



# Uzbekistan: Distribution Network Modernization Project

Project Name	Distribution Network Modernization Project				
Project Number	52300-001				
Country / Economy	Uzbekistan				
Project Status	Dropped / Terminated				
Project Type / Modality of Assistance	Loan				
Source of Funding / Amount	<table border="1"><tr><td>Loan: Uzbekistan Distribution Modernization</td><td></td></tr><tr><td>Ordinary capital resources</td><td>US\$ 600.00 million</td></tr></table>	Loan: Uzbekistan Distribution Modernization		Ordinary capital resources	US\$ 600.00 million
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Ordinary capital resources	US\$ 600.00 million				
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth				
Drivers of Change	Gender Equity and Mainstreaming Governance and capacity development Knowledge solutions Private sector development				
Sector / Subsector	Energy / Electricity transmission and distribution - Energy efficiency and conservation - Energy sector development and institutional reform				
Gender	Effective gender mainstreaming				
Description	<p>Uzbekistan's economy stands at the crossroads. Benefiting from high commodity prices, Uzbekistan has enjoyed high economic growth at the average rate of 8.4% over the past decade. Weakening external environment, compounded by internal structural challenges of extensive state control, weak governance, and limited foreign investments, has increasingly slowed down the economic growth, calling for far-reaching reforms to address major structural challenges in the economy and in the governance. The energy sector faces challenges of introducing market-oriented principles as an essential step to catalyze private sector investment, diversifying its energy resources while scaling up urgent investments in critical infrastructures. Despite rising government spending in recent years, Uzbekistan's core infrastructure, such as electricity, road networks, and telecommunications, has not kept pace with economic growth. The resultant infrastructure gap in terms of both quantity and quality undermines productivity, growth, competitiveness and poverty reduction efforts.</p> <p>Over 230,000 kilometers of transmission and distribution lines, 213,400 kilometers are in the distribution grid. A significant part of low-voltage distribution grids was built during the Soviet electrification periods from 1950s to 1970s. More than 80% of low-voltage lines have operated for over 30 years and 30% of substation transformers urgently require replacement. The old and deteriorated distribution system has developed serious problems, such as high system losses, overloads, voltage drops related to increased load demand and increasingly frequent blackouts, especially during peak demand times in the winter. High electricity losses in the distribution system, estimated at 20% of net generation, offset the government continued efforts to modernize its power generation assets and result in missed opportunity costs for high value gas exports and exacerbation of greenhouse gas emissions considering 80% of its power generation is from burning natural gas. Despite that the household electrification rate is almost 100% in Uzbekistan, the aging infrastructure and insufficient and inefficient investment increasingly widened the demand and supply gap and disrupted the supply of electricity. Old and deteriorated infrastructure outside the capital city, especially in small towns and in rural areas, which is home to half of the country's population, is a constraint to a vibrant economic growth. Enterprises report frequent outages and power outages are in particular severe in rural areas during the cold season (November-March) that last from six hours a day to weeks in some villages, disrupting the operations of local business enterprises. Limited access of, in particular, rural population to quality public services and infrastructure exacerbates urban rural disparities. Driven by the dire needs of the sector, in 2019, the government launched an intensive and fast track structural reform introducing a series of legislative acts, such as, (i) supporting cost reflective tariff settings, (ii) breaking the monopoly of state-owned Uzbekenergo into generation, transmission and distribution utilities; and (iii) providing more space for a competitive market including private investments in power generation and distribution via enacting public private partnership (PPP) legislation and procedures. As a result of unbundling, a state-owned distribution company, Joint-Stock Company Regional Electric Networks (JSC REN), was created. The government placed a higher priority on establishing satisfactory corporate oversight, strengthening the corporate governance and improving enterprise management to ensure operational efficiency of a state-owned entity. The government requested ADB for early-stage intervention in implementing detailed action plans for the operationalization and commercialization of the unbundled JSC REN while continuing investments in the critical infrastructure. The government adopted a power sector development plan comprising generation, transmission and distribution investment requirements covering the period of 2018-2022. The key objectives of this short-term investment program are to meet the economy's growing electricity demands while improving efficiency and reliability of supply and diversifying energy mix. The modernization of distribution grids and loss reduction is a priority investment program of the government in line with the government's ongoing Obod Qishloq (prosperous village) program to boost economic development in the rural and remote areas and improve access to the basic social infrastructures such as electricity, road, telecommunication. The results-based lending (RBL) program aims to support the government's rural economic development program and ongoing sector reforms.</p>				
Project Rationale and Linkage to Country/Regional Strategy	The program will complement ADB's ongoing energy sector programs by supporting reforms at the distribution company level and addressing emerging issues in the sector reform. The program aligns with ADB's country partnership strategy for Uzbekistan 2019-2023, which supports economic transformation.				
Impact	Social and economic development of Uzbekistan's regions achieved.				
<b>Project Outcome</b>					
Description of Outcome	Efficient and reliable electricity services to customers, particularly for vulnerable communities in the rural and remote area.				
<b>Progress Toward Outcome</b>					
<b>Implementation Progress</b>					
Description of Project Outputs	<ol style="list-style-type: none"><li>1. Distribution system modernized and augmented</li><li>2. Institutional capacity enhanced for improved sector</li><li>3. Renewable energy use promoted in the distribution system</li></ol>				
Status of Implementation Progress (Outputs, Activities, and Issues)					

Geographical Location

Nation-wide, Bukhara, Jizzakh, Samarkand

#### Safeguard Categories

Environment	B
Involuntary Resettlement	B
Indigenous Peoples	C

#### Summary of Environmental and Social Aspects

Environmental Aspects  
Involuntary Resettlement  
Indigenous Peoples

#### Stakeholder Communication, Participation, and Consultation

During Project Design  
During Project Implementation

Responsible ADB Officer	Kim, Seung Duck
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Energy Division, CWRD
Executing Agencies	<u>Joint-Stock Company Uzbekenergo</u>

#### Timetable

Concept Clearance	22 Nov 2018
Fact Finding	-
MRM	15 Nov 2022
Approval	-
Last Review Mission	-
Last PDS Update	29 Nov 2018

Project Page	<a href="https://www.adb.org/projects/52300-001/main">https://www.adb.org/projects/52300-001/main</a>
Request for Information	<a href="http://www.adb.org/forms/request-information-form?subject=52300-001">http://www.adb.org/forms/request-information-form?subject=52300-001</a>
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