

# The Early Transition Countries Fund



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**The Early Transition Countries (ETC) multi-donor Fund is a financing instrument created in 2004. It responds to the needs of the EBRD's countries of operations which have lagged behind the rest of the region in their transition to market economies. The ETCs include Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan and Uzbekistan.**

## The Early Transition Countries

A large proportion of the population in these countries still lives below the poverty line.

The pace of economic development in the early transition countries has been hindered in particular by underdeveloped local infrastructure, small domestic markets coupled with limited access to world markets and a difficult business climate, together with competition from more attractive destinations for foreign direct investment.

In order to reach the poorest people and to improve their lives, in 2004 the EBRD launched the ETC Initiative to help unlock the economic potential in the ETCs. Since then, nearly 380 loan and equity projects in the ETCs have supported the development of private domestic enterprises, the financial sector and improvements to the local infrastructure.

## The Early Transition Countries Fund

The multi-donor Fund aims to improve the overall coordination and efficiency of donor support. The Development Assistance Committee of the Organisation for Economic Co-operation and Development

(OECD) has confirmed the official development assistance (ODA) status of the ETC Fund, which means that support provided through the Fund can contribute to donor's ODA target.

The ETC Fund supports investments that improve water services and public transport, help protect the environment, increase energy efficiency, strengthen the banking system, promote the private sector, boost tourism, diversify agriculture, promote the private sector and encourage female entrepreneurs.

In 2009, pledges to the Fund had reached about €67 million. These funds are untied, which means that donor funds can be used without any restriction on the nationality of the firm or experts contracted in particular projects.

Since its establishment in 2004, the ETC Fund has been the main vehicle for channelling donor funding to the ETCs, providing around 30 per cent of total donor funding to the early transition countries.

The balance has come mainly from bilateral donors, with a small contribution from the Mongolia Cooperation Fund (a multi-donor fund that was established to support Mongolia before it became one of the Bank's countries of operations). The EBRD is also contributing €10 million from its Shareholder Special Fund to co-fund projects in the ETCs together with donors.



## At a glance

**Fourteen donors have contributed almost €67 million to the ETC Fund**

**174 technical cooperation projects in the ETCs benefited from donor funds**

**The Fund provides for about 30 per cent of donor funding for the ETCs**

### Donor contributors

(€ million)

The Netherlands	19.0
United Kingdom	11.8
Japan	11.0
Spain	6.0
Norway	4.0
Finland	3.0
Switzerland	3.0
Sweden	2.5
Ireland	1.5
Taipei China	1.5
Canada	1.4
Luxembourg	1.0
Korea	0.7
Germany	0.5
Total	66.9

### Donor recipients

(Percentage)

Armenia	6.0
Azerbaijan	9.0
Georgia	14.0
Kyrgyz Republic	9.0
Moldova	10.0
Mongolia	8.0
Tajikistan	14.0
Uzbekistan	1.0
Regional	29.0

## Investment grants

Investment grants offer an alternative source of funding for projects where there may be constraints on the use of loan financing. Such grants, although used infrequently by the EBRD, can be particularly important in implementing infrastructure and energy projects in poorer countries and regions with limited finances and in heavily indebted countries subject to borrowing constraints.

The Netherlands became the first country to provide a €5 million grant to the ETC Fund.

In 2006, the ETC Fund allocated US\$ 2 million in investment grants to a road maintenance project in Tajikistan. Grants from the Netherlands through the ETC Fund enabled this project to go ahead. The grant is accompanying an EBRD loan of €2.72 million to improve road maintenance. Road transport is crucial to the economic and social development of Tajikistan.

More than 70 per cent of the national road network is in poor structural condition hindering international trade flows to Tajikistan.

Another €4 million in investment grants was channelled to a project in Dushanbe, Tajikistan to improve solid waste management.

Built in 1970, the existing landfill in Dushanbe lacks basic structure such as fences and good internal roads. It resembles a dump with animals accessing food, scavengers accessing recyclables and open fires contributing to air pollution.

In this project, donor grants are important to ensure the project's affordability for the end users.

## Investment councils – a Kyrgyz experience

Supported by the multi-donor Early Transition Countries (ETC) Fund, investment councils have become the main vehicle for dialogue between governments and private sectors in the early transition countries. Their creation, a natural progression from the EBRD's work with small and medium-sized businesses, is yet another creative tool that the EBRD and donors have come up with to help local businesses grow.

In the Kyrgyz Republic, the Consultative Council on Investment Climate brings private entrepreneurs, the Kyrgyz President, the Prime Minister and other senior government officials to the same table to raise and resolve issues facing business.

Donor coordination is another achievement. The Kyrgyz Investment Council has become a forum for coordinating donor assistance to improve the business environment and the investment climate in the country.

The Council has also helped to draft new legislation that creates the right conditions for local businesses to grow. Significant improvements in the country's business environment have put the Kyrgyz Republic among the top 10 reformers in the World Bank's *Doing Business 2010* report.

The Kyrgyz Council is the most advanced so far, and councils are also becoming operational in Armenia, Georgia, Mongolia and Tajikistan.



“Norway is pleased to chair the EBRD's Early Transition Countries Fund and believes that this is an important instrument for making projects happen.”

Dag Halvorsen, Ministry of Foreign Affairs, Norway

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