



# Regional: Fostering Expanded Regional Electricity and Gas Interconnection and Trade under the CAREC Energy Strategy 2030

Project Name	Fostering Expanded Regional Electricity and Gas Interconnection and Trade under the CAREC Energy Strategy 2030
Project Number	54019-001
Country	RegionalAfghanistanAzerbaijanGeorgiaKazakhstanKyrgyz RepublicMongoliaPakistanChina, People's Republic ofTajikistanTurkmenistanUzbekistan
Project Status	Proposed
Project Type / Modality of Assistance	Technical Assistance
Source of Funding / Amount	
Strategic Agendas	Inclusive economic growth Regional integration
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development
Sector / Subsector	Energy - Energy sector development and institutional reform
Gender Equity and Mainstreaming	Some gender elements
Description	<p>The knowledge and support technical assistance (TA) will support the implementation of the CAREC Energy Strategy 2030 in achieving its long-term vision of a reliable, sustainable, resilient and reformed regional energy market by 2030. The TA particularly aims at improving regional energy connectivity, scaling-up investments and achieving higher sustainability and inclusiveness in CAREC's energy sector. To achieve these goals, the TA will (i) produce preparatory works for the establishment of a new regional transmission cooperation association, (ii) strengthen government capacity to carry out market reforms and attract investors, (iii) establish a financing vehicle for green energy projects and foster consumer awareness for energy efficiency and (iv) establish a women-in-energy program to increase women participation in the energy sector. These activities are expected to significantly improve regional energy security and cooperation.</p> <p>The TA fully aligns with the Operational Plan for Regional Cooperation and Integration 2019-2024. It supports its overall vision of a region where sustained cooperation among countries is a foundation for advancing trade, investment, and provision of regional public goods and closely aligns with strategic operational priority 1 (greater and higher quality connectivity between economies) and strategic operational priority 2 (global and regional investment opportunities expanded). The TA is also fully aligned with the ADB Strategy 2030 (operational priority 2: accelerating progress in gender equality; operational priority 3: tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; operation priority 6: strengthening governance and institutional capacity and operational priority 7: fostering regional cooperation and integration). Moreover, the TA is aligned with the CAREC Strategy 2030 and the CAREC Energy Strategy 2030. Both strategies are closely aligned with the national strategies of CAREC member countries, where energy security, energy sector reform and greening of the energy system are among the strategic priorities to achieve reliable and sustainable energy supply for final consumers in the region.</p>

Project Rationale and Linkage to Country/Regional Strategy	<p>The CAREC energy sector is at an important crossroad. While the energy sector has done well in powering the countries during a challenging period of rapid growth, new dynamics on the global energy scene are rapidly changing the context in which CAREC countries will have to operate over the next decade. The shifting global dynamics that will influence the CAREC region's energy markets include: the competitiveness of renewable energy; the importance of scaling up private sector financing; the necessity of addressing climate change; ongoing price and supply volatility of hydrocarbons, and improved political relations in the region stimulating greater cooperation and inclusiveness. As these areas have not been adequately addressed in earlier CAREC energy strategies, this TA intends to offer a set of solutions that will prepare and equip the CAREC region to stay ahead of the curve under these new regional and global conditions.</p> <p>Political will and readiness for regional cooperation are at a historic peak. For the first time, the Energy Ministers from the CAREC region adopted a joint long-term vision for the regional energy sector and committed to implementing the CAREC Energy Strategy 2030 by signing a historic Ministerial Declaration on 20 September 2019 in Tashkent. The principle of "Common Borders, Common Solutions, Common Energy Future" including a detailed 10 year-action plan was adopted as the central theme to advance the regional energy sector through this decade. The TA outputs are directly in sync with the endorsed 10-year action plan.</p> <p>Mutual benefits from cross-border energy connectivity are better recognized. Over the past decade, interconnections between CAREC countries have improved but national electricity grids and gas pipeline networks are still planned in relative isolation. Going forward, both electricity and gas grids in the region have to become smart and incorporate market principles to incentivize a more integrated system which can operate in a more efficient manner and help build flexibility of supply and resiliency for all countries. At the same time, the traditional markets currently limited to sub-regions (such as Central Asia alone) need to be expanded to South Asia, notably to Afghanistan and Pakistan. Being part of a larger electricity network and gas pipeline system will allow energy to be traded at competitive prices, enable diversification of energy sources, and provide more reliable service to consumers. Creating the right conditions for regional actors to establish long-term regional network development plans is thus an area this TA shall address in partnership with ongoing initiatives by other development partners, such as USAID and others.</p> <p>Structural reforms are key for financial sustainability in the energy sector. Traditional government control of electricity and gas companies in the CAREC region and the absence of competition have led to distorted energy prices, inefficient network operation, and deteriorating energy infrastructure. The energy sector's deep-seated financial difficulties have resulted in large-scale subsidies across many countries in the region. Fiscal support needed to maintain subsidies causes a substantial burden on the economy depleting public budgets. Sector reforms have the power to break this cycle and establish more market-oriented structures that will generate income and consequently restore financial health. A number of CAREC countries were determined to move from state-owned systems to more liberalized market structures and reforms are already underway in some member countries. Yet, capacity in some of the member countries to implement such reforms remains low. This TA therefore intends to promote knowledge flows across countries and equip CAREC countries with the necessary tools to formulate appropriate reforms.</p> <p>Private sector financing is essential to meet investment needs. As per an ADB estimate, energy infrastructure investment needs of the CAREC region (excluding the People's Republic of China) in 2020-2030 are estimated at \$400 billion. Currently, about two-thirds of investments are public sector investments, yet the current level of investments is only a quarter of the needed investment. Therefore, private investment is essential to bridge the widening investment gap. Creating the conditions for private investment at scale, which in turn will help diversify exports, create jobs, and improve efficiencies and promote innovation, is one of the most challenging and important concerns in the region. Given the common challenge and the modest size of individual economies, a regional approach can help: a) in cross learning from each other to share successful and less successful project stories, and b) in selected cases, attract cost-competitive private investments by aggregating similar projects across countries in high technology areas.</p> <p>Mainstreaming energy efficiency and higher share of renewables in the regional energy mix has strong economic and social imperatives. The region is home to some of the most energy-intensive economies and, despite abundant renewable energy potential, installed solar and wind energy capacity currently amounts to less than 1% of the total capacity. Renewable energy and energy efficiency measures while capital-intensive, have shorter pay-back periods and are attractive investment options particularly suited to attract private sector financing. Leading financial institutions and large wealth funds in the region are highly interested in impact financing, which combines adequate returns on socially and environmentally responsible projects. Moreover, international financial institutions also have a strong commitment to enlarge climate financing. Thus, there is a need to develop a robust pipeline of bankable energy efficiency and renewable energy projects, and link them to a new regional financing mechanism which de-risks such investments and provides a menu of investment options, such as, debt, equity, guarantee, leasing and others leveraging on ADB and other international financial institutions' similar approaches in other countries and regions.</p> <p>Developing human capital and inclusiveness is the key to a future-proof energy sector. CAREC's energy sector is characterized by a relatively homogenous work force in terms of gender, age and educational background. Women remain especially underrepresented in the CAREC region. This mirrors the global trend where women account for only around 20% of the global overall energy workforce and 11% of top global oil and gas executives. Hence, there is substantial room for opening up the energy industry to women and diversifying the sector's workforce. A diverse and inclusive workforce has proven to multiply output and boost organizational performance. Companies and governments choosing to bring women into their energy agenda have a more engaged and efficient staff, perform better, and maintain higher retention rates. This TA shall thus promote gender equity in CAREC's energy sector.</p>
Impact	Energy security and regional connectivity among CAREC countries increased
Outcome	Improved regional collaboration, scaled-up investments and higher sustainability and inclusiveness in CAREC's energy sector achieved
Outputs	<p>Concept for the establishment of regional transmission cooperation association prepared</p> <p>CAREC energy reform atlas developed and private investors attracted</p> <p>Financing vehicle for green energy projects developed and consumer awareness of energy efficiency strengthened</p> <p>CAREC women in energy program established</p>
Geographical Location	Afghanistan - Nation-wide; Azerbaijan - Nation-wide; China - Nation-wide; Georgia - Nation-wide; Kazakhstan - Nation-wide; Kyrgyz Republic - Nation-wide; Mongolia - Nation-wide; Pakistan - Nation-wide; Tajikistan - Nation-wide; Turkmenistan - Nation-wide; Uzbekistan - Nation-wide

Summary of Environmental and Social Aspects	
Environmental Aspects	
Involuntary Resettlement	
Indigenous Peoples	
Stakeholder Communication, Participation, and Consultation	
During Project Design	
During Project Implementation	
Responsible ADB Officer	Abado, Sarin
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Energy Division, CWRD
Executing Agencies	Asian Development Bank 6 ADB Avenue, Mandaluyong City 1550, Philippines
Timetable	
Concept Clearance	15 May 2020
Fact Finding	-
MRM	-
Approval	-
Last Review Mission	-

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