



International  
Energy Agency

# Eastern Europe, Caucasus and Central Asia

Energy Policies  
Beyond IEA countries

# Investment environment

## ● Legal and regulatory frameworks

- ◆ Improvements in primary energy legislative frameworks
  - Need for more elaborated, functional secondary legislation
- ◆ Improvements in regulatory frames
  - Need for more transparent tariff structures and methodologies

## ● Sustainable development

- ◆ Further push to RES developments, including green tariffs
  - Absence of secondary legislation to ensure market penetration
- ◆ Insufficient commitment for maximizing energy efficiency gains
  - Weak demand side management and insufficient DS data
- ◆ No energy technology related research, development and deployment

# Energy markets

## ● Energy market models

- ◆ Supported with adequate legal and regulatory regimes
- ◆ Energy pricing, tariff structures, transparency vary across the region
- ◆ The need for phasing-out energy subsidies

## ● Regional interconnections

- ◆ Political tensions/trends in new cross border infrastructure
- ◆ Need for promotion of regional energy market developments

# General overview

## ● Energy policy development

- ◆ Need for data based medium and long term policies
- ◆ Coherence between energy policy undertakings and economic outlook
- ◆ Insufficient data analysis to feed policy directions and measures

## ● Energy security

- ◆ Focus on reducing import dependency / maximizing export potential
  - Public sector supported aged infrastructure
- ◆ Inadequate pricing structures, lack of funds and rising public debts
- ◆ Weak supply shortage emergency response mechanisms
  - Absence of demand restraint programmes
  - Weak infrastructure for fuel switching
- ◆ Positive trends in private energy infrastructure ventures (mostly upstream)

# Key projects/investment requirements

## ■ Natural gas

- Shah Deniz 2 in Azerbaijan, TANAP, TAP, gas exploration and storage in Ukraine, Ungheni-Iasi pipeline expansion in Moldova
- Natural gas network rehabilitation in all countries

## ■ Oil

- Oil exploration in Azerbaijan and Ukraine, oil refining in Belarus and Azerbaijan

## ■ Electricity and renewables

- Small and large-hydro in Georgia, small-hydro in Armenia
- Nuclear power in Armenia
- New gas generation capacity and renewables in Azerbaijan
- Interconnections between EU accession countries, Georgia's interconnection with Armenia and Turkey
- Electricity network rehabilitation in all countries

## ■ District heating

- District heating network rehabilitation in Moldova and Ukraine

# Common ‘investment climate’ trends

- Increasing understanding of the need to improve the investment climate and attract private funds
- Legislative changes to reduce the “red tape” and ease the administrative burden
- Tax Law changes and creation of tax-free zones
- Most private investment in upstream oil and gas
- Development of investor incentives and feed-in tariffs
- Fighting corruption through international obligations and domestic measures

# Common 'investment climate' trends

## ■ Ease of Doing Business Ranking (out of 189 countries)\*

Country	Ranking (2015)	Ranking (2014)	Change
Georgia	15	14	Slight fall in ranking
Armenia	45	49	Improvement
Belarus	57	57	No change
Moldova	63	82	Improvement
Azerbaijan	80	88	Improvement
Ukraine	96	112	Improvement

\* World Bank website, 2015.

# Common 'investment climate' challenges

- **Weak rule of law**
- **Political decisions that overrule legislative changes**
- **Project by project support and preferential treatment**
- **Public perception of privatisation and foreign investment**
- **Complicated bureaucratic procedures and persistence of administrative burden**
- **Poor regulation and inefficient investment incentives**
- **High level of perceived corruption**



# Common recommendations

- **Maintain clear, predictable and transparent framework**
- **Harmonise primary and secondary legislation**
- **Progressively remove subsidies and regulate cost-reflective tariffs and feed-in tariffs**
- **Support investment in the long term sustainable development (renewables and energy efficiency)**
- **Encourage public and private participation in the key energy investment decisions**
- **Promote investment in State of the Art technologies**
- **Promote investment in domestic innovation and research as well as human resource development/education**

# Country specific findings

## ■ Armenia: investment in energy security

- Investment climate improving though legal changes and ties with the EU and the United States
- More needs to be done to reduce corruption and remaining tax and administrative obstacles

## ■ AZERBAIJAN: diversifying energy investment portfolio

- Easing of administrative burden in order to attract diverse foreign investment
- More needs to be done to reduce the government's strong-hold on the energy sector and attract private funding

# Country specific findings

## ■ BELARUS: state-owned investment

- Government investment dominant, with very little privatisation in the energy sector (mainly manufacturing)
- Political situation stable but the power to overrun legislation may deter investment
- Strong and transparent legislation and incentives are required

## ■ GEORGIA: investment in self-sufficiency

- Significant improvements in restructuring, investment climate and reduction of corruption over the past two decades
- Moving towards a more liberated market and EU harmonisation
- Significant investment required under new policy direction, will need to continue to campaign in order to attract enough funding

# Country specific findings

## ■ MOLDOVA: investment in diversification

- Investment climate improving albeit slowly, mainly due to a boost through cooperation with the EU
- Significant campaigning and legislative changes still needed in order to kick-start foreign investment

## ■ UKRAINE: investment in confidence

- Investment regulation is improving however confidence is stagnant due to the current political and economic turmoil
- Financing from donors and other institutions is necessary to boost confidence, to be followed by smart and efficient private investment



**Thank you for your attention**