CEE Bankwatch Network

Briefing for the Asian Development Bank | March 2021

ADB energy investments in Uzbekistan: where to go?

For more information

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Uzbekistan energy perspectives

Fossil fuels remain the primary source of energy production in Uzbekistan: natural gas accounts for 85% of energy production and oil and coal for 14%.[1] However, the overall technical potential of renewable sources of energy in the country is over 4,000 GW, which exceeds the country's estimated energy demand in 2050 (180-400 GW).[2]

In May 2019, the Republic of Uzbekistan adopted the Law on the Utilisation of Renewable Energy Sources, which includes both customs and tax exemptions for renewable energy producers.[3] This formed a regulatory framework for accelerating the implementation of renewable energy projects. Nevertheless, the Strategy for the Transition of the Republic of Uzbekistan to the Green Economy (approved in 2019) sets up relatively modest targets for renewable energy development – 25% compared to 75% for traditional energy in electricity generation by 2030.[4] Uzbekistan's commitment to reduce annual greenhouse gas emissions per unit of GDP also remains quite low – just 10% by 2030.[5]

In 2021, the EBRD developed a roadmap for the low-carbon transition of Uzbekistan's electricity sector. This roadmap demonstrates that it is possible for the country to reach carbon neutrality

[1] IEA. 2020. Uzbekistan energy profile. Country report - April 2020. https://www.iea.org/reports/uzbekistan-energy-profile

[2] Ministry of Energy of the Republic of Uzbekistan. 2021. A Carbon Neutral Electricity Sector in Uzbekistan Summary for Policymakers. http://minenergy.uz/ru/lists/view/131

[3] Law on Renewable sources of energy in Uzbekistan. 2019. https://lex.uz/docs/4346835

[4] President Decree on Uzbekistan's transition to "green" economy in 2019-2030. https://lex.uz/docs/4539506

[5] Intended Nationally Determined Contributions of the Republic of Uzbekistan (INDC). 2017. https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Uzbekistan%20First/INDC%20Uzbekistan%2018-04-2017_Eng.pdf

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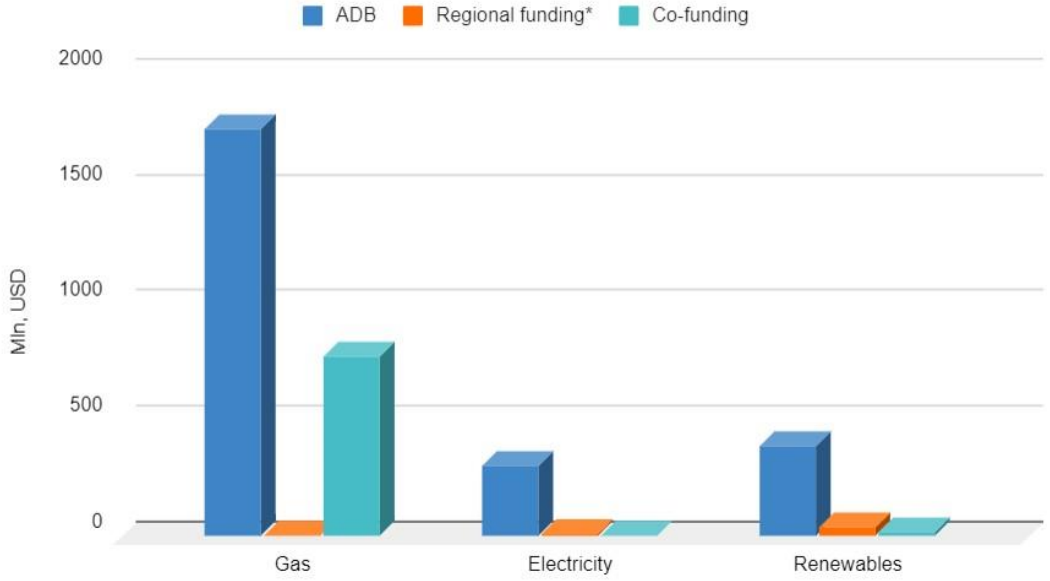
by 2050.[6] It recommends ending the construction of new gas power plants by 2025-2030 with full decommissioning by 2050, and intensive development of renewable energy and electricity storage systems. The overall conclusion is that carbon neutrality in Uzbekistan can be easily achieved by 2050 at an investment cost of just 2% of GDP.

ADB energy investments

However, the ADB's current approach to energy investments in Uzbekistan is characterised by an extensive focus on gas development, with over USD 2.8 billion in gas investments in the last ten years (Graph 1).

Graph 1. ADB Energy Investments in Uzbekistan, 2009-2020



Source: ADB

**Regional funding refers to funding allocated for a wider region which includes Uzbekistan. It is presented as a separate indicator because it is hard to estimate the exact funding allocated for Uzbekistan under the regional project.*

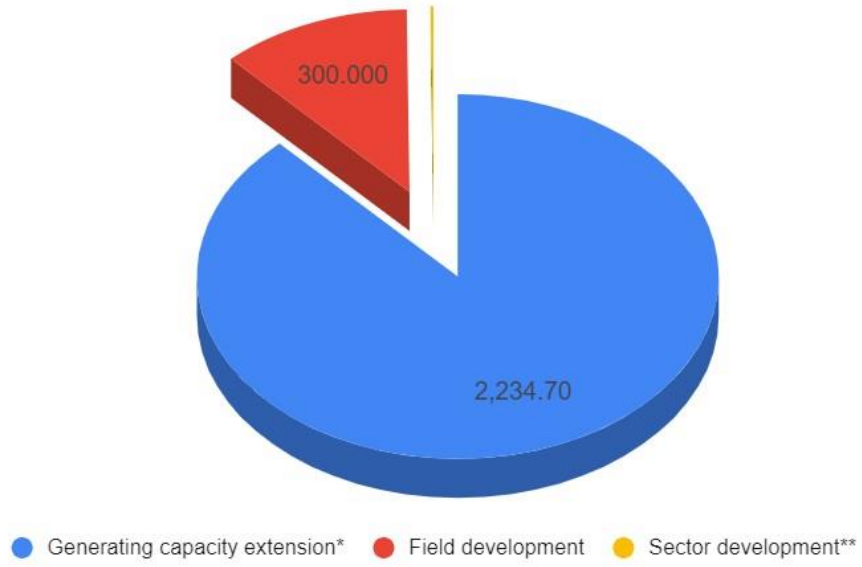
According to Bankwatch estimates, over USD 1.4 billion went to the construction of new generating facilities (Graph 2). The construction of five units of combined cycle gas turbines (CCGT) with a total capacity of 2,210 MW has been supported by the ADB through loans or technical assistance.

[6] Ministry of Energy of the Republic of Uzbekistan. 2021. A Carbon Neutral Electricity Sector in Uzbekistan Summary for Policymakers. http://minenergy.uz/ru/lists/view/131

However, only two projects related to the construction of new gas power plants have a greenhouse gas assessment; these two projects will produce an estimated additional 5.9 million tons of CO2e (carbon dioxide equivalent).

Moreover, the ADB invested USD 308.5 million in construction of a 500 KV power transmission line for the coal-fired Novo-Angren thermal power station.

Graph 2. ADB Gas Investments in Uzbekistan, 2009-2020 (mln, USD)



Source: ADB

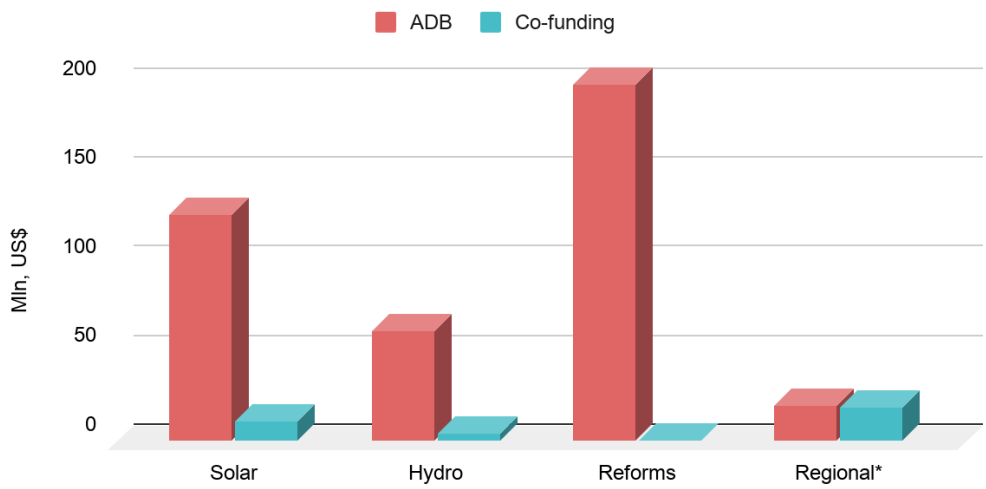
**Includes USD 779 million in co-funding. **Excludes USD 2.5 million in regional funding allocated for a wider region that includes Uzbekistan.*

According to the ADB's independent evaluation of its energy policy for 2009-2019, Uzbekistan was the second-largest borrower, with three sovereign projects related to the installation of new CCGT groups at Talimarjan (USD 1.1 billion) and Takhiatash (USD 300 million) power plants.[7]

However, the ADB's investments in renewables are quite insignificant in comparison to its investments in gas projects and count only for 12% against 71% for the gas sector. In terms of ADB investments in renewables development in Uzbekistan, solar remains a priority with over USD 130 million of investments (Graph 3).

[7] ADB Energy Policy and Program, 2009–2019. Sector-wide Evaluation. August 2020. https://www.adb.org/sites/default/files/evaluation-document/518686/files/swe-energy-policy-and-program.pdf

Graph 3. ADB Renewables Investments in Uzbekistan, 2009-2020



Source: ADB

**Regional funding refers to funding allocated for a wider region which includes Uzbekistan. It is presented as a separate indicator because it is hard to estimate the exact funding allocated for Uzbekistan under the regional project.*

Climate change

According to the INDC, the average rate of air temperature increase in Uzbekistan is two times higher than the current global warming rate. Without additional resource saving measures, the country may face a lack of water resources, increased land desertification and degradation, and increased occurrence of droughts and other dangerous phenomena, leading to the instability of agricultural production and threats to the country's food security. However, the country aims to reach only a 10% decrease in greenhouse gas emissions per unit of GDP by 2030. The INDC highlights economic and climate priority of investments in energy efficiency and renewable energy sources.[8]

At the One Planet Summit in 2017, some of the world's other leading MDBs announced their intention to align their financial flows to support the goals of the Paris Agreement.[9] In order to address the ongoing climate emergency, the ADB urgently needs to commit to halting fossil fuel lending, as the EIB[10] and others did.[11]

[8] Intended Nationally Determined Contributions of the Republic of Uzbekistan (INDC). 2017. https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Uzbekistan%20First/INDC%20Uzbekistan%2018-04-2017_Eng.pd

[9] One Planet Summit - Joint IDFC-MDB Statement - Together Major Development Finance Institutions Align Financial Flows with the Paris Agreement. 2017. https://www.afdb.org/fr/news-and-events/one-planet-summit-joint-idfc-mdb-statement-together-major-development-finance-institutions-align-financial-flows-with-the-paris-agreement-17685

[10] CEE Bankwatch Network. World's largest multilateral bank ends fossil fuels financing. 2019. https://bankwatch.org/press_release/world-s-largest-multilateral-bank-ends-fossil-fuels-financing

[11] The Institute for Energy Economics and Financial Analysis. Finance is leaving oil and gas. https://ieefa.org/finance-exiting-oil-and-gas/

In 2016, Oil Change International calculated that no more fossil fuel infrastructure could be built if we are to meet the goals of the Paris Agreement.[12] Carbon emissions from the oil, gas and coal in the world's operating fields and mines would already take us beyond 2°C of warming, and even excluding coal, the emissions from currently operating oil and gas fields would take us beyond 1.5°C.

The IEA World Energy Review 2018 had similar findings: 'The analysis reviewed all current and under-construction energy infrastructure around the world – such as power plants, refineries, cars and trucks, industrial boilers, and home heaters – and finds they will account for some 95% of all emissions permitted under international climate targets in coming decades.'[13]

Estimates of exactly how much gas contributes to climate change are continuously being revised upwards. They depend on the Global Warming Potential (GWP) assigned to methane as well as assumptions about the extent of fugitive emissions during gas extraction and transportation. One estimate is that in the best case, gas combustion saves a maximum of 30% of greenhouse gas emissions compared to coal (with a 20-year Global Warming Potential (GWP),[14] considering methane's atmospheric lifetime of around 12 years) – hardly an advantage worth investing millions of USD in. Current methane emissions in Uzbekistan are estimated at 902 kt (1.3% of global emissions).[15]

Moreover, new gas infrastructure has a significant economic lifespan (usually 30-50 years) that goes far beyond the date by which we need to fully decarbonise.

Recommendations

1. Halt investments in the gas sector and prioritise sustainable decarbonisation and energy savings in Uzbekistan.

2. Request mandatory decarbonisation plans for the restructured Uzbekenergo JSC to ensure ADB investments contribute to reaching Uzbekistan's carbon-neutrality.

3. Support the environmentally and socially responsible decommissioning of the gas power plants in Uzbekistan, including the development of just transition plans for the affected regions.

4. Synchronise the efforts of MDBs operating in Uzbekistan, including the ADB, towards the country's carbon neutrality by incentivising the development of renewables and energy savings.

5. Engage Uzbek CSOs in the revision of the ADB's Energy Policy to ensure public participation in decision-making about the Bank's priorities for the country of operation.

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[12] Oil Change International. 2016. The Sky's Limit: Why the Paris Climate Goals Require a Managed Decline of Fossil Fuel Production. http://priceofoil.org/2016/09/22/the-skys-limit-report/

[13] World Energy Outlook 2018. https://www.iea.org/reports/world-energy-outlook-2018

[14] EBRD. Energy Sector Strategy 2019-2023. https://www.ebrd.com/power-and-energy/ebrd-energy-sector-strategy.pdf

[15] IEA. Methane Tracker Database. 2021. https://www.iea.org/articles/methane-tracker-database