

# The Early Transition Countries Fund



European Bank  
for Reconstruction and Development

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**The multi-donor Early Transition Countries (ETC) Fund is a flagship vehicle launched in 2004 by donors to address the needs of those countries in the EBRD region that continue to face the most significant transition challenges, and where a large proportion of the population still live below the poverty line.**

## The ETC Initiative

In 2004, the EBRD launched the ETC Initiative to stimulate economic transition in Armenia, Azerbaijan, Belarus, Georgia, the Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan and Uzbekistan. Economic development in these countries has been hindered by underdeveloped local infrastructure, small domestic markets, limited access to world markets, difficult business climates and competition from more attractive destinations for foreign direct investment.

Support for the ETC Initiative has been provided through the multi-donor ETC Fund. Contributors to this Fund have included Canada, Finland, Germany, Ireland, Japan, Korea, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom. 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 donors' ODA targets.

Since 2008, financing from the ETC Fund has been matched by the EBRD Shareholder Special Fund (SSF). The ETC Fund not only leverages donors'

funds but is also able to capitalise on the experience and expertise of donors. These funds are untied, therefore they can be used without any restriction on the nationality of the firm or experts contracted for particular projects.

More than 60 per cent of EBRD investment projects completed in the ETCs have been supported by donor funding for technical cooperation, risk-sharing incentives and grant co-financing. These activities help with project feasibility, preparation and implementation, training local bankers and entrepreneurs and improving the business environment for foreign direct investment. Thanks to the ETC Initiative, the Bank's annual volume of investments in the region has increased from €61 million in 2003 to €932 million in 2013.

## Alleviating poverty and improving business environments

Despite their advances in economic transition and poverty alleviation, the ETCs still face the most significant development challenges across the EBRD region of operations. With donor support, the Bank will continue to promote small and medium-sized enterprises – often the main contributors to economic growth and job creation. The EBRD will also strengthen the banking sector to sustain lending to small businesses, and invest in vital services such as water, electricity, transport and communications, while keeping them affordable.

Donor support remains as crucial as ever. As the demand for projects that improve people's lives exceeds the supply of funds, the Bank prioritises assignments according to critical need in the region and in keeping with the objectives of the ETC Fund and the ETC Initiative.

## At a glance

14 donors have contributed  
**€83 million**

Technical cooperation projects in the ETCs benefiting from the ETC Fund financing  
**189**

Percentage of total donor funding going to the ETCs in 2013  
**33%**

### Donor contributions (€)

Netherlands	21,432,218
United Kingdom	11,095,506
Japan	10,431,611
Norway	7,271,235
Sweden	6,633,201
Spain	5,689,969
Switzerland	4,322,957
Korea	3,735,886
Finland	3,344,985
Taipei China	2,443,306
Germany	2,422,492
Luxembourg	1,541,865
Canada	1,387,252
Ireland	1,309,637
<b>Total</b>	<b>83,062,120</b>

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Further information  
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## Ground-breaking Tajik project provides model for region-wide engagement

Designing the EBRD's first municipal financing venture in Central Asia to improve the water supply in Tajikistan's second city, Khujand, was always going to be a huge challenge. The Bank did not, however, predict that the project would be so successful in promoting cooperation between international financial institutions, municipalities and donors in this early transition country (ETC) that it would become a model for engagement across Central Asia.

But what did the project look like a decade ago? Although Tajikistan has plentiful supplies of fresh water, its depleted infrastructure made it very difficult to provide a reliable source of clean drinking water for people. In Khujand, access to drinking water was limited to a few hours a day and the city's water supply came chiefly from the Syr Daria river, which was also shared with factories. Water was pumped at such low pressure that it had to be carried in buckets to people's homes for storage.

Among the challenges facing the Bank were: engaging in a partnership with an inexperienced borrower; entering a municipal market that was only just coming into existence; harnessing donor support on an unprecedented scale; enlisting end-user support through a civic participation programme; and offering a small loan amount.

The project covered the investment need in phases. These gradually allowed for institutional strengthening and enhanced creditworthiness for the utility, in parallel with an improved water-tariff collection rate. Each phase was accompanied by substantial technical cooperation

funded by donors to the ETC Fund and the Swiss State Secretariat for Economic Affairs (SECO), among others.

The first phase of the project rehabilitated the water supply in 30 per cent of the city. It was financed by a Bank loan of just \$1.2 million. In tandem, SECO provided a grant of US\$ 2.1 million. The second phase of the project covered the rest of the city's water supply and grant support was again supplied by SECO and the ETC Fund.

Similar water projects are now being implemented in 20 other cities in Tajikistan and 10 cities in Kyrgyz Republic, with other projects following a similar model in the Caucasus, Belarus and Moldova.

