20 years of investing in the green economy

A special report by the EBRD
1989/ The idea of the European Bank, was put forward by President François Mitterrand of France at the European parliament in Strasbourg in October 1989.

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The European Bank for Reconstruction and Development (EBRD) was established in April 1991, just 14 months before the international community gathered in Rio de Janeiro for the first Earth Summit.

The publicly funded EBRD was established in response to the widespread collapse of communism in central and eastern Europe. Since then the EBRD has become the largest financial investor in a region that stretches from central Europe and the Western Balkans to central Asia.

Working together with the private sector, we invest in projects, engage in policy dialogue and provide technical advice that builds sustainable and open market economies.

The EBRD was established with the mandate to promote environmentally sound and sustainable development. Twenty years later, this commitment continues to be central to the EBRD’s mandate. Sustainability underlies all our activities. It shapes the support that we provide to clients to help them achieve their development needs in an environmentally sustainable and socially responsible manner.

We use investment and influence to help our countries of operations make the transition to open and democratic market economies.
The EBRD promotes prosperity, stability and sustainable development for the benefit of over 500 million people in 29 countries from central Europe to central Asia. In 2011 we began laying the foundations for the expansion of our operations to the southern and eastern Mediterranean.

Who we are

- The EBRD is a publicly owned international financial institution (IFI) that fosters transition towards open and democratic market economies and follows the highest standards of corporate governance and sustainable development.
- The Bank is owned by 63 countries and two intergovernmental institutions: the European Union (EU) and the European Investment Bank (EIB).
- We employ more than 1,500 multinational staff operating across the Bank’s region.

What we do

- We provide funds for well-structured, financially robust projects of all sizes (including many small businesses), both directly and through financial intermediaries such as local banks and investment funds.
- The Bank works mainly with private sector clients, but also finances municipal entities and publicly owned companies. Our principal financing instruments are loans, equity investments and guarantees.
- We maintain close policy dialogue with governments, authorities, IFIs, and representatives of civil society, and provide targeted technical assistance using funds donated by member governments and institutions.

Our approach to sustainability

We implement our environmental and sustainable development mandate by:

- incorporating environmental and social requirements into the appraisal and implementation of all Bank-funded projects based on EU standards and international best practice
- providing finance and technical assistance specifically aimed at environmental issues such as sustainable energy, climate change, environmental infrastructure and nuclear safety
- promoting social inclusion through investment and other forms of support for micro enterprises and by increasing access to community services such as water and public transport
- supporting projects that promote gender equality
- encouraging public participation for pre-investment consultation and disclosure, together with maintaining regular strategic dialogue with civil society organisations.

For details on the EBRD’s countries of operations, visit: www.ebrd.com/pages/about/where
Central planning among the countries of the former Soviet Union left a legacy of environmental damage. State ownership had emphasised rapid industrialisation and extensive resource extraction, with limited consideration for the environmental impact, the effect on public health or social inclusion. When the EBRD began operations in 1991 it was working against a backdrop of high pollution, poor water quality, eutrophication of rivers, diminishing soil fertility, the accumulation of hazardous wastes and the loss of habitats. These issues were leading directly to serious human health problems. Countries in the region also lacked robust legislative frameworks, experience of implementing environmental management systems at the project level, or active civil societies that could campaign for change.

But today the situation is transformed across most of the EBRD region. Although much remains to be done, many of the most polluting plants have been decommissioned or refurbished and sound environmental management systems and the use of best available technologies are commonplace.

Ten former communist countries are members of the European Union, while others have adopted rigorous national environmental standards. Mechanisms for access to environmental information and public participation in decision-making are also increasingly becoming the norm. These changes have been achieved through contributions from the EBRD and other financial institutions, investments by the private sector, support from donor countries and international non-governmental organisations (NGOs), and most importantly through the work, skill and innovation of the people, businesses and governments across the region.

The EBRD’s first Environmental Policy introduced. For more information visit: www.ebrd.com/pages/about/policies/policies_procedures_public

Making the transition to greener economies

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The EBRD contributes to the Environmental Action Programme for Central and Eastern Europe.

In pictures

1. The EBRD promotes prosperity, stability and sustainable development for the benefit of over 500 million people in 29 countries.

2. The Bank works mainly with private sector clients, but also finances municipal entities and publicly owned companies.

3. Ten of the Bank’s countries of operations have joined the EU since the EBRD was formed in 1991, and a further five are working towards EU membership via formal Accession Agreements.

Many of the most polluting plants have been decommissioned or refurbished and sound environmental management systems and the use of best available technologies are commonplace.
The EBRD plays a major role in enhancing nuclear safety in its region of operations. Over the last 20 years it has worked in close collaboration with its donors to address key challenges around nuclear safety in central and eastern Europe.

Our work includes the safe decommissioning of first generation nuclear power plants, such as Ignalina 2, and the construction of a safe confinement facility at the site of the 1986 Chernobyl reactor accident, and new energy and energy efficiency projects to offset the loss of generation capacity.

The EBRD is also spearheading efforts to tackle the nuclear legacy of the Soviet Northern Submarine fleet in north-west Russia through the multilateral Northern Dimension Environmental Partnership.

Enhancing nuclear safety

The EBRD is managing the programme to transform the destroyed unit at Chernobyl into an environmentally safe condition, known as the Shelter Implementation Plan (SIP), along with the project to provide safe storage for the spent fuel from the nuclear power plant (Interim Storage Facility 2). In April 2011 at a pledging conference in Kiev, the EBRD's shareholders agreed to dedicate part of the Bank's 2010 net income to funding these vitally important projects. The Governors approved the use of €190 million, which together with earlier contributions brought the Bank's overall commitment to €325 million, making the Bank the third-largest donor to the Chernobyl programmes.

The Chernobyl programmes have made significant progress in ensuring a safer environment for today and generations to come. The largest project is the New Safe Confinement (NSC). The NSC will enclose Chernobyl's reactor 4, destroyed in the 1986 accident and covered by the “shelter” hastily built on top. Once in place it will protect the environment from contaminated material inside the old shelter and will provide equipment for future safe deconstruction and waste management.
Over the last 20 years the EBRD has worked with its clients to address pollution issues, improve labour standards and reduce the number of workplace accidents. The Bank has done this by investing in projects that:

• are socially and environmentally sustainable
• respect the rights of affected workers and communities
• are designed and operated in line with the best available techniques.

Environmental and social concerns are addressed at all stages of the Bank’s project preparation and approval process. Environmental and social assessments often highlight problems and opportunities that require Environmental and Social Action Plans to be drawn up and agreed with the clients. Appropriate environmental conditions and covenants, relating to mitigation and enhancement measures and monitoring, are incorporated into loan agreements. Over the last 20 years, such structuring and conditionality has been a key instrument by which the Bank has been able to secure environmental, social, and health and safety improvements in a wide range of industry sectors.

In pictures

1. The EBRD is providing a €300 million loan to Romanian oil company Petrom to finance a strategic environmental and health and safety remediation and investment programme.

2. In 1992 the EBRD supported the Danube River Basin Environmental Programme, which assisted the riparian states in addressing pollution from industrial waste along the river and developed environmental action plans for several tributaries.
Tackling climate change

The EBRD addresses the challenges of climate change and energy efficiency by integrating these issues into all of our operations as a core strategic component and competence of the Bank.

We are at the forefront in helping countries from central Europe to central Asia secure sustainable energy supplies, and we finance the efficient use of energy that will cut demand and imports, reduce pollution and mitigate the effects of climate change.

The focal point for these operations is the Sustainable Energy Initiative (SEI). Launched in May 2006, the SEI addresses the twin challenges of energy efficiency and climate change in the EBRD region – which is one of the most energy intensive in the world. The SEI is assisted by strong funding support from donor governments and the EBRD Shareholder Special Fund.

Since 2006, we have invested €8.8 billion under the SEI through 464 projects in 29 countries with a total project value of €46.9 billion.

Improving industrial energy efficiency

Despite significant progress over the last 20 years our countries of operations include some of the most energy-intensive economies in the world. Improvements in industrial energy efficiency provide an opportunity for the region to mitigate its contribution to climate change, promote low-carbon growth and strengthen the transition region’s economic competitiveness and energy security.

Promoting cleaner energy

The EBRD’s countries of operations face huge energy investment needs over the medium term to support the growth of their economies, replace outdated, inefficient and polluting energy infrastructure, fill the capacity gap left by the closure of nuclear power plants, attain energy security and contribute to the global effort to combat climate change. We support cleaner energy by focusing on renewable energy sources, state-of-the-art clean generating technology, and efficient and smart transmission and distribution networks.

Investing in sustainable energy through financial intermediaries

The EBRD’s Sustainable Energy Financing Facilities (SEFFs) combine credit lines with technical assistance to help local banks support hundreds of small-scale sustainable energy projects. We currently operate through 54 banks in 16 countries. Overall, the Bank has committed over €1.5 billion in funding to SEFFs and donors have contributed over €200 million.
In pictures

1. OAO SeverStal – Russia’s leading steelmaker and one of the country’s biggest energy consumers – is using a €600 million EBRD loan to finance an energy efficiency programme.

2. The St Petersburg Flood Protection Barrier is one of many EBRD-funded projects that contribute to adaptation responses in areas such as water infrastructure and water management, housing, stock, power and energy, transport infrastructure, agriculture and agribusiness.

3. In November 2009 Poland and Spain agree on a €25 million emissions trading contract facilitated by the EBRD-EIB Multilateral Carbon Credit Fund.

4. The EBRD is investing in the first wind energy project in Mongolia.

Providing carbon finance

The EBRD acts as a financier of emission reduction projects, but also supports carbon markets directly by operating carbon funds that purchase carbon credits from Bank-funded projects for the account of third parties. The €32 million Netherlands Emissions Reductions Cooperation Fund was launched in October 2003 to purchase carbon credits on behalf of the government of the Netherlands. In 2006 the EBRD and EIB joined forces to create the Multilateral Carbon Credit Fund (MCCF) with total commitments of €208.5 million.

Adapting to climate change

The EBRD is increasingly integrating adaptation to climate change in its investment plans. We are currently piloting guidelines for climate change screening and risk profiling, as well as guidance on integrating risk assessment and adaptation into project feasibility studies, environmental and social impact assessments, environmental action plans and water audits.

GHG assessment results 2006-11

<table>
<thead>
<tr>
<th>Year</th>
<th>Change in CO2e Mt/yr</th>
</tr>
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<tbody>
<tr>
<td>2011</td>
<td>-6.1</td>
</tr>
<tr>
<td>2010</td>
<td>-5.0</td>
</tr>
<tr>
<td>2009</td>
<td>-0.3</td>
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<tr>
<td>2008</td>
<td>-8.0</td>
</tr>
<tr>
<td>2007</td>
<td>-0.2</td>
</tr>
<tr>
<td>2006</td>
<td>-4.5</td>
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In pictures

EBRD investments have been estimated to be carbon neutral or better every year since 2006.
Building infrastructure for sustainable growth

Infrastructure that boosts economies and the quality of life is a major area of EBRD finance. Water supply, waste management, district heating and urban public transport are all aspects of municipal and environmental infrastructure (MEI) that benefit from our support.

We help our clients by:

- structuring the financing of municipal infrastructure, equipment and services
- promoting commercialisation and corporatisation of services
- developing regulatory and tariff structures
- promoting appropriate private sector involvement
- improving environmental protection and energy efficiency
- facilitating donor grant and commercial loan co-financing
- safeguarding vulnerable groups through affordability of tariffs and good project design.

Making water and wastewater safe

The EBRD’s investments in improvements to water and wastewater infrastructure have provided safe, clean drinking water for millions of people and reduced pollution discharges across the region. For these projects, the EBRD aims to help clients bring services into line with EU standards for drinking water and effluent discharges.
The EBRD launches its Sustainable Energy Initiative (SEI) to address the twin challenges of energy efficiency and climate change in the region.

Mongolia becomes an EBRD country of operations.

The Czech Republic is the first country to “graduate” from the EBRD.

2006/

St Petersburg: Russia
4,000,000
€42.8 million
Cutting Baltic Sea pollution with new incinerator.

Vologda: Russia
293,000
€14.5 million
Modernisation of district heating and water treatment systems, reduction of energy intensity.

Yaroslavl: Russia
613,100
€12.3 million
Improvement of reliability of municipal water services and quality of drinking water.

Surgut: Russia
303,000
€17.5 million
Refurbishment and energy upgrade of municipal apartment buildings.

Barnaul, Orenburg, Krasnodar, Kaluga, Tumen, Tver, Omsk: Russia
8,862,300
€37.6 million
Rehabilitation and upgrade of water and wastewater infrastructure.

Lipetsk: Russia
506,100
€7.7 million
Modernisation of district heating and water treatment systems, reduction of energy intensity.

Pavlodar: Kazakhstan
331,700
€6.4 million
Modernisation of district heating network, reduction of CO2 emissions.

Almaty: Kazakhstan
1,421,900
€24.9 million
Upgrade of transport system with 200 new eco buses.

Brasov: Romania
278,000
€10.1 million
Rehabilitation of regional roads.

Batumi: Georgia
123,500
€2.5 million
Modernisation of urban transport with 100 new buses.

Taganrog: Russia
279,000
€3.7 million
Upgrade of district heating infrastructure, increasing of energy efficiency.

Chkalovsk, Gaufurov, Isfara, Kaniibaidam, Karaikum, Khorog, Taboshar: Tajikistan
238,000
€7.1 million
Improvement of water supply in northern Tajikistan.

This map shows examples of projects where EBRD investments have improved municipal infrastructure.

City: Country
Population
EBRD investment (€)
Project description.

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Improvement of water supply in northern Tajikistan.
Investing in sustainable agriculture

Ensuring worldwide food security is becoming more and more challenging. Following the dramatic price rises and volatility witnessed in food markets in 2007 and the unprecedented peak reached in 2010, high and volatile prices can no longer be viewed as a temporary phenomenon. The EBRD region has enormous potential to meet this rising global demand. If Russia, Ukraine and Kazakhstan alone were to realise their productive potential today, these countries could supply almost half of the world’s grain. However, the investment needs are equally daunting. In Ukraine alone, the investment necessary to achieve the increased food supply target is estimated at US$ 80 billion (between US$ 2,000-4,000 per hectare). Those investments can only come from the private sector.

The EBRD provides finance and technical assistance to the agribusiness sector spanning all activities in the production chain, from farming, processing and trading to food distribution, packaging and retail. We also engage in focused policy dialogue and a range of cooperative programmes with key partners such as the Food and Agriculture Organization (FAO).

Transferring agricultural know-how

The collapse of the Soviet Union led to the disruption of the system of state-run agricultural collective farms in Georgia. Today one of the main challenges Georgian entrepreneurs face in the farming sector is the lack of modern agricultural know-how.

In response to this situation, the EBRD provided support for the expansion of Margebeli, a Georgian agribusiness group, with a loan of US$ 12 million, and importantly, with donor-funded technical assistance to the group’s Marneuli Agro – a farm producing cucumbers and tomatoes. The focus of the technical cooperation was to introduce modern agricultural farming techniques, including soil irrigation and the environmentally sustainable use of liquid fertilisers, to improve land preparation for better crop results. An international consultant spent a year onsite training Marneuli Agro staff through all the farming phases from seeding to harvesting.

As a result, harvested volumes almost doubled, compared with the previous year, and the costs of production decreased. Marneuli Agro is now building on this success through a second EBRD loan and a new technical cooperation project funded by the EBRD Early Transition Countries Fund, which will help the company further improve its farm management techniques and increase yields per hectare.
Achieving sustainable development requires transparent and inclusive decision-making processes.

Ensuring accountability

The Bank’s Project Complaint Mechanism (PCM) gives individuals, groups and organisations that may be adversely affected by a project financed by the EBRD an opportunity to make a complaint to the Bank. The PCM, independent from both the EBRD’s banking operations and its Environment and Sustainability department, has two functions:

1. Compliance review: to assess whether a Bank-approved project complies with relevant Bank policies, specifically relevant environmental policies and project-specific provisions of the Public Information Policy

2. Problem-solving: to restore dialogue between the parties (typically members of the affected community and the project sponsor) to try to resolve the underlying issues that gave rise to the complaint or grievance.

Preparing for new challenges and opportunities

The commencement of EBRD operations in the southern and eastern Mediterranean (SEMED) region – namely in Egypt, Jordan, Morocco and Tunisia – involves a wide range of significant and country-specific environmental and social considerations, from human rights to water scarcity.

During 2011 we moved swiftly to lay the foundations for the Bank’s successful entry into the SEMED region. We opened dialogue with a wide range of civil society organisations and other stakeholders, beginning an engagement process that will continue and expand in 2012. Desk research, fact-finding missions and special studies initiated in 2011 cover a wide range of issues, from gender equality conditions to energy efficiency markets.
Increasing access to opportunities

Micro, small and medium-sized enterprises (MSMEs) form the backbone of a dynamic market economy and are fundamental to socially inclusive growth and the transition to a green economy. However, MSMEs in the Bank’s region of operations face various challenges, including limited access to finance and technical assistance to grow their businesses. In addition, new efforts are needed to promote greater opportunities for women in business and entrepreneurship.

- The EBRD is responding in many ways: our investments in the financial sector – primarily banks and private equity funds – typically make up 40 per cent of the Bank’s overall annual business volume each year. This supports financial stability and crisis recovery and helps thousands of MSMEs to access vital trade finance as well as longer-term capital to grow their businesses.

- To complement its capital funding, the EBRD fosters sustainable entrepreneurship by providing business expertise to MSMEs through its Small Business Support. Focus areas include energy efficiency and the environment; rural development; young entrepreneurship and innovation; and women in business.

- We help to empower women economically through investment and technical assistance initiatives that directly improve their economic participation, especially in the private sector. These projects encourage women’s access to finance, income generation and entrepreneurial activities, labour force participation and career advancement.

- The EBRD has been working with its clients to foster equal opportunities for women and men in the workplace. The Bank’s Equal Opportunities Initiative is offering clients an opportunity to review their HR policies and practices in order to promote good practices.

Empowering women in the workplace

Gender issues form a small but important part of the Bank’s work in Turkey, targeting the operators of the world’s largest municipal ferry operator, IDO.

In July 2011, the EBRD approved two loans of US$ 150 million in total to the TASS consortium for the acquisition of IDO, the municipal ferry company serving Istanbul, the Bosphorous and the Sea of Marmara. The company operates 52 vessels and 35 ferry terminals serving over 400,000 passengers per day. Our investment will help to improve and expand essential public transport services in Istanbul, Turkey’s most congested city.

The EBRD’s assessment identified that the newly privatised IDO employed surprisingly few women. Of the 626 direct employees only 18 were women, and they all worked in the office, which comprised 142 people. Discussions between the Bank and the company quickly identified a shared commitment to promoting equal opportunities for women and men in the workforce.

The EBRD is now supporting the client with a technical cooperation project to review IDO’s current human resources policies and operational practices, with a view to joining the EBRD’s equal opportunities initiative for best human resources (HR) practices. The project includes reviewing data related to equal opportunities within the company, conducting an assessment of the existing situation and providing practical recommendations on ways that IDO can proactively promote equal opportunities, increase its recruitment of female employees and assist the advancement of female employees in the workplace.
Advancing gender equality

Sound business management and sustainable growth require that women and men have equal opportunities to participate in their economies as entrepreneurs and business leaders, as empowered consumers, and as valued members of the labour market. Although the situation varies from country to country, women in the EBRD’s countries of operations face a number of barriers and the improvement of gender equality has significant potential in the region as a whole.

The Bank adopted a Gender Action Plan in May 2009 with the aim of “mainstreaming” gender equality internally as well as in its investments and technical cooperation projects. The EBRD Board of Directors officially endorsed the action plan in January 2010 and that year we focused on strengthening our internal coordination and on implementing a series of successful pilot projects and initiatives. Technical cooperation has been supported by the EBRD Shareholder Special Fund and other donors.

The scope and impact of our gender equality programme has continued to grow across our three priority themes: the promotion of gender equality through support to women entrepreneurs; the promotion of improved labour and human resources standards in EBRD client companies; and the promotion of equal access to the benefits brought about by municipal service provision.

Boosting microbusinesses with local currency loans

The development of micro and small-sized enterprises is vital for a country such as Tajikistan. Not only does it drive job creation, but it also helps to free people from the risks of low and irregular income derived from informal businesses.

Micro businesses such as Nafisa Haitova’s Café Mirzo in Khujand, Tajikistan’s second-largest city, encourage more sustainable growth in the country’s private sector. They also provide inspiring examples of determination and self-empowerment. When Nafisa and her husband started out in 2003, they were selling food from a tent in the street. Today they have a restaurant with many clients and they employ 15 people. This transformation was possible thanks to substantial loans from Arvand, a local micro credit institution.

In Tajikistan, as in many of the EBRD’s countries of operations, the local capital market is weak: up to one-third of deposits are in US dollars and loans are commonly dispersed in foreign currency. Small businesses, however, operate almost exclusively in local currency. When in 2008-09 the financial crisis hit the global economy, the Tajik currency, the somoni, lost one-third of its value against the US dollar.

In 2011 the EBRD established the Early Transition Countries (ETC) Local Currency Lending Programme to address this systemic problem and boost local currency lending. Supported by the Early Transition Countries Fund and the EBRD Shareholder Special Fund, and with funds from Switzerland and the United States, the programme is helping Tajik micro and small businesses to access affordable financing in somoni and to shield them from the risks associated with exchange rate depreciation. As a result, Arvand received the equivalent of US$ 1 million from the programme, and is already lending somoni to more than 1,400 businesses that are as promising as Nafisa’s café.