Central Asia is one of the most dynamic economic regions in the world. Although the perceived risks of investing in Central Asia are relatively high, which has led to an increase in regional investment costs, as more expensive risk mitigation instruments often need to be built into investment revenue models, it offers immense investment opportunities for those willing to take on additional risks. Most importantly, despite this perception of high risk, the region can benefit from working with a trusted partner such as the EBRD who has a deep understanding of how to navigate and mitigate the risks.

This brochure identifies the most common risks investors may encounter in Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan, the Kyrgyz Republic and Mongolia. By providing examples of projects successfully undertaken by the European Bank for Reconstruction and Development (EBRD), it demonstrates how the Bank can help its clients to mitigate those risks and apply the knowledge to other investments.

1 The EBRD defines Central Asia as Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan, the Kyrgyz Republic and Mongolia.
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The EBRD as partner of choice in Central Asia

The EBRD is one of the largest investors in Central Asia. It works in partnership with other institutions, rather than compete with them, to increase the availability of financing and improve the region’s investment climate.

The EBRD’s key strengths include its:

- strong presence in Central Asia and extensive knowledge of the local economies and business environments
- dedicated teams of experts with specific sectoral, legal and environmental skills
- unmatched policy experience in support of transition to open market economies
- close working relationship with local governments
- high standards of corporate governance and compliance
- strong appetite for risk
- drive for the economic inclusion of women, youth and regional populations
- donor grants for technical assistance and blended finance for investments
- assistance in structuring and executing green investments
- triple A credit rating
- preferred creditor status
- local currencies financing in selected countries.

Table 1: Composition of the EBRD’s investment portfolio in Central Asia by country (end of 2017)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total number of projects</th>
<th>Net cumulative investment value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>239</td>
<td>€7,216 million</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>164</td>
<td>€662 million</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>119</td>
<td>€588 million</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>65</td>
<td>€254 million</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>60</td>
<td>€875 million</td>
</tr>
<tr>
<td>Mongolia</td>
<td>95</td>
<td>€1,425 million</td>
</tr>
</tbody>
</table>

Source: EBRD

The EBRD’s current investment portfolio comprises 46 per cent energy, 32 per cent infrastructure, 14 per cent industry, commerce and agribusiness, and 8 per cent financial institutions.

The EBRD is the international financial institution with the most extensive footprint in Central Asia. The EBRD has been investing in Mongolia since 2006 and in the rest of Central Asia since 1992. During this time, it has amassed an unmatched level of expertise in the region. Its services are channelled through its Headquarters in London and through Resident Offices and regional offices in Kazakhstan (Almaty, Astana, Aktobe, Karaganda, Kostanay, Shymkent, Ust-Kamenogorsk), Uzbekistan (Tashkent), the Kyrgyz Republic (Bishkek, Karakol, Osh), Tajikistan (Dushanbe, Khujand), Turkmenistan (Ashgabat), and Mongolia (Ulaanbaatar). The EBRD employs more than 180 highly qualified, investment-focused staff in the region, who have in-depth knowledge of local markets and market participants, and strong relationships with the local authorities.

As of the end of 2017, the EBRD had worked on 723 projects in Central Asia, with a net cumulative investment value of more than €11 billion.

Chart 1: Composition of the EBRD’s investment portfolio in Central Asia by sector (end of 2017)
To be eligible for EBRD funding, a project must meet all of the below criteria:

- be located in an EBRD country of operations and meet the Bank’s mandate to support the development of an open, competitive and sustainable market economy
- have strong commercial prospects
- involve significant equity contributions in cash or in kind from the project sponsor
- satisfy banking, environmental and social standards.

Table 2: EBRD funding and lending facility structure

<table>
<thead>
<tr>
<th></th>
<th>Debt (£1 to £300 million)</th>
<th>Equity (£0.5 to £100 million)</th>
<th>Guarantees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical size in Central Asia</td>
<td>€5 million and above (Flexibility for €1 million and above for high impact small transactions)</td>
<td>€5 million and above (Flexibility for €1 million and above for high impact small transactions)</td>
<td>Typically €50,000 to €50 million for Trade Facilitation</td>
</tr>
<tr>
<td>Term</td>
<td>5 to 7 years (as much as 10 to 15 years in the case of infrastructure investments)</td>
<td>Typically 3 to 7 years</td>
<td>Up to three years, typically 1.5 to 2 years</td>
</tr>
<tr>
<td>Currency</td>
<td>Major foreign currencies and local currencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approach</td>
<td>Finance up to 35% of the project (60% with syndication)</td>
<td>Minority stake</td>
<td>Mainly through the Trade Facilitation Programme (TFP)</td>
</tr>
<tr>
<td>Structures</td>
<td>• Senior, subordinated or convertible debt</td>
<td>• Portage equity finance</td>
<td>• Import/export operations</td>
</tr>
<tr>
<td></td>
<td>• Project finance</td>
<td>• Risk equity</td>
<td>• Pure guarantees, cash-advance trade finance</td>
</tr>
<tr>
<td></td>
<td>• Floating or fixed rates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications</td>
<td>• Greenfield/brownfield, joint ventures</td>
<td>• Capital expenditure for expansion/modernisation, including resource efficiency improvements</td>
<td>• Issues to international banks</td>
</tr>
<tr>
<td></td>
<td>• Ownership change: acquisition, consolidation, privatisation</td>
<td>• Public-private partnerships, etc.</td>
<td>• Takes on the transactional risk of banks in countries of operations</td>
</tr>
</tbody>
</table>

Source: EBRD
Investment potential in Central Asia

Central Asia is one of the most dynamic economic regions in the world, with 60 million consumers and annual growth rates ranging from 5 to 10 per cent. The region plays an important role as a bridge between Asia and Europe and, thus, has great potential to benefit from the growing connectivity along the Belt and Road economic corridors.

There are substantial opportunities for private investors in Central Asia, primarily related to the extraction of oil, gas and minerals. The region has emerged as a key player in the global energy market over the past decade. Kazakhstan is Central Asia’s leading oil producer and the world’s ninth-largest country. Turkmenistan is the region’s main gas exporter and sells its reserves directly to China through the Central Asia-China gas pipeline. Uzbekistan also supplies gas through the upgraded pipeline network. However, other sectors, such as transport, communications, agriculture and retail, are becoming equally attractive. As Central Asia’s governments come to appreciate the risks associated with over-reliance on the extractive industries, they are taking steps to diversify their economies and incentivise private-sector investment.

By doing business in Kazakhstan and the Kyrgyz Republic, investors benefit from direct access to the markets of Russia, Belarus and Armenia through the Eurasian Economic Union (EAEU), home to a combined 183 million consumers.

Some of the countries in the region enjoy special trade arrangements with the European Union (EU) through the Generalised Scheme of Preferences (GSP or GSP+ status). This enables the export of some 6,000 goods to the EU market at reduced tariffs (Tajikistan and Uzbekistan) or no tariffs at all (the Kyrgyz Republic and Mongolia). The EU’s strategy for “Connecting Europe and Asia” also offers Central Asian countries greater opportunities for integration, increased investment and sustainable growth.

With the opening up of Uzbekistan, the region has become more integrated. The cost of doing business has been reduced thanks to the removal of certain trade barriers and border controls, while the relationships and bilateral ties among countries in the region have been strengthened.

Most of the Central Asian countries have been pushing ahead with reforms and have made tangible progress on improving their business environments. For example, Kazakhstan is second only to Georgia in implementing the most reforms globally over the past 15 years. Kazakhstan’s ranking in the World Bank’s Doing Business report improved to 36th in 2018 and it took 74th place in the Global Innovation Index, thanks to a number of government reforms aimed at improving the investment climate. The Kyrgyz Republic saw its position in the Global Innovation Index rise to 94th in 2018 from 117th in 2013 with the advancement of its digitalisation agenda. Uzbekistan introduced a Business Ombudsman in 2017, and it was among the top global improvers in the World Bank’s Doing Business report in 2017.

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Practical challenges to investment

The EBRD believes the private sector is best placed to help Central Asia realise its full economic potential. While the situation varies in different countries, despite continued reform and a number of positive initiatives by national authorities, private investors still report a number of issues constraining business activity.

- **Strong state presence in the economy:** The region’s authorities have started to reduce overregulation, and the business climate has begun to improve, however, property and other business rights are not always well protected, not least due to the limited capacity of courts to review commercial and economic disputes.

- **Weak business climate including need for improved transparency, corporate governance and compliance and issues of corruption and clientelism.**

- **Weak capacity of government institutions to deliver complex projects and to deliver reforms needed to improve the investment climate.**

- **The lack of a qualified and diverse workforce:** Investors can sometimes encounter serious difficulty in filling vacancies with skilled labour, as vocational training curricula are often outdated and do not reflect the contemporary needs of business, while the labour market remains heavily segregated by gender.

- **Social and environmental concerns:** Foreign investors may face challenges from civil society, associated with the mistrust and fear of foreign economic dominance, anxiety about the recovery of leased land, criticism about the presence of foreign contractors and risks of pollution and environmental damage.

- **Vulnerability of public and private infrastructure and businesses to climate change due to the physical geography (which is dominated by temperate deserts and semi-deserts) and related water stress, legacy of economic focus on monoculture agricultural exports and sensitivity of agricultural systems to temperature change and altered precipitation patterns, and relatively slow uptake of climate change resilient design.**

- **Underdeveloped transportation infrastructure and unreliable electricity supply:** Lack of consistent and reliable supply of electricity, poor road infrastructure and transport, with rail and air transportation links requiring further upgrading and expansion in order to deliver investment and trade to all geographies.

- **High cost of crossing borders and limited economic integration at the regional and global levels:** There are considerable transportation, administrative and customs processing costs associated with cross-border trade in the region. Improved ease of crossing borders would improve trade opportunities and investment flows, and increase competition.

- **Limited access to credit:** Up to two-thirds of firms in the region need bank loans and as much as half of these find themselves credit constrained. Young firms and those headed by women are most affected by the limited supply of credit due to relatively strict collateral requirements and stringent lending procedures.

Some of the abovementioned constraints may pose serious risks to businesses operating in the region. The next chapter details the EBRD’s response to these challenges, including the key instruments and products the Bank provides to clients to mitigate some of the risks.

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5 As identified by the fifth round of the Business Environment and Enterprise Performance Survey (BEEPS V) conducted by the EBRD and the World Bank Group, with country diagnostics prepared by the EBRD’s Economics, Policy and Governance department, and a KPMG report on Chinese investments in Central Asia, commissioned by the EBRD.
How the EBRD can help clients to mitigate risk in Central Asia

Investment projects in Central Asia can be exposed to a range of risks stemming from the aforementioned challenges related to legal frameworks, environment, political and security considerations, environmental issues, climate change and social attitudes, as well as those associated with project implementation, local market conditions, creditworthiness of the borrower, currency exchange rates, interest rates, and so on.

With highly experienced experts and a strong presence on the ground, the EBRD is best placed to offer clients a wide spectrum of services and benefits that can help mitigate these risks.

The Bank can engage with local authorities by providing policy advice, technical cooperation and assistance to build the capacity of both government institutions and clients, and advocate for key reform-agenda items that matter to business. These include, but are not limited to, improving the business and investment environment, boosting clients’ business integrity and compliance with international anti-corruption standards (at private and state-owned entities, as well as municipalities) through knowledge sharing and public-private dialogue, supporting the up-skilling and re-skilling of workers, and enhancing workforce diversity.

The EBRD can also:

- help clients to offset social and environmental risk and comply with social and environmental standards
- bolster the resilience to climate change of projects in which the EBRD invests, and provide energy-efficient designs and solutions
- offer low-cost technical assistance to support clients in project preparation and the implementation of infrastructure projects
- facilitate cross-border trade through the Trade Facilitation Programme (TPF)
- provide local-currency financing and develop local capital markets to help mitigate currency risks
- provide clients with co-financing arrangements and a loan syndication programme; our B loan partners enjoy the EBRD’s Preferred Creditor Status, which exempts payments to the EBRD from general moratoria and foreign-exchange controls
- lend to small and medium-sized enterprises (SMEs) and provide risk-mitigation instruments to promote entrepreneurship
- leverage other international financial institutions to help clients mitigate risk.
(1) Policy engagement with national authorities and improving the business climate

The EBRD enjoys a strong presence on the ground in Central Asia and has a close relationship with local authorities and local business communities. Through its policy engagement, it advises and helps clients to unlock investment potential and mitigate a certain amount of political risk. In Central Asia, it is actively engaged in policy-reform dialogue in the areas of good governance, business integrity, investment climate, green energy and economic inclusion.

More specifically, the EBRD is helping to improve the business environment in Central Asian economies by enabling dialogue between government and the private sector through Investment Councils. These Councils harness private-sector expertise and support to enhance the design and ensure the delivery of national economic governance reforms. The EBRD currently supports Investment Councils in Kazakhstan, the Kyrgyz Republic and Tajikistan, and is initiating the process of establishing one in Uzbekistan.

Businesses in many of the EBRD’s member countries suffer from a dearth of independent recourse mechanisms in cases of potential abuse of state power, such as over-taxation. The EBRD supports institutions that provide an independent review of business complaints and offer recommendations if that institution believes the complaint has merit. The EBRD was instrumental in establishing a very successful Business Ombudsman Institution in Ukraine and is now laying the foundations for a similar initiative in the Kyrgyz Republic.

The EBRD is also increasingly focused on building client capacity for anti-corruption compliance. The Bank works with clients in Central Asia, and other areas of operations to help them meet international standards and engage in good practices to prevent bribery and corruption in business transactions.

The EBRD's involvement can help to mitigate risks related to the lack of skilled and diverse labour force, by supporting clients and the national authorities to establish or improve occupational skills standards and abolish discriminatory regulations to workers. Companies that work with the EBRD often gain greater confidence in the local business environment.

Addressing labour demand, closing the skills gap and enhancing inclusion in Kazakhstan

In Kazakhstan, employers in the natural resources, utility and energy sectors are facing major challenges in hiring skilled and diverse workers. The skills gap is only likely to grow, as labour demand in Kazakhstan is forecast to rise, with 50,000 new vacancies estimated to open up over the next five years. The talent pipeline is further constrained by legal barriers to women working in 287 professions in Kazakhstan.

The EBRD is working with its clients and the national authorities to promote work-based learning opportunities and to establish or improve occupational skills standards that accurately reflect industry needs and expectations, as well as to strengthen women’s access to non-traditional areas and high-value sectors of the labour market.

In Kazakhstan, the Bank conducts its work under its Integrated Approach to Economic Inclusion in Natural Resources and Power & Energy initiative, leveraging more than US$ 1 billion in financing more than 10 projects spanning company-specific and sector-relevant education and training. Supported by grant-funded technical cooperation, the EBRD establishes partnerships with local educational and training institutions in Kazakhstan to design and deliver standardised and accredited training based on international best practices. The purpose of these partnerships is to attract and mould talent and enhance the employability of young women and men, while ensuring that their newly acquired skillsets match the needs of the Bank’s clients and their businesses.

As part of this work, the EBRD has provided Kazakhstan's authorities with technical assistance to abolish discriminatory regulations that prohibit women from working in certain high-value sectors. It has helped a bus company in Almaty to hire its first female bus drivers. Moreover, the national airline, Air Astana, has strengthened its equal-opportunity employment policy and now employs a number of women pilots. The Bank is also helping clients to strengthen the pipeline of female talent through dedicated outreach programmes for girls studying in technical schools.

Assisting China’s Risen Solar in managing tariff and foreign-exchange risks in Kazakhstan

The EBRD has teamed up with Risen Solar, a leading Chinese manufacturer of solar modules, for the construction of a new 40MW solar power plant in the electricity-deficient Karaganda region of Kazakhstan. The plant will help to reduce CO₂ emissions by 55,000 tonnes a year.

As the tariff for renewable energy is significantly higher than the average price of coal-generated power, the underlying risk was that the tariffs and regulatory policies might change over the life of the loan and affect the overall viability of the project.

To support our partner and mitigate these risks, the EBRD went the extra mile, ensuring that Kazakhstan’s Ministry of Energy signed a Project Support Agreement with the EBRD, pledging not to make any retroactive changes to renewables legislation over the life of the loan.

Another risk stems from local banks' reluctance to lend money for the development of greenfield energy projects. Thus, financing is only available in hard currency from foreign banks, which raises foreign-exchange risk, as project cash flow is set in local currency. The EBRD can provide local-currency project financing to help clients overcome these issues, as it is able to issue local-currency bonds in Kazakhstan.
Helping the Kyrgyz Republic to reduce informality and provide e-services to business

According to the most recent, fifth round of the Business Environment and Enterprise Performance Survey (BEEPS V), competition from the informal sector is a top concern for businesses in the EBRD’s operating region. In the Kyrgyz Republic, the EBRD is helping the government to design a set of measures aimed at reducing the size of the informal sector.

The Bank is also supporting a comprehensive e-governance reform programme, focused on public services to the private sector, such as e-business licensing for SMEs, e-registration of businesses and e-notary services. The project encompasses the development of an enabling legal and regulatory framework, software development and the capacity building of relevant state authorities, all of which are key to the success of EBRD assistance.

By supporting the government in establishing e-solutions for enterprises, business communities should benefit from a significant improvement in the effectiveness of public services, leading to greater transparency, quality and speed, and reducing the opportunities for corruption.
Sustainability is an issue that can carry considerable risk in terms of the legal, reputational and financial aspects of an investment project. Consequently, the EBRD ensures that all of the projects it finances are environmentally and socially sustainable and comply with the Bank’s social and environmental policy.6

Promoting corporate responsibility at the Burnoye Solar project in Kazakhstan

Burnoye Solar is the first large-scale solar power plant in Kazakhstan. The EBRD has arranged coverage of project costs amounting to €120.3 million on a 30:70 equity-to-debt basis. The debt facility consists of an EBRD loan of up to KZT 14.1 billion (€70.1 million equivalent) plus a loan of up to US$ 15 million loan from the Clean Technology Fund.

The project has been implemented under a turnkey engineering, procurement and construction (EPC) contract and has used top-level equipment from leading European manufacturers, ensuring a transfer of technology to the country. Operation and maintenance are also covered by a long-term service contract. Best-practice contracts ensure that all potential risks to project delivery and operation are minimised.

In addition, the EBRD undertook in-depth due diligence and helped to develop a corporate social responsibility (CSR) programme, aimed at strengthening the company’s environment, health and safety management and bolstering local stakeholder engagement, to promote awareness of the benefits of renewable energy for the local community. The CSR programme raised awareness of the renewable energy benefits and assisted the company in strategic impact investing in the local community, which resulted in wide support to the project and minimise project delays or cost overruns that might be caused by potential social unrest.

Reducing air emissions and improving local air quality at Shymkentcement in Kazakhstan

Shymkentcement, a subsidiary of Italian cement group Italcementi, is a major cement producer in Kazakhstan, with an annual production capacity of 1.2 million tonnes. The EBRD has supported this client with a €20 million loan and a €4 million equity investment for the upgrade of its production facilities.

The EBRD has worked with Shymkentcement to set targets for a high level of alternative fuel (waste-derived) use. This has resulted in fuel-related cost savings and helped to reduce the plant’s carbon footprint. Incineration of waste-derived fuel also contributes to less waste being directed to landfills. As a result of the upgrade, the new plant consumes 55 per cent less primary thermal energy, making it the most energy-efficient plant in Kazakhstan, in line with the top 10 per cent of European cement plants. CO₂ emissions have been reduced by 60 per cent, putting it on par with EU plants.

The EBRD worked with the client to agree a more stringent NOx emission limit, in line with EU best available techniques. As a result, the client installed additional abatement equipment, which has reduced dust emissions and significantly improved local air quality. Because of its success in structuring the new plant in line with EU regulations, the client is deemed to have set a benchmark in the country’s cement sector.

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(3) Building resilience to climate change

Climate change heightens risk significantly. Climate shifts and extreme weather are having wide-ranging effects on businesses, utilities and communities. They can accelerate the deterioration of key assets, such as infrastructure, buildings and equipment. Changing climatic conditions can also affect demand for goods and services. The OECD estimates that each US dollar spent on climate-change adaptation delivers four times its value in terms of potential damage avoided.

Central Asia is highly vulnerable to climate-change impacts. This is in part down to its geographical location and characteristics, but also a consequence of historical under-investment, which has resulted in ageing infrastructure and facilities that are less able to withstand changes in climatic conditions.

The EBRD is there to help its clients find ways of adapting to shifting climate conditions and to manage the risks – and take advantage of the opportunities – associated with a changing and more variable climate. Under its Green Economy Transition (GET) approach, the EBRD has financed 63 climate-resilience investments in Central Asia since 2011, with a business volume of €614 million, including €337.2 million of dedicated adaptation finance.\(^7\)

The EBRD’s climate-resilience business area covers a range of important economic sectors, such as water supply, hydropower generation and water-intensive industries, such as agribusiness and mining. Investments to make these sectors climate resilient can help to reduce business costs, maximise profitability and increase competitiveness.

### Chart 2: Integrating climate resilience into EBRD infrastructure investments

<table>
<thead>
<tr>
<th>Climate-change risk: identifying vulnerability</th>
<th>Potential impact on infrastructure</th>
<th>Adaptation measures to improve resilience</th>
<th>Benefits of climate-resilient infrastructure</th>
</tr>
</thead>
</table>

Source: EBRD

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### Upgrading irrigation systems in Kazakhstan

While about 2.4 million hectares of Kazakhstan’s land were once equipped with water-supply infrastructure, since 1991, the area of irrigated land has shrunk due to the deterioration of the water-supply system. It is estimated that only about 55 per cent of the country’s total developed area has access to water and that two-thirds of all water is used for irrigation. Climate change is forecast to worsen this situation by altering precipitation patterns and reducing water availability in many parts of the country, especially the south.

In 2017, the EBRD provided a US$ 180 million loan to the national water operator, RGP Kazvodkhoz, to restore water-supply and irrigation infrastructure in three regions of Kazakhstan, to provide rural employment and to make the water system more efficient and resilient to the impacts of climate change through the use of modern drip-irrigation technologies. These improvements will result in at least 180 million cubic metres of water being saved per year, leaving water supplies and irrigation systems better able to cope with changing climate conditions and increasing water stress.

As part of the project, the EBRD is also working with the Kazakh authorities on an ambitious tariff-reform and capacity-building programme that will help the national water operator to make the new irrigation systems financially sustainable in the long term.

### Assisting better resource management in Uzbekistan

Ensuring water efficiency is essential for Uzbekistan’s economy because it shares water resources with neighbouring countries.

The objective of this technical assistance project is to understand the implications of projected reduced flows in the Amu Darya river basin on the main water users of the region, primarily local agribusiness. The results of the modelling and analysis will lay the foundations for local authorities, and local water users on identifying the actions that are needed to improve efficiency.

The EBRD will also be working on an ambitious tariff reform to restore the energy market and enable private sector participation in the energy sector, and introduce capacity building programmes to support clients to mitigate climate risks in Uzbekistan.

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\(^7\) Total GET adaptation finance in Central Asia is composed of €240 million in infrastructure financing, €45.9 million in power and energy, €39.8 million in natural resources, €6.1 million in financial institutions, €3 million in agribusiness and €2.7 million in transport.
Rehabilitating the Qairokkum hydropower plant to mitigate climate-change risk in Tajikistan

Qairokkum is a hydropower plant in northern Tajikistan, which supplies electricity to 500,000 people. The EBRD structured a financing package with Barki Tojik, Tajikistan’s state-owned power utility, for the modernisation and rehabilitation of the plant. The full refurbishment will increase the plant’s installed capacity from its current 126 MW to 174 MW. The upgrade will also introduce innovative climate-resilience measures, enabling the plant to cope with the expected impact of climate change on the country’s hydrology.

Hydropower accounts for 98 per cent of Tajikistan’s electricity. The impact of climate change on rainfall and snowmelt patterns, glacial melting and overall water resources could, therefore, have significant implications for the country’s energy supply. In addition, much of Tajikistan’s hydropower infrastructure is many decades old and in urgent need of modernisation.

The EBRD ensured climate-change risks were adequately identified, assessed and managed throughout the development of the investment. Experts in climate change and hydrology were engaged to model future climate conditions and water inflow into Qairokkum’s reservoir under various climate-change scenarios and the most suitable rehabilitation design was chosen on this basis. In addition, a dedicated, donor-funded technical-assistance package helps the company to integrate the acquired know-how into its operations, while optimising electricity generation and dam safety, thereby helping the client to move towards international best practices.

This pilot project offers important lessons for hydropower in Tajikistan and across the region and will increasingly become the norm in the development of hydropower investments.
The EBRD’s Infrastructure Project Preparation Facility (IPPF) is designed to improve the efficiency, quality and replicability of infrastructure projects. The programme provides technical cooperation funds that, through the use of mobilised specialist pre-qualified consultants, identify needs and project opportunities, prioritise immediate investment plans and long-term investment strategies, support policy dialogue and prepare projects, which are then developed using financing instruments such as sovereign loans, private-sector participation (PSP) and public-private partnerships (PPPs).

The Technical Cooperation Funds Programme (TCFP) provides the EBRD’s private- and public-sector clients with funding for advisory services for the preparation and implementation of infrastructure projects. It is funded by governments and international institutions, and is managed by the EBRD. Each year, the programme provides about €80 million to sponsor the activities of a wide range of consultants and other experts, who assess and help to mitigate the investment risks that clients face. As well as supporting the EBRD’s investment programme, the TCFP promotes institutional reform and the highest standards of corporate governance.

Table 3: Objectives and benefits of the EBRD’s technical assistance programmes

<table>
<thead>
<tr>
<th>The EBRD</th>
<th>By working in partnership, the EBRD is able to:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• have a bigger impact on the transition process</td>
</tr>
<tr>
<td></td>
<td>• promote a better investment climate</td>
</tr>
<tr>
<td></td>
<td>• boost private-sector investment</td>
</tr>
</tbody>
</table>

Donor

By working with the EBRD, donors are able to:

• achieve better coordination and partnership
• increase visibility
• be more effective and efficient

Client

Through technical cooperation funding, clients are able to:

• gain support for project preparation and implementation
• achieve greater access to international finance
• improve institution building

Source: EBRD

Supporting the overhaul of PPP legislation in Kazakhstan and financing the Almaty ring road (BAKAD) PPP

The Big Almaty Ring Road (BAKAD) is the largest PPP project in Kazakhstan and part of the Western Europe-Western China International Transit Corridor. It envisages the construction of a 66 km highway, with four to six category 1a asphalt lanes, eight interchanges and other structures, such as bridges and overpasses, as well as an intelligent transport payment system. The ring road will relieve the roads of Almaty from heavy traffic and from commercial transit vehicles, in particular.

The project was first floated in 2002, but postponed for 10 years due to a lack of financing. In 2012-14, the EBRD helped the government of Kazakhstan to amend state legislation on PPPs to facilitate the project. The Bank’s role was to review and provide comment on the existing legislation and a package of proposed amendments. With the EBRD’s assistance, the project was structured and tendered as a state-of-the-art 20-year build-transfer-operate (BTO) public-private partnership (PPP).

BAKAD has become the first large PPP project in Central Asia to be fully compliant with international standards. The project concession agreement was signed in February 2018.
Since its launch in 1999, the EBRD’s Trade Facilitation Programme has supported 477 transactions with Chinese companies, worth €168.5 million. These transactions have been concluded with 64 issuing banks in 19 countries of operations.

The EBRD’s Trade Facilitation Programme (TFP) aims to promote foreign trade to, from and among the Bank’s countries of operations. Under the programme, international commercial banks (confirming banks) are provided with guarantees that cover the political and commercial payment risk of transactions undertaken by issuing banks in the EBRD’s countries of operations. The programme strengthens the ability of local banks to provide financing for trade activities. As a result, businesses can access the capital they need to launch or scale up their import-export activities.

The TFP is open to issuing banks registered in all of the EBRD’s countries of operations that have:

- an appropriate level of financial standing
- good corporate governance
- a clear shareholder structure
- willingness to establish or an already established international trade-finance business.

All international commercial banks that have an established record of trade-finance operations with banks in the EBRD’s region are eligible to join the TFP as confirming banks. Selected local banks with experience in trade-finance instruments can also act as confirming banks.8

At present, the EBRD is working with more than 100 issuing banks in 28 countries through the TFP, and with more than 800 confirming banks and their subsidiaries around the world. The TFP’s total transaction value since inception is €16.5 billion.

In addition to providing trade-finance guarantees, the EBRD also extends short-term loans to selected banks and factoring companies in its countries of operations to fund trade-related advances to local companies for pre-shipment finance, post-shipment finance and other financing necessary for the performance of foreign trade contracts and domestic and international factoring operations.

Below are three examples of how the TFP has helped Chinese companies to export goods from China to Central Asia:

**Exports from China to Mongolia**
- The EBRD guaranteed 100 per cent of the political and credit risk to a Chinese bank to support a Chinese exporter selling agricultural combine harvester and header machinery to a company in Khuvsgul Province, Mongolia.
- A Mongolian bank has consequently opened a letter of credit in favour of the Chinese bank worth US$ 200,000, because of its participation in the EBRD’s TFP.

**Exports from China to Tajikistan**
- A Chinese exporter sells pharmaceuticals to a company in Tajikistan.
- A Bank in Tajikistan opens a letter of credit, with post-financing confirmed by a European-owned foreign-subsidiary bank in China, for US$ 500,000.
- The EBRD provides a guarantee covering 100 per cent of the political and credit risk for the duration of the transaction.

**Exports from China to Uzbekistan**
- A Chinese exporter sold goods for the value of over US$ 3.5 million on 11 transactions, whereby banks in Uzbekistan opened a letter of credit and the EBRD provided a guarantee covering 100 per cent of the political and credit risk for the whole tenor of the transactions.

The development of local-currency financing and capital markets has been in the DNA of the EBRD since its inception. As the leading international financial institution in this field, the Bank aims to achieve more efficient and self-sustaining financial intermediation in Central Asia through the broader use of local currencies and the development of local capital markets, thereby contributing to economic growth and a more stable financial environment.

One of the key elements of a macroeconomic framework conducive to local-currency market development is the adoption of inflation targeting. Central banks that promote price stability can support local-currency credibility and capital-market development in local currency. The EBRD is providing technical assistance, funded by donors, to the Kyrgyz Republic, Mongolia and Tajikistan to assist their central banks in improving their technical capacities and functioning. This support will help them in their efforts to achieve price stability, to obtain a better understanding of how their economies work, to improve their monetary-policy decision-making processes by incorporating the results of more accurate macroeconomic modelling and to communicate more transparently to the public what they are doing and why. They are among the main prerequisites to increasing the credibility of local currencies and developing local-currency financial markets.

A robust derivatives market is also essential to strong capital markets. To help economies use derivatives effectively, the Bank provides support via technical cooperation projects, which focus primarily on legal and regulatory reforms that introduce the enforceability of derivative transactions, as well as instruments such as close-out netting and financial collateral. These changes help to bring existing legislation up to international standards. The EBRD works to improve the implementation of these laws by enhancing the knowledge of market participants, regulators and the judiciary.

Many countries plan to introduce central counterparties (CCPs), which mitigate systemic risk in financial markets by clearing securities transactions. The EBRD plans to promote the idea of regional CCP coverage of Central Asia, which would lead to proper risk management, effective collateral management and the integration of regional capital-market infrastructure. This approach would also provide remote members with efficient and easy access to CCP services, enabling them to connect to smaller exchanges with an acceptable level of risk.

The EBRD is assisting governments in modelling yield curves. These help market participants to position themselves and value their positions and instruments in the market. Publishing a well-modelled yield curve creates an important reference point for all market participants, contributing to the transparency of price discovery and to the valuation of financial instruments.

The EBRD also helps its clients to mitigate foreign-exchange and interest-rate risk. The Bank provides targeted capacity building for relevant stakeholders, including regulators, market participants and corporate end-clients. It is focused on broadening the available range of hedging instruments, regulating their use, tailoring legal frameworks, improving permitted collateral, introducing portfolio-monitoring tools and advising on how to account for them. These projects aim to improve the availability and price of hedging instruments, so as to encourage their use, resulting in more resilient, trusted and lower-risk domestic financial systems that serve the needs of users in a cost-effective way.

(6) Local-currency financing and the development of local capital markets

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Supporting the development of the regulatory framework for the Astana International Financial Centre (AIFC) in Kazakhstan

The AIFC is set to become a major financial hub in Central Asia and along the modern Silk Road. The centre will help to channel domestic and foreign investment to Kazakhstan, stimulate growth, set new standards of corporate governance and promote skills transfer and green innovation. The AIFC is governed by English law and subject to international arbitrage, a precedent for both the country and the region.

Following the signing of a Memorandum of Understanding between the AIFC and the EBRD in 2016, the Bank has provided donor-funded technical assistance to develop a “green financial system”9 for the advancement of green-finance components under the AIFC, as well as a regulatory framework for the Astana International Exchange (AIX), in which China’s Shanghai Stock Exchange owns a stake of more than 25 per cent. In particular, these rules govern the establishment and operation of the AIX, set the fundamental principles for market transactions and rules of trading on the exchange.

The EBRD is committed to continuing its backing for the AIFC by providing selected support measures, potentially through investment and financial products, and by supporting efforts to achieve MSCI emerging-market classification for Kazakhstan. The development of the AIFC will help to create a competitive, efficient and transparent financial market in Kazakhstan and Central Asia.

The internationally recognised legal and regulatory fundamentals of the AIFC give investors confidence to invest in the country and the region.

Supporting capital and money market development in Uzbekistan

As part of the EBRD’s support to the government’s wide-scale reforms agenda, the EBRD will help to develop the country’s local capital and money markets in partnership with the Ministry of Finance, central bank and State Committee. The project will help to improve the regulatory and legal framework, support the transformation to a well-managed bond market, set efficient and prudent derivatives market development. This would include corporate governance and financial disclosure enhancement to promote transparency in joint stock companies/financial institutions both in decision making and financial reporting.

The EBRD is also committed to support by providing further assistance to strengthening regulatory capacity and engaging in local currency financing which would significantly reduce clients’ exchange risks.

Helping to mitigate the negative effects of foreign-exchange fluctuations for Bear Beer in the Kyrgyz Republic

Bear Beer is one of the two largest beer and soft-drinks producers in the Kyrgyz Republic. In 2013, the EBRD granted the company a €7 million loan to expand its beverage production and to purchase new brewing equipment, which allowed it to obtain ISO (International Organization for Standardization) certification. This enabled Bear Beer to increase its customer base and look for new business opportunities in the EAEU.

In the years that followed, the company encountered currency headwinds, as the tenge, the currency of neighbouring Kazakhstan, was devalued significantly, making Kyrgyz exports to Kazakhstan uncompetitive. For this reason, in 2016, the EBRD converted Bear Beer’s loan, which had been denominated in euros, into the local currency. It was the first such conversion of a corporate loan in Kyrgyz history and put Bear Beer in a position to repay the remaining €3.8 million of the loan in its local currency. The conversion will help Bear Beer to mitigate foreign-exchange risk in the future, as will the fact that the company’s revenues are now mostly in local currency.

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9 A dedicated website was set up for this initiative. It includes all project reports and is available at http://greenfinance.kz/index.php?id=27. (last accessed 9 October 2018)
Co-financing with others and the EBRD’s Preferred Creditor Status

Rather than competing with commercial lenders, the EBRD seeks to finance projects with them. Co-financing arrangements enable the EBRD to maximise the sources of finance available to clients, provide smaller lenders with exposure to new clients and markets, and to structure the most appropriate forms of finance.

Sources of co-financing include commercial banks, official co-financiers (such as government agencies and bilateral financial institutions that provide grants, parallel loans and equity), export credit agencies and other international financial institutions, such as the International Finance Corporation.

The types of co-financing available include A/B loans (where the EBRD finances a portion of the loan and syndicates the remainder to commercial lenders), parallel loans, export credit agency guarantees, political risk insurance, loans and equity from international financial institutions, and grants.

Under the B loan structure, commercial clients can benefit from the EBRD’s Preferred Creditor Status (PCS), which means that:

- Loans arranged by the EBRD should not be subject to moratoria or restrictions on the convertibility or transferability of hard currency.
- Potential exemption from country provisioning requirements (where applicable) for participant banks.
- Loans are not included in the Paris Club or London Club debt.
- Rated transactions may be allowed to breach the sovereign ceiling.

The PCS was tested during the Russian financial crisis of 1998 and, during the moratorium, all payments to the EBRD and its B Lenders arrived on time.

Co-financing with the Bank of China on the Shalkiya Zinc mining project in Kazakhstan

The EBRD has partnered with the Bank of China to finance the expansion of Kazakhstan’s Shalkiya zinc and lead mine, including the construction of an onsite ore-processing plant with an annual capacity of four million tonnes. The Bank of China contributed US$ 120 million of the US$ 295 million syndicated loan and the EBRD, US$ 175 million.

The client, Shalkiya Zinc Ltd JSC, is a state-owned company, valued the EBRD’s emphasis on transparent procurement, sustainability concerns and the use of the best available technology, which included the installation of an innovative (for the region) vertical conveyor for lifting ore to the surface.

As co-financier, the Bank of China enjoyed the benefits of the EBRD’s Preferred Creditor Status, as well as its local knowledge, quality local due diligence and strong reputation in Kazakhstan.

The mining complex is located in a remote area of the Kyzylorda region of Kazakhstan and its enhancement contributes significantly to its social and economic development. The EBRD provided a full environmental and social impact assessment, which was made available for public consultation for 120 days. Engagement with civil-society organisations has helped to avoid social tensions. The EBRD is also working with local schools to design and implement vocational training curricula that better prepare the local workforce for pursuing employment in the mining complex.

The project also readies the mine complex for a possible sale, as part of the privatisation programme being conducted by the Kazakh government. This could provide new business opportunities for the EBRD’s partners.

Local-currency financing and Chinese equity investment in the Atasu Group in Kazakhstan

The EBRD has provided Atasu Group, a dynamic private logistics company, with a Kazakh tenge-denominated loan of up to the equivalent of US$ 10 million. The funding will be used to expand the company’s rolling stock, enabling it to strengthen its position in the domestic and international logistics markets. The EBRD funds have been complemented by a US$ 25 million equity investment from China’s CITIC Capital Silk Road Fund, in exchange for a significant minority share (36.64 per cent) in the company. The EBRD’s involvement in the deal, its strong reputation in Kazakhstan and track-record of similar deals have provided CITIC with additional reassurance.

The investment will allow the company to achieve new levels of quality in logistics services and to fully comply with international standards for the industry. At the same time, the company’s expansion will increase the export potential of local producers and enhance the country’s transit potential along the Belt and Road economic corridors.
More than 99 per cent of businesses in the countries where the EBRD invests are SMEs.10 One-fifth of the EBRD’s investments and almost half of its banking projects each year are directed at them.

The Bank has launched the Small Business Initiative (SBI), which offers a comprehensive package of services to help SMEs innovate and grow.

The EBRD partners with local commercial banks in Central Asia to jointly provide finance to SMEs and to share the associated risks. Under the Risk Sharing Framework (RSF), the local bank originates and monitors the underlying exposure, while the EBRD shares a part (usually 50 per cent) of the risk on a funded or unfunded basis. This framework has proved especially useful to those commercial banks that are relatively small, lack a strong parent and frequently experience capital constraints.

We know that most small businesses sell their goods and services locally, so we work with our partners to lend in local currencies, reducing the exposure of firms and the wider financial sector to foreign-exchange risk. To encourage local-currency lending, the Bank has made US$ 500 million worth of local-currency loans available through the SME Local Currency Programme. The programme is available to:

- financial institutions (banks, non-bank financial institutions or micro-finance institutions) that want to expand their lending to SMEs in local currencies
- local entrepreneurs that want to set up or develop their businesses by accessing affordable local-currency funding.

Access to finance and information is a particularly large obstacle to business growth for women entrepreneurs. Through dedicated Women in Business programmes in Kazakhstan and Tajikistan, the EBRD supports its partner financial institutions with dedicated credit lines and technical assistance to target this under-served market. At the same time, it delivers business advisory services to female entrepreneurs, including online business diagnostics and training in key entrepreneurial skills.

Where funding opportunities are limited, but the EBRD sees potential, it finances companies directly. The Bank uses these deals for demonstration effect, often combining direct financing with business advice to the client company.

In addition to financing SMEs, either directly or with other financial institutions, the EBRD provides business advice, mainly donor funded and tailored to the client’s needs. The Bank has helped more than 22,000 small businesses to access advisory services and has reached hundreds of thousands more through partner banks. It provides SMEs with know-how in a wide range of areas, from strategy to operations, quality management, financial reporting and more. The EBRD’s network of local consultants and international experts shares the latest best practices, helping businesses to become more competitive and to grow. The Bank also places great emphasis on engaging with policymakers to create an environment where SMEs can succeed.

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10 SMEs are defined as companies with up to 500 employees and either a maximum balance sheet of €43 million or a turnover of €50 million.
Helping to expand Doctor Auto Chain in Mongolia

Doctor Auto Chain is a leading retailer of automotive parts and accessories in Mongolia. Thanks to a US$ 2.7 million RSF loan, co-financed by the EBRD and a local partner bank (Khan Bank), the company has opened a new, state-of-the-art workshop and introduced car repair and maintenance services. The new workshop has raised industry standards across the board in terms of quality, service, and health and safety.

The EBRD’s advisory support was instrumental in the company’s successful business expansion. Doctor Auto Chain has been able to raise its management of human resources, corporate governance and financial reporting to international standards. A company strategy was devised, the management structure was reorganised and systems for inventory control and customer feedback were introduced. The company’s market share has increased from 28 per cent to 31 per cent and it has received a further loan from Khan Bank thanks to these strategic improvements.

Providing working capital to Kaindy-Kant in the Kyrgyz Republic

Under the RSF, the EBRD and the Kyrgyz Investment and Credit Bank (KiCB) have provided a US$ 2 million loan to Kaindy-Kant, the Kyrgyz Republic’s leading sugar producer. The funds give the company working capital for the procurement, storage, transportation and processing of sugar beet.

In recent years the company has modernised its production facilities and launched promotional campaigns to educate 2,000 farmers in the Chui region on how to plant more sugar beet and increase long-term yields. This resulted in the doubling of sugar-beet production in the region between 2012 and 2015 and the company now works with more than 3,500 farmers.

The Bank played a key role in these modernisation efforts by providing advisory support to the client in two respects. First, a local consultant assisted with the development of a strategic business plan, which was used to secure additional financing for further plant modernisation. Second, international consultants were used to advise on output efficiency, supply-chain management and environmental impacts. This project demonstrates how long-term support of SMEs can be achieved in partnership with local banks by combining advisory services with RSF financing.

Supporting access to long-term financing to Uurteel in Mongolia

Uurteel LLC is a manufacturer of reinforcing steel bars (rebars) and metal products. The EBRD provided the company with a €1.5 million RSF loan with a local partner bank. The RSF financing has assisted Uurteel with its long-term capital expenditure and working-capital needs, as well as technical assistance to become more competitive in its sector. Moreover, Uurteel’s exposure to and relationship with the EBRD will help the company strive for improvements in its operations, management, procurement, marketing and financial skills, to increase its market share and work towards producing more value-added goods in Mongolia.

Furthermore, the EBRD’s RSF financing has promoted the transfer of skills by helping its partner bank to improve its credit skills and sub-loan management. It has also set standards for corporate governance and business conduct by asking the partner bank to apply more stringent borrowing requirements.

In our clients’ words: Women in Business programme

Ms Almira Kurmangalieva, director of “Mayra Lift” (production of lifts, Ust-Kamenogorsk, East Kazakhstan), WIB Mentoring Programme participant:

“At the first meeting this April I was impressed by the team of mentors – they are really cool professionals, serious managers, and owners of large and medium businesses. At the final project meeting I was amazed by how professional and advanced the mentees appeared to be! Women with four or five kids create and develop businesses, lead unbelievable social projects, learn new things and at the same time become deputies of the Maslikhat (i.e. Chamber of the National Parliament)! Besides, they are beautiful and energetic, full of determination to move forward and grow further. I admire each of them and am proud of my participation in this great programme”.

Ms Ainur Baktygalieva, director of brand “Azaya” (uniform production in Aktobe region, West Kazakhstan):

“The SME consulting provided by the EBRD gives an opportunity to small entrepreneurs to become fully-fledged businesses. I’m very happy to have benefited from their consultancy as it equipped me with the right skills to be able to move my business to the next level. I have received consultancy support in three different areas through the mentoring programme. With the help of this programme our current production became lean and automated. I look forward to further cooperation with the EBRD”.

Ms Irina Korneeva, director of “Kolos LLP” (Kostanay region, North Kazakhstan):

“These trainings were eye-opening for me... I can say with confidence that I am proud that I have been part of this women entrepreneurs’ community!”
(9) Partnering with other international financial institutions to support clients

International financial institutions are active in numerous areas in Central Asia, from debt sustainability to institution building, with objectives ranging from international cooperation to growth, climate action and market transition.

The EBRD partners with institutions such as the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), the Islamic Development Bank (IDB), the World Bank Group, the International Monetary Fund (IMF) and bilateral development agencies to deliver maximum, coordinated impact through co-financing and cohesive policy dialogue. The EBRD is also one of the six multilateral institutions that support the Central Asia Regional Economic Cooperation (CAREC) programme, led by the Asian Development Bank.

The EBRD aims to work alongside other international financial institutions in assisting our clients and investors to develop capacity-building and training programmes. The objective is to raise their awareness of and ability to address investment risks and to provide them with instruments to help investors mitigate risks associated with investment, and this is in particular relevant in the context of working with the Belt and Road Initiative.

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Co-financing with the AIIB on the Dushanbe-Uzbek border road project in Tajikistan

The Dushanbe-Uzbek border road project involves the rehabilitation and upgrade of a 62-km road linking Tajikistan’s capital city to the border with Uzbekistan, then on to Russia, Turkey and Europe. The route is vital for domestic and regional connectivity and trade. The most important 5-km section within the urban area of Dushanbe was financed jointly by the AIIB and the EBRD.

The package of services offered by the EBRD included managing the implementation of all aspects of the project, from procurement, disbursement, and environmental and social compliance, to monitoring construction works. The procurement of goods and works was carried out via competitive international tender and contractors were held to high environmental and social compliance standards. The AIIB also followed the EBRD’s internationally recognised rules and procedures. The EBRD further engaged in constructive policy dialogue with the Tajik authorities that resulted in provisions to improve road safety and ensure that public resources were set aside for future road maintenance across the country. The project is set to be completed on time and well below budget.

The EBRD can arrange co-financing with clients and other international financial institutions, and act as project implementation agent for those clients that do not have the required capacity. Importantly, by co-financing projects led by the EBRD, clients have the opportunity to build up a high-level investment portfolio far more quickly and at lower transactional costs than if they had acted alone.