

Central Asian Nexus Dialogue Project: Fostering Water, Energy and Food Security Nexus and Multi-Sector Investment (Phase 2)

Special event
to promote green investments based on the WEF Nexus approach

22 February 2023 | 09:00 - 12:00 | River Chateau Hotel, Via Flaminia 520, Rome, Italy

SUMMARY

The event was organized with the aim to discuss investment needs, obstacles and opportunities for the Water-Energy-Food (WEF) Nexus projects in the lead-up to the 7th EU-Central Asia High-Level Conference on Environment and Water Cooperation (23-24 February 2023, Rome, Italy).

In total, 39 representatives of European Union (EU), Central Asian (CA) countries, NGOs, international financial institutions and regional organizations attended.

The event was held in the format of panel discussions. The first session had panelists from the EU and international financial institutions. The second session had panelists from CA government officials who presented investment project proposals developed by the EU funded project “Nexus Dialogue in CA”.

See the agenda and the list of participants in *Annex 1*.

Session 1: Challenges and Opportunities for Green Investment in Central Asia

The first session, moderated by Mr Zafar Makhmudov, Executive Director of CAREC, was devoted to the discussion on current needs and opportunities for increasing investment inflow to Central Asian facilities important for water, energy and agriculture sectors. The moderator emphasized that the transition to the green economy remains a complex and still unfinished task despite the fact that all Central Asian countries recognize the necessity of this transition and make efforts towards it. In this regard, the panelists responded to the questions such as “How countries/sectors could improve investment climate to accelerate green transition? Why are investments in the programmes important for the water-energy-food sectors not efficient?”

Mr Johannes Baur, Head of Cooperation, EU Delegation to Kazakhstan, pointed out that any investor, first of all, assesses the risks associated with political stability and looks for economic and financial openness for private capital. International and European banks and private investors consider not only the regulatory and legal framework of a country, but also pay attention to the availability of international, and in particular, European standards that countries implement in their technological processes. European investors have their own "green" requirements to be taken into account when deciding whether or not to finance a particular investment project. For example, the European Bank for Reconstruction and Development (EBRD) does not consider investing in coal plants or in industrial enterprises using coal.

Mr Baur summarized that there are many issues remaining for countries to improve, such as developing a sound regulatory framework, environmental standards, readiness of the country to invest in “green” projects and reiterated the EU’s commitment to continue supporting countries in implementing necessary reforms. The European Investment Bank (EIB) starts to open branches in the

CA countries to be more present on the ground. Given the magnitude of the investment needed to carry out the “green” transition, it is also necessary to accelerate the private sector capital inflow.

Mr Baur acknowledged the protracted project review procedures in the EU, which hinder a rapid response to the new challenges that arise in Central Asia due to the geopolitical situation. However, the EU is taking steps to speed up the decision-making process and improve coordination for the launch and implementation of various EU initiatives. In this regard, the Global Gateway Team Europe Initiative (TEI) on Water, Energy and Climate Change in Central Asia was launched in November 2022 and the work is now underway to develop the action document to implement this TEI to maximize the impact of the EU’s support and better coordinate all relevant EU funded projects in CA. He expressed hope for better coordination by all the donors to avoid duplication of project tasks.

Dr William Young, Lead Water Resources Management Specialist of the World Bank, shared his opinion on implementation of multisectoral projects based on the World Bank's experience. Currently, the World Bank's portfolio of investment projects in CA is about \$12 billion and less than 10% are multisectoral projects. Dr Young shared his opinion that multisectoral and regional investment projects are very difficult to implement, as they require a lot of time, comprehensive project design and strong coordination of sectoral ministries. In addition, there are many risks involved in the implementation of such projects. The World Bank has both successful and unsuccessful experience in implementation of such projects. However, from his practical experience, Dr Young concluded that success in such complex projects is contingent on the presence of a strong regional organization, while regional organizations require significant support from the donor community.

Despite the above-mentioned challenges, multisectoral and regional projects are of great importance to Water-Energy-Food (WEF) security in the region. In this regard, the World Bank is working to raise an additional \$300 million to fund multisectoral projects in the region and continues to support such projects under the World Bank CAWEP Trust Fund. Under the previous phases of CAWEP, the WB supported the development of the regional project CASA-1000 and the Northern Aral Sea Rehabilitation Project in Kazakhstan. The new phase will focus on identification of multisectoral regional projects. This special event is very timely for the World Bank to understand the current needs.

In response to a comment on accelerating access to finance, the expert noted that the World Bank plays a key role in promoting reforms at the state level and provides affordable long-term capital to finance projects that are not attractive to the private sector. However, creating a more favorable environment for private sector development and decarbonization of the economy will require meaningful reforms, including tax reforms, labor market regulation, contract enforcement, simplification of agreement and approval of design and construction documents in the construction sector and export-import trade operations.

Dr Simon Sbinden, Head of Water Resources and Federal Department of Foreign Affairs, Swiss Agency for Development and Cooperation (SDC), pointed out that the WEF Nexus should also include the field of environment. This interconnection for security purpose requires a regional approach. The Swiss government is actively investing in the CA region and has invested more than \$2.4 billion in water and climate change projects as of today. SDC promotes regional cooperation and development of joint development plans at the basin level within the Blue Peace project. Dr Sbinden gave an example of cooperation between riparian countries at the Gambia River basin level, where countries share a huge amount of data and find solutions to develop investment projects while balancing economic and social interests of riparian countries. This approach presents challenges in finding a balance, but is imminent especially in the face of climate change and its growing impact at the global level.

Dr Sbinden emphasized that there is no single example and solution acceptable for every challenge in the region. He called for considering development of joint investment projects and initiatives at the Aral Sea basin level. He assured that SDC is ready to continue supporting the promotion of regional cooperation in the CA region. In terms of green investments, Dr Sbinden shared his expert opinion that the private sector needs profits and political stability. Transition to a green economy with green technologies is a long-term prospect. Despite the efforts and support of the donor community, it will

not be enough for a full transition to a green economy without the involvement of the private sector. This requires an enabling environment and private sector commitment.

Along with government agencies the donor community can facilitate the development of dialogue platforms and provide technical support, but national programs and reforms themselves will require years for their full-scale implementation. Green infrastructure projects might bring risks to the private sector. In this regard, Dr Sbinden suggested considering risk mitigation tools for the private sector and called on the donor community to be more creative in this regard.

Dr Serik Bekmaganbetov, Authorized Representative of the Republic of Kazakhstan at the IFAS Executive Committee, presented regional priorities and development plans, which implementation requires sizeable investments. Over the past two years two regional programmes for the period until 2030 have been updated and signed at the level of deputy heads of governments of Central Asian countries: (i) Fourth Aral Sea Basin Program (ASBP-4) and (ii) the Regional Environmental Programme for Sustainable Development in Central Asia (REP4SD-CA). Both programmes are based on agreed regional priorities. The ASBP-4 includes 34 investment project proposals, including 9 Nexus-based, which are now being discussed for possible funding with donors such as GIZ, SDC, World Bank, USAID and others.

Dr Bekmaganbetov raised important and acute issues in terms of attracting investment to the region. Water-energy and agricultural projects do not bring quick and desirable payback to the private sector. Regulated water and electricity tariffs do not guarantee high project margins, while worn-out infrastructure requires extensive capital investment. Large investors continue to invest in projects related to the production and processing of oil/gas and other hydrocarbons. While WEF projects are vital to meet the needs of the population, support the country's economy itself, and ensure WEF security, they do not receive proper interest from investors due to their low margins.

Another important issue was the involvement of representatives of the Ministries of Finance, National Economy and Investment in the implementation of the Nexus project in the region, given their role in the strategic planning of sectoral sectors and investments. At present, there is an active participation of representatives of the water sector and, more recently, the energy sector, which by their mandate have less authority and capacity to take into account the interests of other sectors. It is necessary to find mutual understanding among government bodies and investors to eliminate the bias in investing into highly profitable oil projects and find the optimal investment model for financing WEF projects and consider them not only in economic and financial terms, but also consider their huge role for ensuring sustainable development while preserving the environment.

During the exchange of views, it was emphasized that there is a need for "true involvement" of the private sector in "greening" businesses, introducing energy efficient equipment and finding opportunities for more rational consumption of resources, rather than for purely formal reporting to state authorities. Participants agreed that the problem of financing projects is a complex one, especially with the involvement of the private sector, which is understandably interested in project margins. In this regard, International Financial Institutes (IFIs) play a key role in providing affordable long-term project financing. The experience of the Austrian Ministry of Finance shows that the private sector starts to finance projects when there is financial security and a return on investment. The transition to the "green" economy will be difficult without the involvement of IFIs offering affordable terms.

Session 2: Presenting existing opportunities in Central Asia for multisectoral financing based on the water-energy-food Nexus.

During the Second Session, country representatives presented their investment proposals developed in the framework of the demonstration projects implemented under the EU project "Nexus Dialogue in Central Asia" based on a number of analytical works, including a socio-economic assessment of the project impact on the WEF sector, cost-benefit analysis, and technical works in the field, among others:

1. **Investment Proposal No. 1:** Treatment and processing of sediments from the Ruslovoe reservoir at the Tuyamuyun Hydroelectric Complex – presented by **Mr Ilkhom Juraev**, Authorized Representative of the Republic of Uzbekistan at the Executive Committee of IFAS;

2. **Investment Proposal #2:** Automation of Electricity Consumption Monitoring at Pumping Stations in Sughd Region of Tajikistan – presented by **Mr Bakhrom Gaforzoda**, Secretary of the National Commission on Irrigation and Drainage, Agency for Land Reclamation and Irrigation under the Government of the Republic of Tajikistan;
3. **Investment Proposal #3:** Modernization of the Golodnostep Pumping Station in Sughd Province, Tajikistan – presented by **Mr Bakhrom Gaforzoda**, Secretary of the National Commission on Irrigation and Drainage, Agency for Land Reclamation and Irrigation under the Government of the Republic of Tajikistan.

Investment proposals (see *Annexes 2 and 3*) have been submitted by the authorized ministries to potential investors for assessment of possible financing and technical support. As of today, investment proposal #3 has been selected for financing by the Eurasian Fund for Stabilization and Development of the Eurasian Development Bank and the negotiation of the conditions for signing the Soft Loan Agreement between the Eurasian Fund for Stabilization and Development and the Ministry of Finance of the Republic of Tajikistan is underway.

In addition to presenting investment proposals, **Dr Bolat Bekniyaz**, Director of the Executive Directorate of the International Fund for Saving the Aral Sea in Kazakhstan, showed the potential involvement for private sector in greening the dried bottom of the Aral Sea through offsets under the Kazakhstan Greenhouse Gas Emissions Trading Scheme and shared the positive results of ‘closed-root’ planting saxaul seedlings at Aralkum, which have shown the highest take-up rate compared to other planting methods over the past year.

Investment ideas developed as part of the EU Water Initiative (EUWI) National Policy Dialogues in Central Asia were presented by Ms Tamara Kutonova, project manager at the UN Economic Commission for Europe (UNECE).

During the Second Session, country representatives shared their thoughts regarding the obstacles they face in attracting investment from IFIs, the private sector, and development banks, as follows:

- The private sector is interested in investment proposals for demo projects. However, the private sector is primarily interested in a good return on investment, which is difficult to ensure for Nexus-based projects as they are usually developed for strategic facilities with regulated tariffs for such public goods as "water", "electricity" and "food". In addition, some investors require equity financing, which also involves the transfer of 40% of the facility's assets or even more to the investor with the right to sell; such transfer of ownership is hard to imagine for strategic national or cross-border facilities;
- The private sector is not interested in developing a feasibility study or pre-feasibility study without confirmed interest of investors, as the document requires resources, while quickly losing its relevance. In their turn, interested investors require a draft feasibility study to make a financing decision. International financial institutions may finance the development of a feasibility study by hiring an outside consultant. Also, feasibility studies can be developed by executive agencies (as evidenced by the demonstration project in Tajikistan) when a political decision on a loan for a particular project is made. However, it seems impossible to attract private or external financing without a feasibility study and investment of at least 50% of equity capital;
- International development banks have their own agenda and mechanisms for working with countries that do not have financial instruments to work with Nexus-based projects;
- Identification of investment project ideas through grant-supported projects of international organizations is an extremely useful exercise, but it does not allow sufficient elaboration of a full investment proposal, preparation of a feasibility study, market analysis, calculation of costs and benefits. This prevents governmental bodies and financial institution to make investment decisions;
- Investment projects, built on the priority of achieving WEF security in the CA region, focus on improving access to water resources and require a large-scale renovation of

water infrastructure, and the financial and private sectors are primarily interested in generating revenue and the earliest possible return on investment.

Country representatives noted that the use of the Nexus approach in the preparation of the investment proposals has improved their understanding and vision for multisectoral cooperation to tackle various issues at different levels, which contributed to the identification of necessary technical solutions and possible financing mechanisms. Country representatives also encouraged a greater involvement of representatives of the Ministry of Finance, National Economy and Investment in the process of developing such strategic investment proposals.

Key results of the meeting:

- The needs and opportunities for increasing the investment inflow to facilitate green investments into Central Asian facilities important to ensure water, energy and food security were discussed;
- Recommendations on necessary changes to increase the inflow of investment were received;
- Investment proposals ready for further development as investment projects were presented.

Annexes:

Annex 1: Agenda and list of participants;

Annex 2: Presentations;

Annex 3: Three investment proposals for the facilities covered by the demo projects.



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Central Asia Nexus Dialogue: Fostering Water, Energy and Food Security Nexus and Multi-Sector Investment

For participants of the Seventh EU-Central Asia High Level Conference

22 February 2023 | 09:00 – 12:00 | Conference room 'Centurion', River Chateau Hotel, Via Flaminia 520, Rome, Italy

The side event targets the participants of the Seventh EU-Central Asia High-Level Conference.

Objectives of the side event: to present existing opportunities, challenges, and needs to increase the inflow of Green investments in Central Asia for achieving water-energy-food security in the region.

The results of the discussion will be reported at the Seventh EU-Central Asia High-Level Conference, session No 5: "International institutions and bilateral donors: **opportunities and perspectives for regional activities and green investments in Central Asia.**

Format of the event: The meeting will be held in hybrid format.

Venue: Conference room 'Centurion', River Chateau Hotel, Via Flaminia 520, Rome, Italy

Zoom: <https://us06web.zoom.us/j/83965974785>

Language of the meeting:

The language of the meeting is English. Simultaneous Russian/English interpretation will be provided.

AGENDA

08:30 – 09:00	Registration
Moderator: Mr. Zafar Makhmudov, Executive Director, CAREC	
09:00 – 09:15	Welcome remarks <ul style="list-style-type: none"> • Mr. Johannes Baur, Head of Cooperation, EU Delegation to Kazakhstan • Mr. Zafar Makhmudov, Executive Director, CAREC
09:15 – 10:00	Session 1: Green investments for Central Asia: perspectives and challenges

	<p><i>There will be a discussion of existing opportunities to increase the inflow of investments in Central Asia for water, energy and food security.</i></p> <ul style="list-style-type: none"> • EU investments in the CA region – Mr. Johannes Baur, Head of Cooperation, EU Delegation to Kazakhstan • Central Asia Water & Energy Programme – Mr. William Young, Leading Water Management Specialist, Central Asia Regional Office, World Bank • Blue Peace Financing Initiative and the potential / opportunity for its application in Central Asia – Mr. Simon Zbinden, Head of Section Water, Federal Department of Foreign Affairs, Swiss Agency for Development and Cooperation (SDC) • Nexus Portfolio in Central Asia – Mr. Serik Bekmaganbetov, Authorized Representative of the Republic of Kazakhstan in the Executive Committee of the Fund for Saving the Aral Sea (IFAS) <p><i>Issues for discussion:</i> How countries/sectors could improve investment climate to accelerate green transition? Why are investments in the programmes important for the water-energy-food sectors not attractive?</p> <p>Q&A</p> <p>Group photo</p>
<p>10:00 – 10:15</p>	<p>Coffee break</p>
<p>10:15 – 11:45</p>	<p>Session 2: Existing opportunities in Central Asia for Nexus based Green investments</p> <p>Moderator: Ms. Aksulu Kushanova, Energy Investment Specialist, Regional Environmental Centre for Central Asia (CAREC), CAREC</p> <p><i>In this session, the key partners of the EU Nexus Dialogue Project in Central Asia will demonstrate the investment potential of technical solutions to tackle the customary issues faced by the water, energy, and food sectors in Central Asian countries.</i></p> <ul style="list-style-type: none"> • Solving the problem of siltation of water reservoirs in Central Asia on the example of the Tuyamuyun hydroelectric complex, Uzbekistan-Turkmenistan <ul style="list-style-type: none"> o Mr. Ilkhom Zhuraev, Authorized representative of the Republic of Uzbekistan in EC IFAS o Dr. Vanja Westerberg, International Cost-Benefit Consultant <p>Q&A</p> <ul style="list-style-type: none"> • Improving the energy efficiency of pumping stations on the example of the demo project in the Sughd region, Tajikistan <ul style="list-style-type: none"> o Mr. Bakhrom Gaforzoda, Secretary of the National Commission for Irrigation and Drainage of the Republic of Tajikistan under the Agency for Melioration and Irrigation under the Government of the Republic of Tajikistan <p>Q&A</p>

	<ul style="list-style-type: none">● Afforestation of the drained bottom of the Aral Sea on the example of the Nexus demo project in Kazakhstan<ul style="list-style-type: none">○ Mr. Bolat Bekniyaz, Director of the Executive Directorate of the International Fund for Saving the Aral Sea in the Republic of Kazakhstan <p>Q&A</p> <ul style="list-style-type: none">● Investment ideas developed within the EUWI National Policy Dialogues in Central Asia – Ms. Tamara Kutonova, Environmental Affairs Officer / Manager National Policy Dialogue Programme, UN Economic Commission for Europe <p>Q&A</p>
11:45-12:00	Coffee break



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Central Asia Nexus Dialogue Project: Fostering Water, Energy and Food Security Nexus and Multi-Sector Investment (Phase II)

For participants of the Seventh EU-Central Asia High Level Conference

22 February 2023 | 09:00 – 12:00 | Conference room ‘Centurion’, River Chateau Hotel, Via Flaminia 520, Rome, Italy

List of Participants

#	Name	Position	Online/Offline
Republic of Kazakhstan			
1	Serik Bekmaganbetov	Authorised Representative of the Republic of Kazakhstan on the Executive Committee of the International Fund for Saving the Aral Sea (IFAS)	offline
2	Bolat Bekniyaz	Director of the Executive Board of the International Fund for Saving the Aral Sea in the Republic of Kazakhstan (IFAS)	offline
3	Zauresh Alimbetova	Deputy Director of the Executive Board of the International Fund for Saving the Aral Sea in the Republic of Kazakhstan (IFAS)	offline
4	Karlygash Taishiyeva	Chief Expert, Transboundary Rivers Department, Ministry of Ecology and Natural Resources of the Republic of Kazakhstan	offline
5	Karl Anzelm	Head of State Institution "South Kazakhstan Hydrogeological and Amelioration Expedition" of the Committee for Water Resources, Ministry of Agriculture of the Republic of Kazakhstan.	online
Republic of Tajikistan			
6	Bahkrom Gaforzoda	Secretary of the National Commission on Irrigation and Drainage of the Republic of Tajikistan (NCID), Agency for Land Reclamation and Irrigation under the Government of the Republic of Tajikistan (ARI)	online
Turkmenistan			
7	Batyr Mamedov	Head of Secretariat of the Interstate Commission on Sustainable Development, IFAS	offline
Republic of Uzbekistan			
8	Ilkhom Zhurayev	Authorised Representative of the Republic of Uzbekistan in the Executive Committee of the International Fund for Saving the Aral Sea (IFAS)	offline
9	Umar Nazarov	Head of Secretariat, Interstate Coordinating Water Management Commission of Central Asia (ICWC)	offline

INTERNATIONAL ORGANIZATIONS			
10	Matthew Griffiths	Senior Programme Manager at the Organisation for Economic Co-operation and Development	offline
11	Vanja Westerberg	Economist, International Consultant for Cost benefit analysis, consulting firm “Altus Impact”	offline
12	Dr. Caroline Milow	Programme Manager, Green Central Asia - Transboundary dialogue on climate, environment and security in Central Asia and Afghanistan, Deutsche Gesellschaft für internationale Zusammenarbeit (GIZ)	offline
13	Tamara Kutonova	Environmental Officer / Manager National policy dialogue programmes, United Nations Economic Commission for Europe	offline
14	Lisa Gamp	Regional Water and Climate Change Advisor for Central Asia, Swiss Agency for Development and Cooperation	online
15	Simon Sbinden	Head of the Water Resources Department of the Federal Department of Foreign Affairs of the Swiss Agency for Development and Cooperation (SDC)	offline
INTERNATIONAL FINANCIAL INSTITUTIONS			
16	William Young	Lead Water Resource Management Specialist, Central Asia Regional Office, World Bank	offline
17	Dmitry Petrin	Senior Operations Officer, World Bank Central Asia	online
EUROPEAN UNION DELEGATION			
18	Johannes Baur	Head of Cooperation, EU Delegation to Kazakhstan	offline
19	Snejana Popova	Project Officer, Delegation of the European Union to Kazakhstan	offline
20	Doniyor Kuchkarov	Project Manager, Delegation of the European Union to Uzbekistan	offline
CAREC TEAM			
21	Zafar Makhmudov	Executive Director, Regional Environmental Centre for Central Asia (CAREC)	offline
22	Lyudmila Kiktenko	Programme Manager, Regional Environmental Centre for Central Asia (CAREC)	offline
23	Aksulu Kushanova	Energy Investment Specialist, Regional Environmental Centre for Central Asia (CAREC)	offline
24	Aizhan Kossantayeva	Specialist, Nexus project, Regional Environmental Center for Central Asia (CAREC)	offline
25	Botagoz Smagulova	Info-PR specialist of Nexus project, CAREC	online
26	Arailym Shulgauova	Assistant to Executive Director, CAREC	online
27	Irana Bagirova	Project Coordinator in Turkmenistan, Director of the Central Asian Regional Environmental Centre (CAREC) Country Office in Turkmenistan	online
28	Zamira Zholdaskyzy	Coordinator for development of Community of Practice and Network of Academia Society, Regional Environmental Centre for Central Asia (CAREC)	online
29	Oxana Kravtsova	ReCATH Project specialist, Regional Environmental Centre for Central Asia (CAREC)	online
30	Irina Bekmirzaeva	CAMP4ASB Project Manager, CAREC	online

OTHER PARTICIPANTS			
31	Vera Mustafina	Senior Expert, WECOOP	offline
32	Zinaida Fadeeva	Team Leader, SWITCH-Asia Policy Support Component	offline
33	Zhanar Mautanova	Director, International Water Assessment Centre	offline
34	Saida Mustafaeva	Senior coordinator for civil society affairs, Nationwide movement "Yuksalish", Uzbekistan	offline
35	Anisa Abibulloeva	Board member, Environmental Public NGO "Little Earth", Tajikistan	offline
36	Peter Storer	Head of Unit for Central Asia and Turkey, Federal Ministry for Europe and International Affairs, Austria	offline
37	Charlotte Adriaen	Ambassador, EU Delegation to Uzbekistan	offline
38	Ysmayil Dairov	Executive Director, Regional Mountain Centre of Central Asia	offline
39	Sarangoo Radnaaragchaa	Regional Adviser, United Nations Economic Commission for Europe	offline