



- **THIRD INTERNATIONAL FORUM: ENERGY FOR SUSTAINABLE DEVELOPMENT**

- 12 - 14 September 2012, Issyk Kul Lake, Kyrgyzstan  
Hotel "Issyk Kul – Avrora"





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- **CONDITIONS FOR PRIVATE INVESTMENT IN THE ENERGY SECTOR IN KYRGYZSTAN**



**(Francis HANIA)**

- 12 - 14 September 2012, Issyk Kul Lake, Kyrgyzstan  
Hotel "Issyk Kul – Avrora"



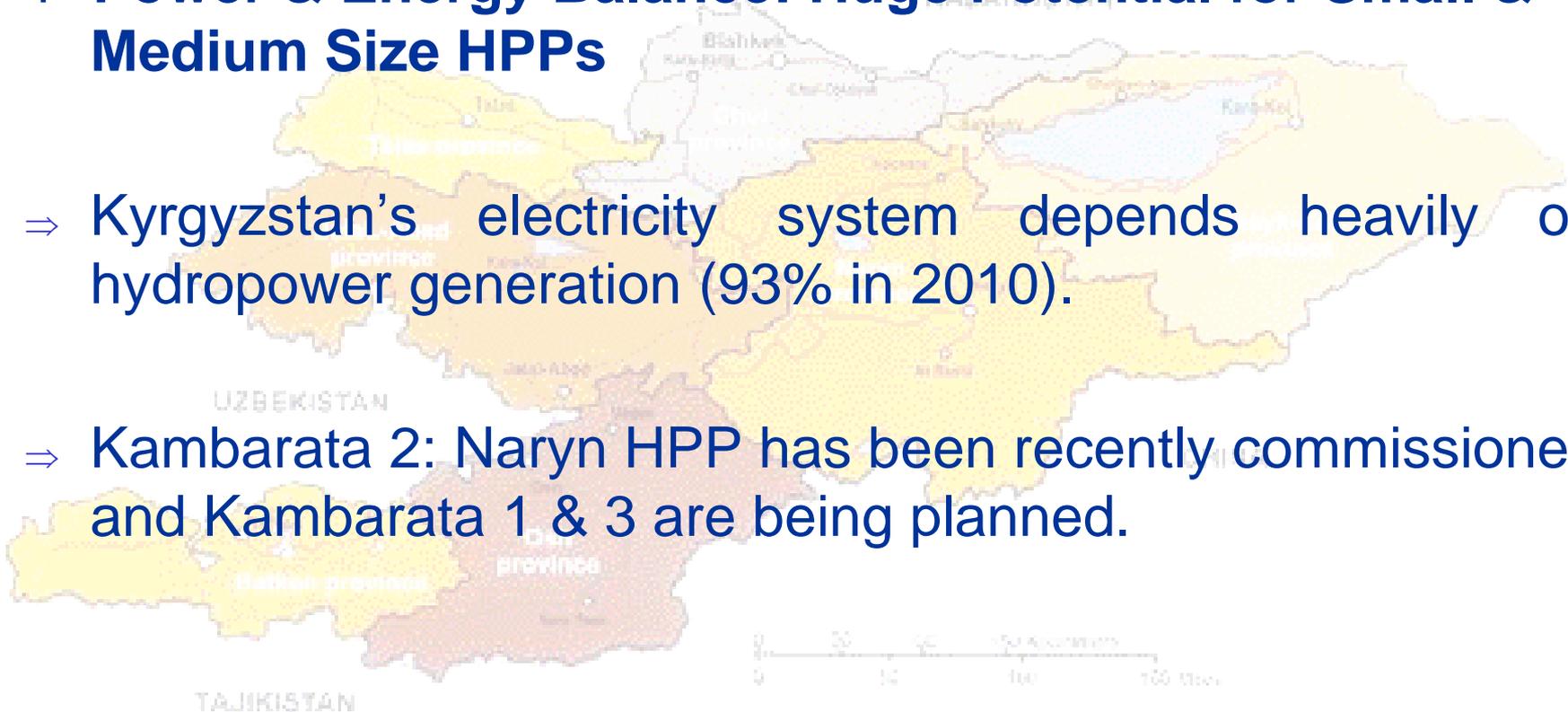
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# CONDITIONS FOR PRIVATE INVESTMENT II THE ENERGY SECTOR IN KYRGYZSTAN

## 1- Power & Energy Balance: Huge Potential for Small & Medium Size HPPs

⇒ Kyrgyzstan's electricity system depends heavily on hydropower generation (93% in 2010).

⇒ Kambarata 2: Naryn HPP has been recently commissioned and Kambarata 1 & 3 are being planned.





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# CONDITIONS FOR PRIVATE INVESTMENT THE ENERGY SECTOR IN KYRGYZSTAN

⇒ So far investment have been focused on building huge HPPs.

⇒ On the demand side, electricity consumption has increased in the country.

⇒ Gas consumption has collapsed: people are moving from gas to electricity.

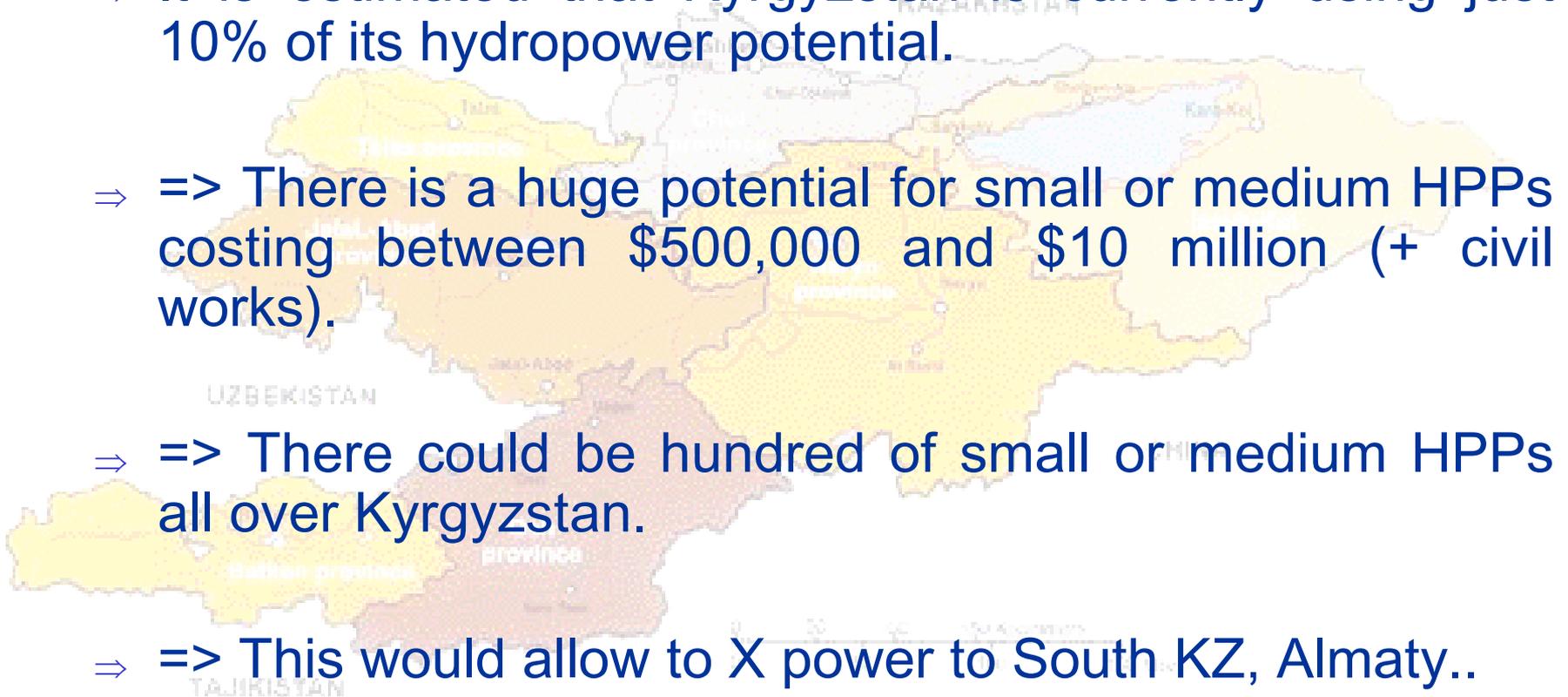




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# CONDITIONS FOR PRIVATE INVESTMENT IN THE ENERGY SECTOR IN KYRGYZSTAN

- ⇒ It is estimated that Kyrgyzstan is currently using just 10% of its hydropower potential.
- ⇒ => There is a huge potential for small or medium HPPs costing between \$500,000 and \$10 million (+ civil works).
- ⇒ => There could be hundred of small or medium HPPs all over Kyrgyzstan.
- ⇒ => This would allow to X power to South KZ, Almaty..





# CONDITIONS FOR PRIVATE INVESTMENT II

## THE ENERGY SECTOR IN KYRGYZSTAN

### 2- The impediments to increase of FDI by private operators

- ⇒ One of the main impediments to investment is underpricing of electricity.
- ⇒ => Kyrgyzstan's power sector, as a whole, has been losing money for years and has accumulated large amounts of debts and arrears – billions of soms of bad debts - => it would be very difficult for any of the companies to get financing from any market operator.

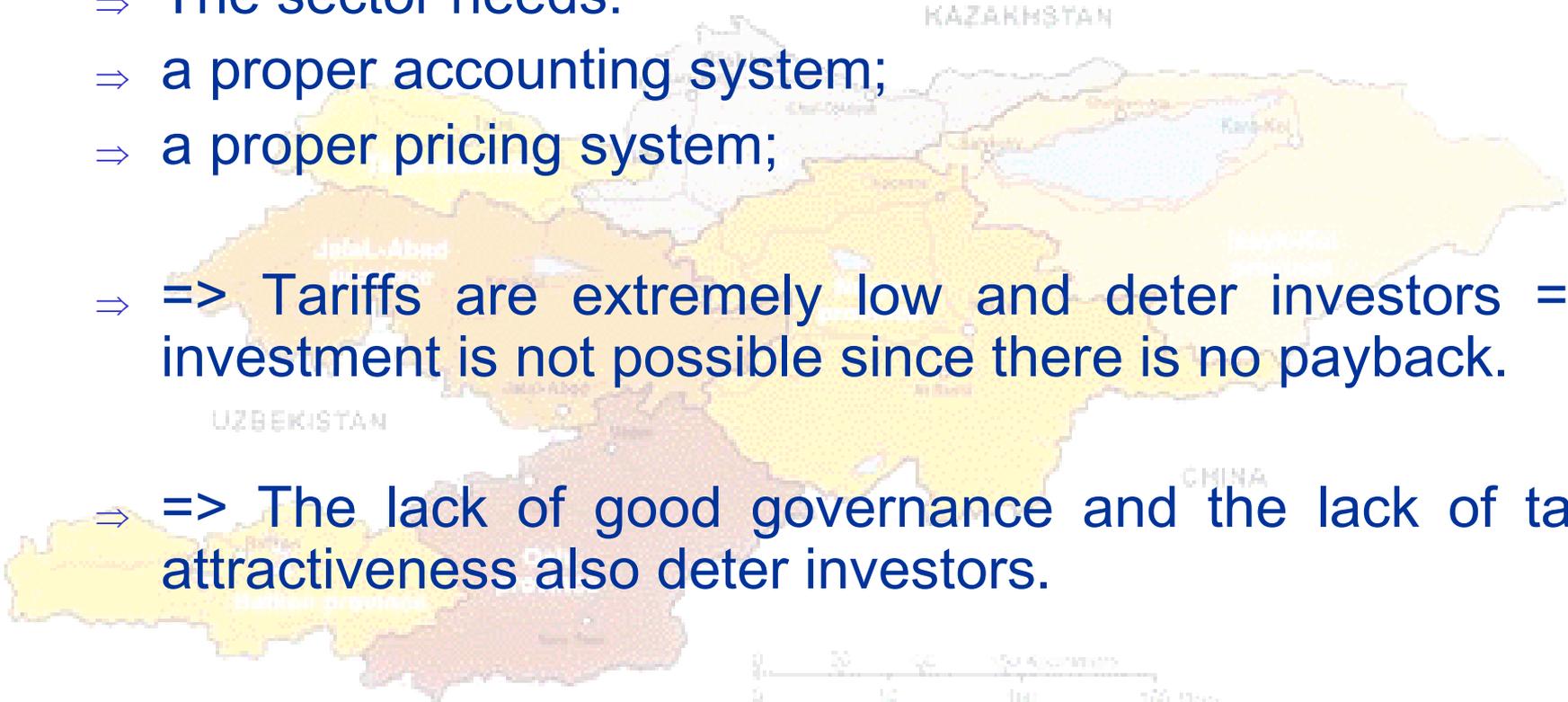
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# CONDITIONS FOR PRIVATE INVESTMENT IN THE ENERGY SECTOR IN KYRGYZSTAN

- ⇒ The sector needs:
- ⇒ a proper accounting system;
- ⇒ a proper pricing system;
- ⇒ => Tariffs are extremely low and deter investors => investment is not possible since there is no payback.
- ⇒ => The lack of good governance and the lack of tax attractiveness also deter investors.

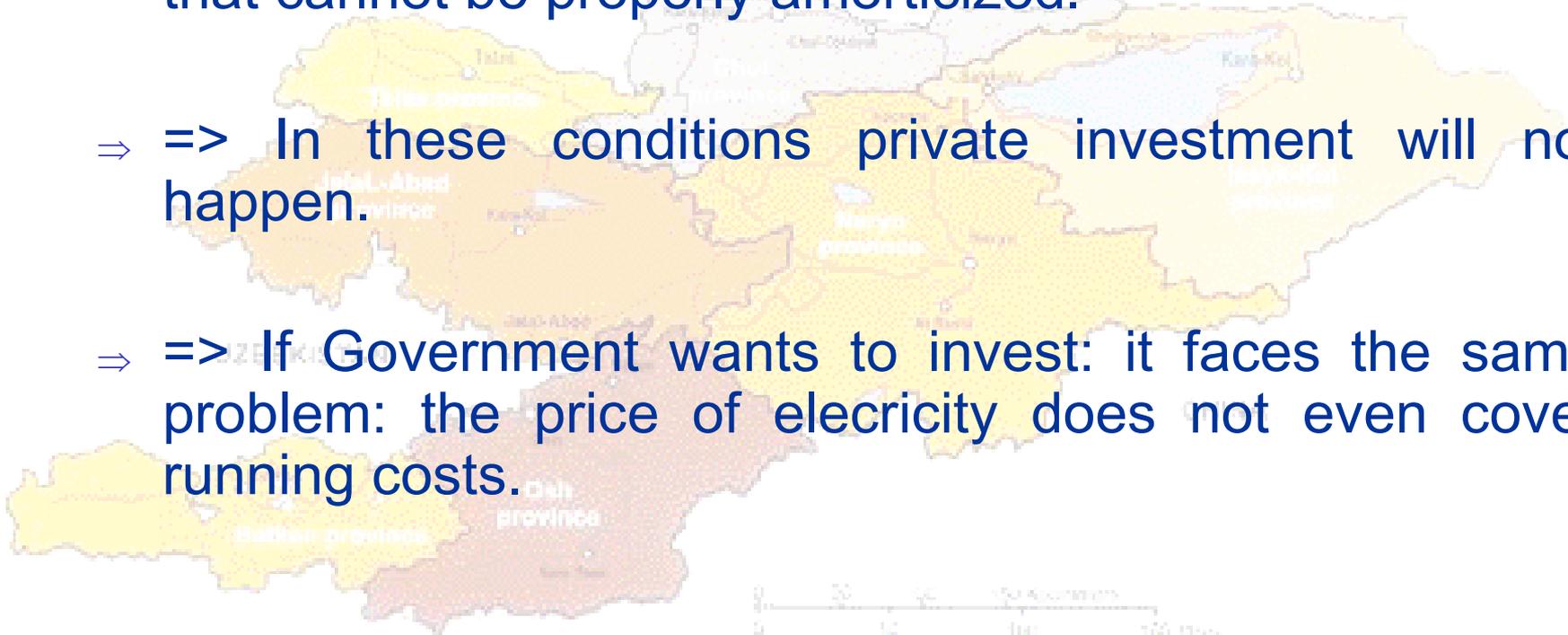




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# CONDITIONS FOR PRIVATE INVESTMENT IN THE ENERGY SECTOR IN KYRGYZSTAN

- ⇒ No investor will buy equipment (paid at world prices) that cannot be properly amortized.
- ⇒ => In these conditions private investment will not happen.
- ⇒ => If Government wants to invest: it faces the same problem: the price of electricity does not even cover running costs.



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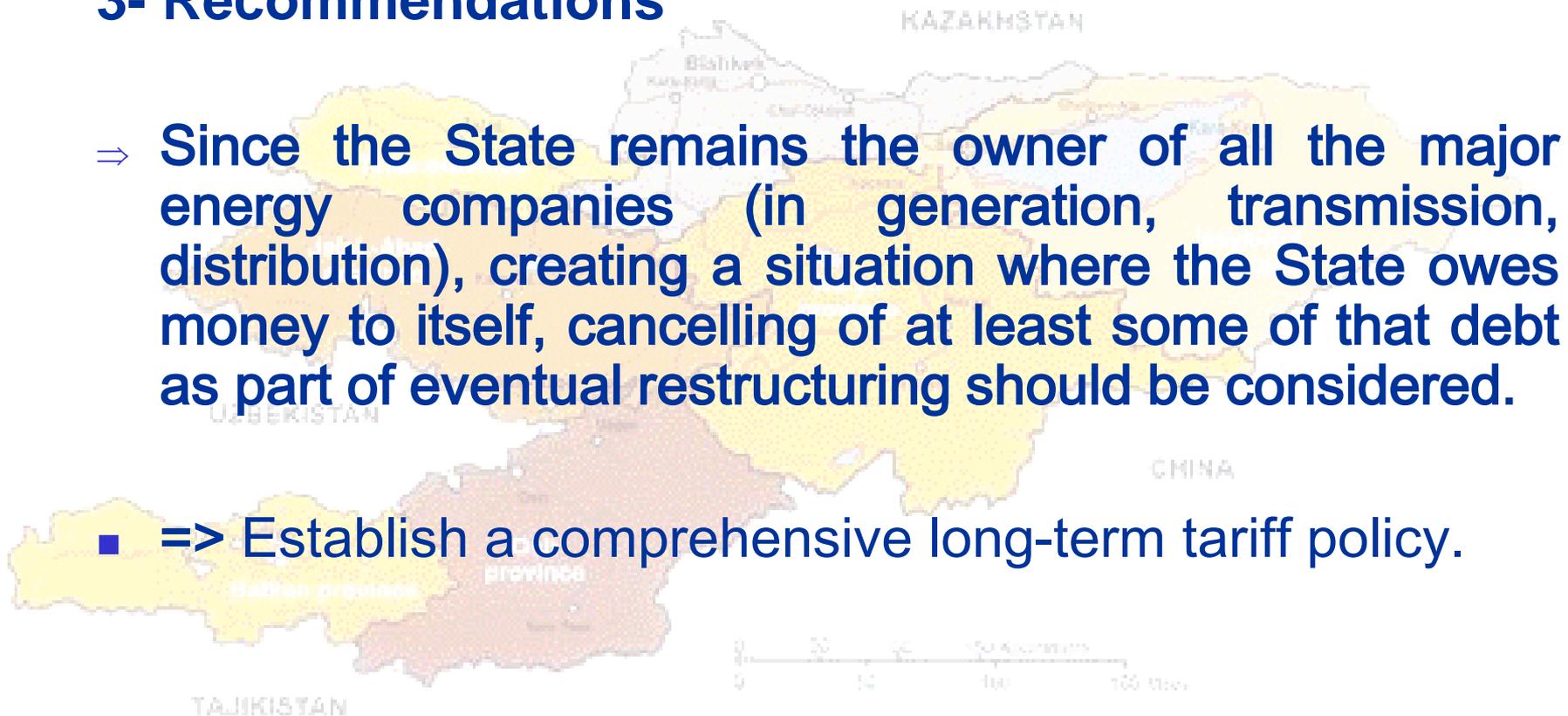
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# CONDITIONS FOR PRIVATE INVESTMENT II THE ENERGY SECTOR IN KYRGYZSTAN

## 3- Recommendations

⇒ Since the State remains the owner of all the major energy companies (in generation, transmission, distribution), creating a situation where the State owes money to itself, cancelling of at least some of that debt as part of eventual restructuring should be considered.

■ => Establish a comprehensive long-term tariff policy.



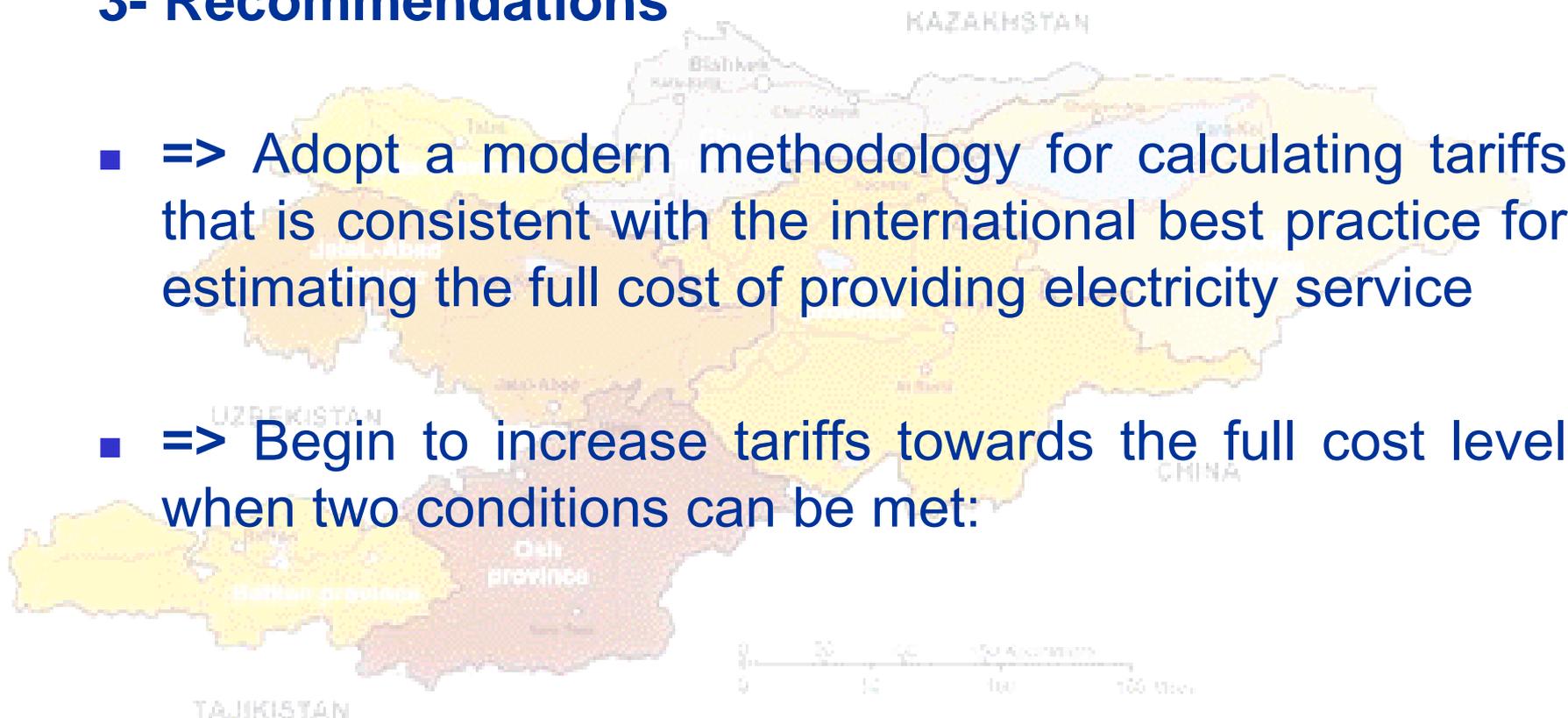


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# CONDITIONS FOR PRIVATE INVESTMENT | THE ENERGY SECTOR IN KYRGYZSTAN

## 3- Recommendations

- => Adopt a modern methodology for calculating tariffs that is consistent with the international best practice for estimating the full cost of providing electricity service
- => Begin to increase tariffs towards the full cost level when two conditions can be met:



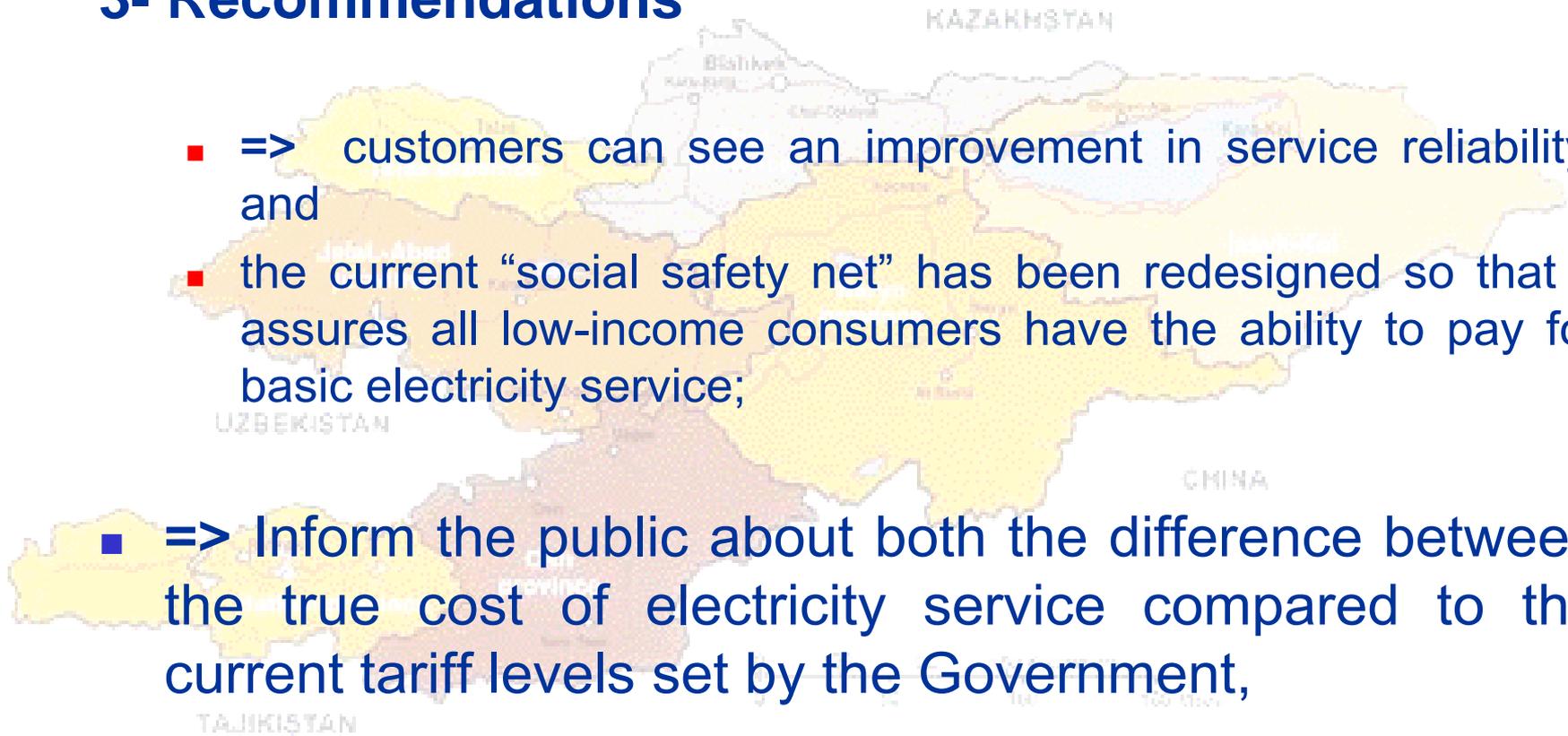


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# CONDITIONS FOR PRIVATE INVESTMENT | THE ENERGY SECTOR IN KYRGYZSTAN

## 3- Recommendations

- => customers can see an improvement in service reliability, and
- the current “social safety net” has been redesigned so that it assures all low-income consumers have the ability to pay for basic electricity service;
- => Inform the public about both the difference between the true cost of electricity service compared to the current tariff levels set by the Government,





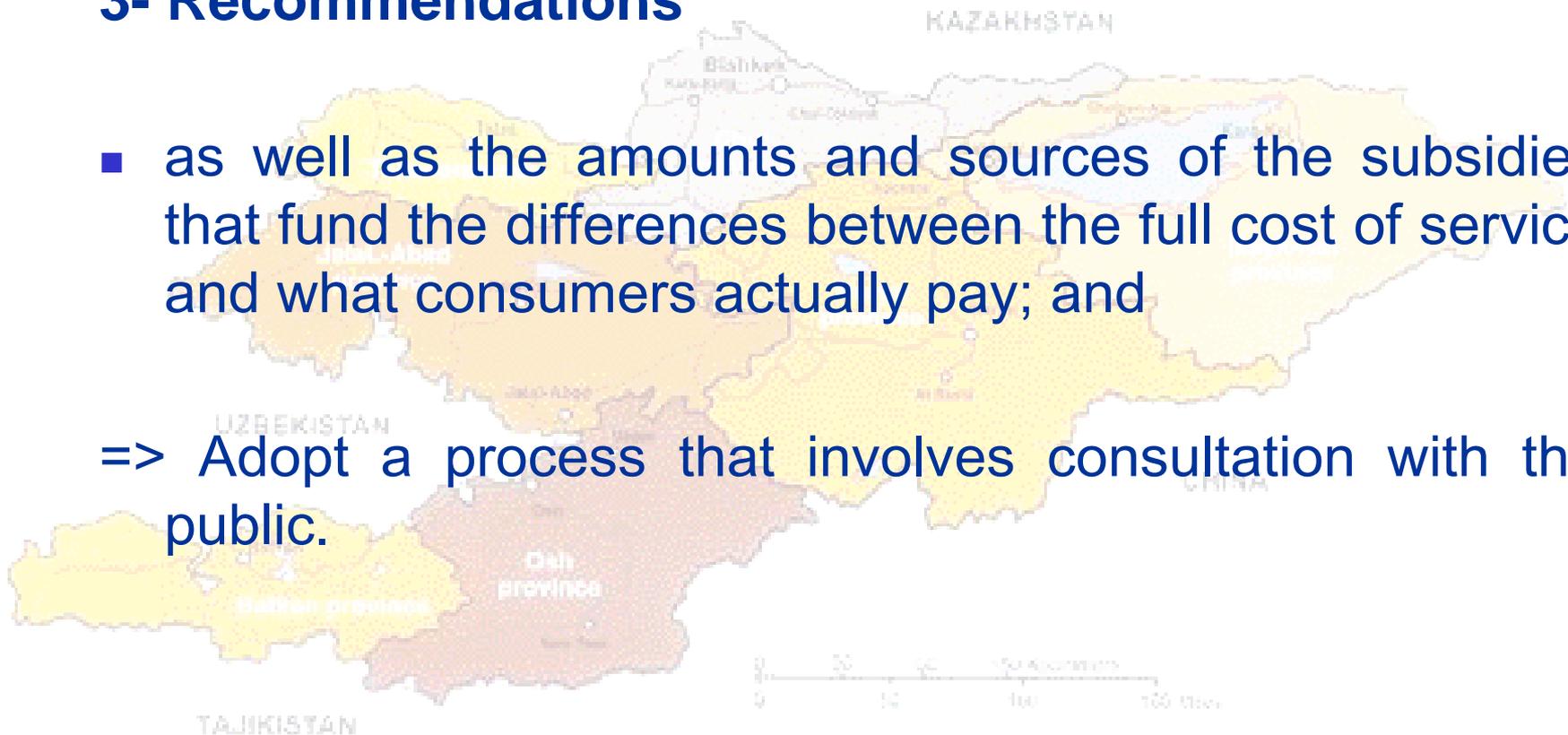
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# CONDITIONS FOR PRIVATE INVESTMENT IN THE ENERGY SECTOR IN KYRGYZSTAN

## 3- Recommendations

- as well as the amounts and sources of the subsidies that fund the differences between the full cost of service and what consumers actually pay; and

=> Adopt a process that involves consultation with the public.





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# CONDITIONS FOR PRIVATE INVESTMENT IN THE ENERGY SECTOR IN KYRGYZSTAN

⇒ One of the priority is to secure full transparency of the electricity sector.

⇒ ⇒ For example the Ministry of Energy & Industry is aware that there are serious inconsistencies in the payment system and wants to see them removed.





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# CONDITIONS FOR PRIVATE INVESTMENT | THE ENERGY SECTOR IN KYRGYZSTAN

⇒ This means also improving accountability and governance in the electricity sector and probably offer favourable tax regimes to potential investors.

⇒ ⇒ Foreign investment should be much better protected than it is nowadays: Kyrgyzstan has adopted many good and modern laws in this respect but laws are not always enforced...

