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Blue
Peace
Central Asia



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UN Climate Change Conference CoP 2023, Dubai, UAE

Side event:

"Exploring Pathways to Investments in Nexus Projects for Enhanced Transboundary Cooperation in Central Asia"

Date: 5 December, 2023

Duration: 90 min

Venue: Central Asian Pavilion at CoP 28

Background

Water and energy management are closely intertwined and have been key factors in the interstate relations of Central Asian countries. Over the 30 years of independence, Central Asian countries have achieved consistent and constructive progress in natural resource management cooperation, including collaborative efforts within the International Fund for Saving the Aral Sea (IFAS), the Interstate Coordination Water Commission (ICWC), the Interstate Sustainable Development Commission (ISDC), and the Coordination and Dispatch Center (CDC) "Energy." Several regional, bilateral, and trilateral agreements have been adopted to promote cross-border cooperation in water, and water and energy, such as the Syrdarya Agreement (1998), Ortho-Tokoi (Kasansai)(2017), Farhad Dam (2018).

Despite lingering technical and administrative challenges, the demand for expanding regional cooperation is growing. In 2018, the heads of Central Asian states reaffirmed the need to strengthen the organizational and legal framework of IFAS. Kazakhstan proposed discussing the creation of a sustainable regional mechanism for the comprehensive utilization of water and energy resources in Central Asia. In July 2022, the heads of Central Asian states emphasized the importance of enhancing mutually beneficial multilateral cooperation on the comprehensive and rational use of the region's water and energy resources, taking into account the interests of all regional countries. In 2023, a dedicated working group under EC IFAS continues its deliberations on potential approaches to enhancing coordination between water and energy sectors.

The current highest priority for the Aral Sea Basin countries is developing mutually beneficial financial and investment mechanisms for the joint operation (and renovation) of transboundary water and energy facilities.

Content

Investment dynamics in the water-energy and agricultural sectors present challenges due to extended payback periods and lower profit margins compared to fossil fuel. The presence of regulated tariffs for water and electricity doesn't necessarily translate into attractive returns, particularly when faced with the substantial capital requirements for infrastructure renovation. As a result, major investors tend to favor projects associated with hydrocarbons, such as oil and gas production and processing, which offer more immediate profitability.

Despite the critical importance of water-energy-food-environment (WEFE) projects for meeting population needs, supporting national economies, and ensuring WEFE security, they often struggle to

attract investor interest due to their comparatively lower profit margins. This financing conundrum becomes particularly intricate when involving the private sector, which naturally seeks higher returns on investments and a sound investment climate. International Financial Institutes (IFIs) emerge as pivotal entities in bridging this gap by offering affordable, long-term financing options. The attraction of regional investments (involvement of IFIs) and innovative financing instruments with accessible mechanisms and favorable terms is a crucial aspect of transitioning to a "green" economy and climate investments.

The implementation of multi-sectoral Nexus projects in the region depends to a large extent on the active participation of representatives from Ministries of Energy and Ministries of Finance, as these structures play a key role in strategic planning and coordinating investments. Given that the mandate of line ministries only allows for partial consideration of the interests of other sectors, there is an urgent need to institutionalize the Nexus approach and prioritize the Nexus projects for funding. A harmonized investment model is essential for financing WEFE projects, considering not only economic and financial aspects but also recognizing their substantial contributions to sustainable development and environmental preservation in line with reaching the objectives of Agenda 2023, NDCs, and Paris Agreement pledges.

In the past two years, the region has updated a few significant regional programs, which can be considered as portfolios of regional proposals, extending until 2030. In particular, the fourth Aral Sea Basin Programme (ASBP-4), aimed at improving water, environmental, and socio-economic conditions in the Aral Sea basin, was approved at the level of Deputy Heads of the Governments of Central Asian countries. The main achievement of this program was a focus on regional projects that align with mutually agreed regional priorities. Today, the program has 34 investment projects, including 9 Nexus-based projects.

Despite active negotiations of all stakeholders with potential funding sources, the projects of regional programs do not receive due financial attention.

Building upon the preceding special event held in anticipation of the 7th EU-Central Asia High-Level Conference on Environment and Water Cooperation in Rome, 22 February 2023, which focused on discussing investment requirements, challenges, and opportunities for Water-Energy-Food-Environment (WEFE) Nexus projects, the Blue Peace Central Asian initiative aims to further the dialogue. The session on CoP 28 will center around discussing mechanisms for securing funding and financing, and achieving financial co-management for projects that involve multiple countries within the same basin, including such transboundary objects, which necessitate intricate and cost-effective solutions and investments.

Objective of the side-event:

This session will delve into the viewpoints of Central Asian countries concerning the implementation of multi-country basin programs, as well as explore potential strategies (opportunities) for attracting necessary investments and effectively managing them within transboundary basins.

Anticipated Outcomes:

- Bringing together IFAS and Central Asian national ministries that practice the Nexus approach, alongside representatives from other regions with a track record of attracting investments in multisectoral projects
- Fostering a collaborative dialogue on the necessity of a green transition in Central Asia water-energy-food sectors
- Highlighting successful financial mechanisms used in Water-Energy-Food (WEF) Nexus projects in other regions

- Crafting a series of recommendations to improve investment opportunities for expediting the green transition in Central Asia

Participants and guests:

the event will focus on: decision-makers, practitioners and researchers from

- CoP28 Conference participants;
- EC IFAS
- CA government representatives (water, energy, finance ministries, basin organizations);
- Basin organizations from other regions;
- International Financial Institutions;
- EU representative (from the Global Gateway Team Europe Initiative (TEI) on Water, Energy and Climate Change in Central Asia); from EBRD; or EIB

Moderator: Zafar Makhmudov, CAREC Executive Director

Side event Program

1. Welcome words on behalf of the Blue Peace Central Asia Initiative

Hanna Capede, Regional Head of Sustainable Development and International Cooperation, Embassy of Switzerland, 5 mins

2. Key note speech - setting the stage on WEFE Nexus security and mobilizing finance in the face of climate change by EC IFAS,

Sulton Rakhimzoda, EC IFAS Chairman, 15 mins

The evolutionary pathway of the IFAS platform for enhancing water-energy coordination; Funding for regional projects ASBP-4 - what is the status quo and needs?

What are the linkages between ASPB 4 and the National Action Plans on Climate Change (NAPCC) in Central Asia?

4. Panel discussion - 50 min

1. **SIC ICWC**, new study on financial mechanisms (August 2023)
2. **OECD**, on Benefits of regional cooperation on the energy water-land use nexus transformation and security in Central Asia
3. **UNECE**, Hanna Plotnykova
4. **UNCDF**, David Jackson, Director of Local Development Finance
5. **tbc GEF**, Support to water cooperation
6. **tbc Climate Fund** (Adaptation Fund/ Green Climate Fund?)
7. **EC IFAS**, reflection on the presented mechanisms and opportunities

5. Q/A 15 mins

6. Closing remarks 5 mins

SDC representative and CAREC (Zafar Makhmudov)