challenges by helping the government manage the fiscal and social pressures arising from the external shock while maintaining implementation of the reform agenda. It is a general budget support to the government creating fiscal space for it to (a) maintain the reform calendar, particularly on tariff adjustment toward cost recovery in district heating along with the phased reduction of natural gas and heat subsidies, SOE privatization, and improving energy efficiency and increasing renewable energy generation and utilization through the provision of financial incentives; (b) provide well-targeted compensation for vulnerable households through the adjustment, consistent with IMF advice against generalized subsidies; and (c) do both without depending on commodity-price gains that the IMF expects to moderate from 2027 and identifies as a high-likelihood source of volatility. This is the essence of resilience-building: the capacity to hold a reform trajectory and preserve the fiscal room needed to carry the Program forward simultaneously through an external shock.

2.7 **Bridge to the Second Uzbekistan Green and Resilient Market Economy CPBF**. The Supplemental Financing provides continuity between the first Uzbekistan Green and Resilient Market Economy CPBF and the planned second operation in 2027 by helping sustain reform implementation during a period of heightened external uncertainty. Given the downside risks to Uzbekistan from the Middle East situation identified in 2026 and their materialization, as described in paragraphs 2.4-2.6, it is essential to maintain the reform program to bolster the economy's resilience. Since the Second Uzbekistan Green and Resilient Market Economy CPBF, approved in Concept Review on June 5, 2026, is slated for approval in 2027, supplemental financing through the first CPBF of the series is the appropriate instrument to provide timely support during this critical period and bridge the two programs. The envisaged reforms include the regulatory framework for private electricity and gas distribution, the ESCO enabling framework, and the MRV system for measured GHG reductions, that are near baseline and for which results are still emerging. Ongoing implementation support will monitor progress. By avoiding a gap in support between the two operations, supplemental financing under the Energy, Food Security and Economic Resilience Facility aims to preserve the foundations established by the first CPBF and advance them through the prior actions of the second CPBF.

2.8 **Lessons Learned**. The proposed Supplemental Financing incorporates lessons learned from earlier reform operations in Uzbekistan:

2.8.1 **Phasing of market and institutional reforms**. Implementation of the first CPBF of the series confirms that reforms involving market creation, such as the carbon market and the ESCO market, depend on foundational legal and institutional measures and on capacity in newly established bodies, including the National Energy Efficiency Agency. These may not be completed within a single operation and are best supported through a phased programmatic approach. The series was designed on this basis (paragraphs 3.3–3.4). The lesson for Supplemental Financing is that it is important to maintain momentum between phases within the existing program design. The Supplemental Financing, therefore, introduces no new prior actions or results indicators. It aims to keep the agreed reform agenda on track until the second Program.

2.8.2 **Partnership and analytical foundations**. The first CPBF was prepared in consultation with the WB and drew on the latter's analytical work as co-financier, complemented by AIIB's own due diligence. This arrangement allowed timely preparation and disbursement and gave the government a single, coherent reform framework. The Supplemental Financing keeps the same arrangement and continues to rely on the existing coordination with the WB to monitor the Program implementation. The coordination framework is further strengthened by complementary reform measures supported under the WB's parallel program, including prior actions aimed at protecting low-income households from the impact of higher district heating tariffs through targeted compensation mechanisms. These strengthen the overall reform framework and monitoring arrangements. As AIIB's sovereign and non-sovereign portfolio in Uzbekistan, as well

as the portfolio of CPBFs expands, insights from these operations will increasingly inform the policy dialogue on the second Program and any future climate operation.

2.8.3 **Crisis-response experience across Members**. AIIB's COVID-19 Crisis Recovery Facility showed the value of rapid, fast-disbursing support provided in coordination with peer institutions. Members welcomed co-financing because it simplified preparation and reduced their burden. They also stressed the importance of a prompt response when urgent needs arise. The Supplemental Financing applies these lessons. It extends a well-performing operation that remains in compliance and uses the parent Program's established fiduciary, environmental and social, and monitoring arrangements. As a result, it can provide timely support requested by the Government of Uzbekistan.

2.9 **There are no changes to the environmental and social management framework assessment.** AIIB's Environmental and Social Policy (ESP) and the Environmental and Social Exclusion List (ESEL) apply to the Program. The assessment of the Program's environmental and social impacts is largely informed by the analytical work of the WB, AIIB's co-financier for the Program, including an environmental and social impact analysis matrix prepared for specific policy actions.

2.10 The Program focuses on policy and institutional reforms that do not require involuntary resettlement or impact the lives of Indigenous Peoples. However, it is recognized that some downstream investment activities resulting from specific policy actions under the Program may lead to indirect, short-to-medium term and temporary adverse impacts. To address these potential concerns, the government has provided compensation measures for vulnerable communities, and implementing agencies will utilize their existing grievance redress mechanisms, which cover multiple channels for citizens, private individuals, or project-affected people to submit complaints, including the e-government system.

2.11 In addition, while the AIIB-supported policy actions under this Program do not include gender as a primary objective, several reform areas present opportunities for gender co-benefits aligned with the government's gender equality policy framework, such as the National Strategy on Gender Equality to 2030 and related action programs.

2.12 **The fiduciary governance assessment has been updated to consider recent reforms.** AIIB's fiduciary governance assessment concludes that Uzbekistan's public financial management (PFM) and procurement systems are broadly adequate for the CPBF and provide reasonable assurance that the proceeds of the operation will be used for the intended productive purposes and not for excluded expenditures. This assessment is informed by AIIB's review of government systems and relevant third-party assessments, including documentation prepared by the Asian Development Bank (ADB), the WB, the 2024 Public Expenditure and Financial Accountability (PEFA) assessment, and the International Monetary Fund's (IMF) 2026 Article IV Consultation Staff Report.

2.13 Uzbekistan continues to strengthen its fiscal framework through successive reforms, building on an established legal and institutional foundation. Recent reforms include the publication of the Fiscal Strategy of the Republic of Uzbekistan 2027–2029,[4] which sets medium-term fiscal priorities and strengthens fiscal risk and debt sustainability management, and the Debt Management Strategy and Annual Borrowing Plan 2026–2028, which enhances medium-term debt planning. Other notable progress includes expanding fiscal reporting and budget coverage to incorporate social lending programs and advancing the publication of fiscal statistics in line with IMF Government Finance Statistics (GFS) standards. Progress is also noted in the fiscal risk management of SOEs and PPPs, which is being strengthened through the continued development of dedicated functions within the MOEF. In particular, the Fiscal Risk Assessment Department has an enhanced role in assessing and

[4] Government of Uzbekistan, MOEF. 2026. Fiscal Strategy of the Republic of Uzbekistan for 2027–2029 Developed. July 17.

quantifying PPP-related fiscal costs and contingent liabilities, complemented by ongoing improvements in risk-based oversight and monitoring of SOE liabilities through UzAssets.

2.14 Governance and accountability arrangements continue to build on the institutional foundation established by the Law on the Chamber of Accounts (CoA). Subsequent reforms have focused on strengthening the external audit function, enhancing alignment with international standards, and building institutional capacity. These developments, together with improvements in digitalization, budget transparency, and institutional capacity, demonstrate continued progress toward a more comprehensive, transparent, and results-oriented PFM system.

2.15 Although subsequent reforms are beginning to address several weaknesses identified in the 2024 PEFA assessment, some areas require further strengthening. The IMF, in its 2026 Article IV Consultation, [5] emphasizes that strengthening fiscal institutions remains essential to improving expenditure efficiency, fiscal-risk management, and debt management over time. Key priorities include improving the quality and integration of medium-term fiscal frameworks, unifying the public investment process across financing sources, and integrating recurrent and investment budgeting; accelerating treasury automation and strengthening macro-fiscal analysis; further strengthening PPP and SOE fiscal-risk management, including assessment of PPP commitments and the quality of SOE risk information and disclosure; and enhancing debt management and fiscal transparency. Continued efforts are also needed to advance the adoption and application of international accounting and auditing standards, including the International Public Sector Accounting Standards (IPSAS), the Central Bank of Uzbekistan's transition to IFRS and publication of its external audit reports, and further alignment of public audit practices with the International Standards of Supreme Audit Institutions (ISSAIs).

2.16 Efforts to strengthen PFM are being sustained through the implementation of the 2025–2030 PFM Reform Strategy and Action Plan, which is supported by development partners including the IMF, the WB, ADB, and the United Nations Development Programme (UNDP). AIIB has been building on the progress already achieved in strengthening fiscal planning and the budgeting process through the first series of this operation. In this second subprogram, climate-responsive budgeting will be further strengthened through ex ante assessments of green fiscal measures, the publication of ex post spending reviews, the integration of climate risk management into PPP projects, and the implementation of a comprehensive fiscal risk management strategy to support climate-resilient planning.

2.17 The overall fiduciary risk is assessed as Medium. The rating reflects remaining developmental and reform-related weaknesses in areas such as medium-term expenditure planning, the integration of strategic priorities into annual budgeting, further strengthening of fiscal risk reporting, and the continued transition toward international accounting and auditing standards. These risks are being mitigated through the government's sustained PFM reform strategy and action plan.

2.18 With a clear reform roadmap in place and no significant weaknesses noted in the foreign exchange control environment of the Central Bank of Uzbekistan (CBU), the existing PFM systems are considered adequate and expected to ensure that loan proceeds are allocated and used for productive activities aligned with national development priorities.

2.19 **Disbursement.** The loan proceeds will be made available to Uzbekistan upon the effectiveness of the Loan Agreement and fulfillment of the withdrawal conditions. AIIB will disburse the loan proceeds into a foreign currency deposit account held at the CBU, forming part of the Treasury Single Account (TSA) and Uzbekistan's official foreign exchange reserves, in the name of the MOEF. Within 30 days, the MOEF will: (a) report to AIIB the exact amount received, supported by a bank statement; and (b) submit evidence that the equivalent amount has been recorded in the budget management system. If

[5] IMF. 2026. Republic of Uzbekistan: 2026 Article IV Consultation-Press Release; and Staff Report. IMF Country Report No. 26/152. May 28.

the proceeds of the loan, or any part thereof, are used for ineligible purposes, as defined in the Loan Agreement, AIIB will require the MOEF to promptly return such amount. The amount refunded shall be cancelled from the Loan. No specific audit of the deposit of the loan proceeds will be required. However, AIIB reserves the right to request such an audit at its discretion.

2.20 **Grievance Redress and AIIB's Project-Affected People's Mechanism.** Individuals and communities who believe they are adversely affected by the Program may submit complaints to the responsible government authorities and the appropriate local or national grievance mechanisms. People who believe they have been or are likely to be adversely affected by specific policies supported as PAs under the Program—in situations when their concerns cannot be addressed satisfactorily through the local or national grievance mechanisms or the processes of AIIB's Management—can submit their concerns via the PPM. Information on AIIB's PPM can be found at: https://www.aiib.org/en/about-aiib/who-we-are/project-affected-peoples-mechanism/how-we-assist-you/index.html.

3. Rationale and Alignment of the Proposed Supplemental Financing

3.1 **Financing Fit under the Facility.** The proposed Loan meets the criteria for supplemental financing to Policy-based Loans under the Facility. The Program is currently under implementation and is progressing satisfactorily. However, the current situation in the Middle East is affecting Uzbekistan through higher and more volatile energy and commodity prices, imported inflation, and trade and logistics disruptions, which could affect the Program's continued implementation. The Loan will provide critical, fast-disbursing financing support to sustain the government's reform momentum, sustain priority public expenditures, including infrastructure investments and maintenance, and safeguard other essential development programs including those supporting Uzbekistan's climate transition objectives. Uzbekistan remains committed to the Program and the implementing entities have demonstrated competence in its execution.

3.2 **Adequacy of the Macroeconomic Policy Framework.** AIIB assesses Uzbekistan's macroeconomic policy framework to be adequate. An ambitious, credible, and feasible fiscal consolidation effort has been underway since 2024. The fiscal deficit has narrowed significantly (2.1% in 2025) and the ongoing reduction in fossil fuel subsidies is strengthening the overall consistency of macro policies with energy transition. Monetary policy is anchored in the inflation target, with an appropriately tight stance and consistently positive real interest rates, while greater exchange-rate flexibility provides an additional mechanism for absorbing external shocks. Fiscal policy is anchored by a budget deficit target of 3% of GDP, a debt ceiling of 60% of GDP, and an external borrowing limit of USD5 billion in 2026.

3.3 According to the IMF, public debt is sustainable. Risks from the high foreign-currency share of debt are mitigated by concessional terms, long maturities, and adequate FX reserves. Macroeconomic stability and the reform program underpin Uzbekistan's robust medium- and long-term growth potential.

3.4 **Collaboration with IMF and other Development Partners.** AIIB has coordinated with the IMF, the WB, and ADB in the preparation of the operation. These partners consider Uzbekistan's macroeconomic policy framework adequate. Uzbekistan does not currently have an IMF-supported program. The June 2026 Article IV Staff Report serves as IMF's most recent assessment, in accordance with IMF policies. The IMF welcomes the government's ongoing reform efforts, particularly energy price reforms and SOE privatization, while emphasizing the need to sustain the pace of reforms. Support from AIIB and other development partners will help preserve fiscal space, protect priority expenditures, and sustain reform implementation during a period of heightened external uncertainty.

4. Risks and Mitigants

Table 1: Summary of Risks and Mitigating Measures

Risk Description	Assessment (H/M/L)	Mitigation Measures
Political and Governance		
▪ Pressure to defer or slow down reforms under external fiscal stress, and public sector capacity constraints that could affect the pace of implementation	M	▪ The risk of reform deferral is mitigated by the programmatic design of the Development Policy Operation (DPO) led by WB, which creates incentives to continue reforms and safeguard against reversal and reform sustainability. ▪ Additionally, this supplemental financing will help maintain the reform trajectory and preserve the fiscal room needed to carry the Program forward through an external shock and mitigate the risk of reform slowdown. ▪ The government has introduced measures to mitigate social impacts, supported by continued engagement with AIIB and development partners. AIIB and other key development partners are committed to continuing collaboration with the government to enhance institutional capacity and support sustainable progress.
Macroeconomics		
▪ Impact of external economic volatility on government revenue and its ability to fund climate expenditures	M	▪ The supplemental financing will provide support to ensure that the Program continues amid external volatility.
Fiduciary Governance		
▪ Crisis-related spending, including household compensation and energy support measures, may exacerbate existing weaknesses in medium-term budgeting and program classification, leading to unplanned budget reallocations and shifting resources away from climate-related and other strategic priority expenditures. ▪ Poor targeting or limitations in controls in compensation for vulnerable households could reduce effectiveness and increase the risk of misuse.	M	▪ The 2025–2030 PFM Reform Strategy, supported by AIIB, WB, ADB, IMF and UNDP, is strengthening medium-term and climate-responsive budgeting and the tracking of spending priorities. Any additional budget allocation is approved through the regular legal process and reported in published budget execution reports. ▪ Compensation is designed to be well-targeted, in line with IMF advice against generalized subsidies. Existing grievance redress channels, including the e-government system, are available to affected people. Coordination with the WB on beneficiary registries and payments.
Implementation Capacity		
▪ Responsibility over the reforms is clearly assigned to ministries and agencies. However, a key risk to embedding the reforms is posed by institutional capacity gaps in implementing the policies and managing the fast-paced reforms, as well as the nascency of many critical	M	▪ The government is working with the WB and other development partners to receive expert assistance and policy advice as well as technical assistance (TA). WB is providing TA across several policy reform areas, with targeted support for new areas (for example: setting up grievance redress systems for sexual harassment). There is active coordination with other donors. Consultants are engaged for state

Risk Description	Assessment (H/M/L)	Mitigation Measures
government institutions, such as the National Energy Efficiency Agency (NEEA).		aid registry, SOE agenda and procurement reforms. AIIB is also providing technical assistance support to NEEA. Some areas proceed without technical assistance due to existing capacity or other donor coverage.
Environmental and Social		
▪ **Distributional impact of energy price reforms under crisis conditions.** Tariff increases and subsidy phase-out on top of higher fuel prices may hurt low-income and vulnerable households, including through food and transport costs. ▪ **Social acceptability and risk of reform reversal.** Public pressure during the price shock could weaken social acceptance and lead to delays or reversals in reform implementation. ▪ **Institutional capacity** to manage downstream environmental and social risks and impacts related to the future increase in renewable energy investments.	M	▪ The government has strengthened the social safety net and raised social benefit allocations 2% above the original budget. The supplemental financing funds well-targeted compensation for vulnerable households instead of generalized subsidies, in line with IMF advice. Uzbekistan also has established social-protection and targeted compensation mechanisms, including the Social Protection Registry and compensation measures linked to electricity and natural-gas tariff increases, which can be used to mitigate affordability impacts on vulnerable households. The adequacy and coverage of these measures should be assessed against the number and characteristics of affected households and the expected increase in their costs. Compensation coverage and benefit adequacy relative to cost increases will be monitored jointly with the WB. ▪ The WB is providing TA across several policy reform areas, with targeted support for new areas (e.g., setting up grievance redress systems for sexual harassment). In addition, Uzbekistan has established environmental assessment and permitting, land, labor and occupational health and safety, and other sectoral regulatory requirements applicable to downstream investments. These systems provide a basis for managing the E&S risks associated with increased renewable-energy investment, while continued institutional capacity building and supervision will be important as investment scales up.