



PROPOSED ESCC WORKPLAN 2020-2022

Rationale for a new ESCC work program

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 in over the next decade. The shifting global dynamics that will influence the CAREC region's energy markets include: the rise of renewable energy; the importance of private sector financing in meeting investment needs; the necessity of addressing climate change; and improved political relations in the region, stimulating greater cooperation and inclusiveness. The ESCC 2020-2022 work program intends to offer a set of solutions that will prepare and equip the CAREC region to stay ahead of the curve under these new conditions.

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" was adopted as the central theme to advance the regional energy sector through this decade. Thus, there is an unprecedented momentum to address shared regional energy challenges with full government ownership. ESCC shall keep up this momentum by implementing targeted actions that will fully support the CAREC countries in achieving the joint 2030 vision of a reliable, sustainable, resilient and reformed energy market by 2030.

Mutual benefits from cross-border energy connectivity are within reach. Over the past decade, interconnections between CAREC countries improved but national grids are still planned in relative isolation from possible regional interconnection opportunities. A formal process bringing network operators from CAREC countries together to strategically plan projects of common interest is currently absent and diminishing possible economic returns from regional trade. Most CAREC countries are rich in fossil and hydro resources, while others, particularly in South Asia, face challenges in meeting energy demand from domestic resources. Creating cross-border interconnections to allow energy to flow from countries with excess supply to those in high demand creates a strong imperative for regional trade and will reinforce energy security. Creating the right conditions for regional actors to establish long-term regional network development plans is thus an area the ESCC shall address to allow the sector to maximize energy security at least cost.

Structural reforms have the power to create profitable markets. 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 are mainly caused by large-scale subsidies provided to end consumers. The average consumer electricity tariffs in the CAREC region are indeed among the lowest in the world and far from reflecting the actual cost of running the energy system. The 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 reform efforts have already started in some member countries. The ESCC 2020-2022 shall therefore develop the necessary tools to achieve market-oriented reforms.

Private sector financing can close the CAREC investment gap. 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. Overall, however, only a quarter of the expected investments needed can realistically be covered by the public sector. Therefore, private investments will have to fill the widening investment gap. Creating the conditions for the emergence of a dynamic private sector—capable of diversifying exports, creating jobs, and strengthening resilience—is one of the most challenging and important concerns of the CAREC region, where the private sector remains underdeveloped. Yet, external private investment in the energy sector can relieve significant pressure on government budgets and ultimately fuel economic growth and contribute to increased energy security for consumers. ESCC shall therefore implement actions creating improved conditions for investors to enter the region.

A greener energy mix will yield long-lasting economic and social benefits. Despite abundant renewable energy potential in the CAREC region, installed solar and wind energy capacity currently amounts to less than 1% of the total capacity. Deploying renewable energy and energy efficiency measures is capital-intensive and thus poses formidable challenges to attracting financing at scale. Given the historic level of predominantly public sector–led investments in the energy sector, unlocking and crowding in private and commercial financing is absolutely crucial to incentivize the development of green energy projects. 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, a unique opportunity presents itself to develop a pipeline of investment-ready projects and link them to new financing mechanisms. ESCC shall therefore develop methods that enable, incentivize and increase the number of green energy and energy efficiency projects in the region.

Developing human capital 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. ESCC shall thus promote gender equity in CAREC’s energy sector.

PROPOSED DELIVERABLES 2020-2022

Deliverable 1: Establish a regional transmission cooperation association

As the regional grid expands, increasing cooperation among transmission system operators and appropriate regional governance structures are needed, not only to maintain physical infrastructure but also to decide on future-oriented questions such as regional grid expansion, data sharing and grid operation. ESCC will conceptualize and prepare the establishment of a new regional body—the Central Asia Transmission Cooperation Association (CATCA)—which shall bring all transmission system operators from the region together with the aim of elevating network expansion planning from a purely domestic to a regional level, building a participatory process to identify new projects of common interest and developing region-wide rules and standards for operating the grid. This governance structure will be key in making regional cooperation and integration deeper and more formal and is expected to significantly increase regional connectivity and trust between

Deliverable 2: Develop CAREC Energy-Reform-Atlas and attract private investors

To support policy makers in taking informed decisions when embarking on critical energy sector reforms, a CAREC-Energy-Reform-Atlas in the form of an interactive playbook comprising practical handbooks and advice on issues such as tariff reform, unbundling and protection of vulnerable customers shall be conceptualized and made easily accessible through an interactive and user-friendly online tool for CAREC members. In addition, an international Energy Investment Forum shall be organized annually to attract new investors to the region and foster regional B-2-B contacts stimulating the development of the private sector. To further reduce investment barriers, ESCC shall also develop a concept for a “CAREC Energy Outlook and Investment Report” to provide investors with the first available comprehensive set of data on demand and supply trends (and other market dynamics) in the CAREC region. This will provide investors more transparency and clarity on their target markets and shall help them take better investment decisions.

Deliverable 3: Develop financing vehicle for green energy projects and strengthen consumer awareness for energy efficiency

In response to the low share of renewable energy and energy efficiency in the CAREC region, ESCC shall work on creating favorable conditions for greening the regional energy system. ESCC shall particularly focus on developing access to new financing vehicles for capital-intensive green energy projects and ways to create more awareness for energy efficiency among consumers. A joint platform—the CAREC Green Energy Alliance— shall be conceptualized with a view to bringing project developers and potential financiers together to identify and attract sources of funding for a pipeline of well-developed and investment-ready green energy projects. The long-term aim of the alliance should be to create a shared regional fund accessible to all members that will provide them with end-to-end solutions for co-financing investments in clean energy projects. In addition, ESCC shall address the huge potential for energy efficiency in the region, especially through well-designed and targeted awareness and information campaigns for consumers with support from regional mass media.

Deliverable 4: Establish CAREC Women-in-Energy program

Given the low rates of women employed in the regional energy sector, ESCC will establish the first Women-in-Energy Program in the CAREC region. The aim is to provide women with the necessary tools to build and boost their energy careers, join existing international networks and become more visible in the regional energy sector. Major flagship events such as the CAREC Energy Investment Forum shall lead by example and invite at least 50% of female speakers and panelists. To further raise visibility of women in the regional energy sector, a CAREC Women-in-Energy summit shall be organized in 2022.