

Low-income
countries

10

The EBRD's operational strategy for moving south and east will require close cooperation with donors and official co-financiers. The countries of the Western Balkans, Caucasus and Central Asia are in the early stages of transition. According to the Development Assistance Committee (DAC), seven countries are classified as Low Income for Official Development Assistance (ODA) purposes. They are: Armenia, Azerbaijan, Kyrgyz Republic, Moldova, Mongolia, Tajikistan and Turkmenistan. An additional seven countries are in the Lower Middle Income category: Albania, Bosnia and Herzegovina, Georgia, Kazakhstan, FYR Macedonia, Serbia and Montenegro and Uzbekistan.

One group of low transition countries - Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan - known as the CIS-7, has recently become the focus of coordinated international efforts aimed at overcoming constraints to development. A three day meeting of the international community held in Lucerne, Switzerland in January 2003 focused on the efforts that are under way and the priorities for future reform and assistance. Further information about the meeting is available at www.CIS-7.org.

The EBRD's experience across this group of countries is indicative of the cooperation that will be required among donors, official co-financiers, local government agencies and private businesses to undertake investment and advisory operations. One of the main challenges has been that the private sector remains weak, characterised by a very large informal sector and low levels of financial intermediation. Good management skills are not widely available, which has limited the benefits of privatisation. The business, legal and regulatory environment is poor, and in many cases acts as a disincentive to small businesses to enter the formal sector. Infrastructure development, particularly in cross-border power and transport initiatives, has also been held back. The EBRD is working with donors and official co-financiers to address a range of these challenges.

EBRD technical cooperation in the CIS-7 countries

EBRD technical cooperation in the CIS-7 countries commenced in 1993 when 20 assignments amounting to €4.2 million were approved by donors under the Bank's

technical co-operation funds programme (TCFP). By the end of 2002 the cumulative total of TCFP commitments had grown to €80.5 million, supporting 365 CIS-7 TC projects. TC has been targeted towards many of the critical needs of the region, covering operational and advisory activities including small and medium-sized enterprises (SMEs) and microfinance lending, transport, power, energy efficiency, municipal development, TurnAround Management and Business Advisory Services, and Legal Transition (telecoms regulation, bankruptcy laws, foreign investment laws and secured transactions legislation). Overall, the region has accounted for just under 10 per cent of cumulative TCFP commitments to date, with the largest contributions to the TCFP coming from the European Commission, Japan, the Netherlands, Switzerland, the United Kingdom and the United States.

During 2002 the volume of EBRD TC in CIS-7 amounted to just over €12 million, accounting for around 12 per cent of the total TC initiated by the Bank for the year. The three main areas of activity were: infrastructure (railways, municipal and environmental infrastructure in Uzbekistan, transport in Tajikistan, and port and energy projects in Azerbaijan); TurnAround Management and Business Advisory Services (Armenia, Azerbaijan, Georgia and the Kyrgyz Republic); and microfinance (Azerbaijan, Georgia and the Kyrgyz Republic). More than 90 per cent of the EBRD's TC in CIS-7 during 2002 was financed by three donors - the European Union, Japan and the United States.

EBRD TC priorities in 2003

Significant increases in TC needs have been identified in the CIS-7 countries in 2003. The TC Pipeline for 2003 (when prepared at the end of 2002 by EBRD Banking and Advisory Teams) indicates a required volume of donor support of around €24.5 million (see table on page 63). This amount reflects anticipated TC needs based on discussions with clients in both public and private sectors in each of the countries. The overall volume of TC identified for CIS-7 countries represents around 20 per cent of the EBRD's total requirements in 2003, which is double the region's historical share of EBRD TC activity.

The main area of growth in CIS-7 TC for 2003 will be in the financial institutions and SME/MSE finance sectors. This will support

planned work in bank privatisation and restructuring, capacity strengthening and the development of sectors such as leasing. In addition, TC operations are planned to assist municipalities in the implementation of environmental projects, district heating programmes and energy sector development. The EBRD will discuss with donors individual plans for the implementation of these TC assignments.

TC support to EBRD investments

Donor agencies play an important role in supporting EBRD investment operations in the CIS-7 countries. To date, the total volume of EBRD signed investments in CIS-7 amounts to €1,652 million, or 8 per cent of the Bank's cumulative investment portfolio. Some 70 per cent of this investment volume has been supported in various ways by donor funded TC, compared with 42 per cent for Bank investment operations overall. This indicates a relatively high level of TC intensity for implementing investment projects in these countries. It is anticipated that growth in investment operations will continue to be TC intensive, particularly in sectors where, based on the EBRD's experience, institution building and capacity strengthening are needed during project implementation.

Official co-financing in the CIS-7

Support to EBRD project investments is also provided by official co-financing agencies (see also Chapter 3). In the CIS-7 countries to date, some 42 EBRD project investments have been co-financed by official institutions, involving 59 operations totalling almost €500 million.

Most official co-financing has been in the form of parallel loans. There have been some investment grants provided to individual projects, but overall the EBRD projects in the region have attracted less grant finance than other low-transition regions such as the Western Balkans. The grant component contained in the official co-financing has amounted to €38.3 million, less than 10 per cent of the total (and less than the volume of TC grants mobilised). The official grant contribution was mainly to a hydro power project in Georgia. Elsewhere, investment grants have not been a significant feature of project financing. The EBRD will discuss grant requirements for project implementation with donor agencies during the coming year.

Cumulative technical cooperation commitments in CIS-7

	No. of TC projects	Amount committed (€)
Armenia	29	5,074,831
Azerbaijan	57	13,387,993
Georgia	65	11,684,325
Kyrgyz Republic	72	13,298,832
Moldova	55	9,056,561
Tajikistan	29	8,697,951
Uzbekistan	58	19,299,993
Total	365	80,500,486

TC pipeline for 2003 in CIS-7

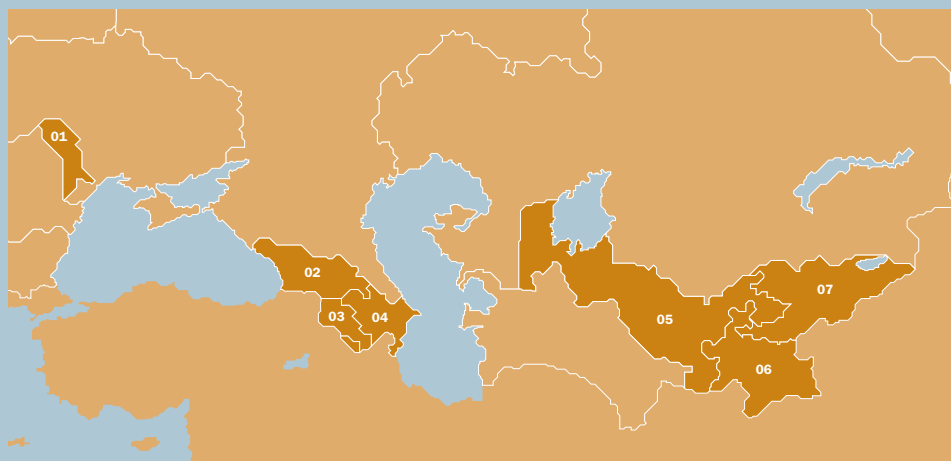
	€
Armenia	973,710
Azerbaijan	5,376,081
Georgia	3,082,911
Kyrgyz Republic	1,641,710
Moldova	1,450,000
Tajikistan	5,381,694
Uzbekistan	6,559,700
Total	24,465,806

Official co-financing in the CIS-7

	No. of operations	€
Armenia	0	0
Azerbaijan	8	157,410,447
Georgia	16	78,225,623
Kyrgyz Republic	7	12,918,615
Moldova	11	31,008,492
Uzbekistan	10	203,649,295
Tajikistan	7	8,653,997
Total	59	491,866,469

CIS-7 Countries

- 01 Moldova
- 02 Georgia
- 03 Armenia
- 04 Azerbaijan
- 05 Uzbekistan
- 06 Tajikistan
- 07 Kyrgyz Republic





“The EBRD can benefit from the experience Portugal gained during its own transition in recent decades.”

António de Almeida, *Director for Portugal, EBRD*

Donor-supported microfinance in CIS-7 countries

With donor support, the EBRD has provided finance to seven microfinance operations and credit lines in the CIS-7 countries, commencing with MBG Bank in Georgia in May 1999. As at December 2002 these projects had disbursed 24,913 individual loans to small and micro borrowers at an average loan amount of US\$ 4,735 (€4,300) each. A feature of the operations has been the high rates of loan repayment; arrears in excess of 30 days are zero in four of the banks and average less than 3 per cent overall. The principal donors supporting MSE/SME lending in the CIS-7 are the EU, Japan and the United States, with additional support coming from Germany, the Netherlands and Switzerland. Microfinance project descriptions are included in the case studies below.

In parallel with lending and capacity building activities, the EBRD is engaging with governments in the region to identify and overcome policy related obstacles to small business development. In the Kyrgyz Republic, the Bank is working with the National Bank on changes to the collateral law, which has a disproportionately costly effect on smaller loans. The National Bank has also sought assistance on reporting, loan classification and provisioning requirements for microfinance.

Micro credit advisers, Georgia

This project is strengthening the credit capabilities of existing and new partner banks in Georgia, particularly in the techniques of micro-enterprise lending. The consultants are assisting participating banks to implement management information systems and set up micro-lending departments. The overall objective is to improve the flow of finance to small enterprises in Georgia and to promote development of banking sector capabilities.

Funding source: [United States](#)

Telecommunications project, Tajikistan

This project focuses on financing essential investment in the fixed-line telecommunications network infrastructure of joint-stock company Tajiktelecom, the national telecommunications operator of Tajikistan. The objective is to improve the quality of and access to basic telecommunications services. The EBRD has provided a long-term loan of €14.2 million, which will be used primarily to procure digital switching equipment for regional centres. Grant funding of €2.3 million provided by Switzerland and TC funding of €1.1 million from Japan will contribute towards the Project Implementation Unit and corporate and regulatory development. Apart from improved telecommunications services, especially for businesses, the resulting transition impact also includes sector reform in the form of a new telecommunications law, transparent licensing procedures, tariff reform and the establishment of an independent regulatory framework.

Funding sources: [Japan](#) and [Switzerland](#)

Enterprise investment demonstration project, Kyrgyz Republic

This project involves helping a Kyrgyz footwear manufacturer to create a profitable well-managed shoe factory that can successfully design and sell its output in local and developed markets through production contracts. A key focus of this TC project will be the transfer of skills and the training of local staff to ensure that a strong local management team can produce sales growth and reasonable volumes of profit. A successful operation will enable the EBRD and other agencies to look at the supply chain, which also needs investment and technical support (for example, the local tannery).

Funding source: [Japan](#)

Micro-finance Bank and MSE credit advisers, Azerbaijan

This TC assignment has been designed to support the EBRD's proposed equity investment and senior loan to the Azerbaijan Micro-finance Bank (AMB), a new financial institution designed to provide financial services to MSEs. The investment aims to support the development of a viable MSE sector in Azerbaijan by providing much sought after access to formal financing. The overall objective of the TC assignment is to establish AMB as a sustainable financial institution focused on providing services to MSEs by setting up lending facilities in regional branches.

Funding source: [European Union](#)

Leasing law project, Uzbekistan

The EBRD is providing advice to enhance the legal and regulatory environment for leasing transactions. Amendments to the leasing law and related legislation have been suggested and assistance has been provided with the preparation of drafts for presentation to the Uzbek parliament. Further assistance was also provided to the working group and cabinet of ministers in the implementation of the law and related regulations and decrees.

Funding source: [Japan](#)



“In the shift towards Central Asia and the Caucasus, the Bank has an opportunity to apply the lessons learned so far in the more advanced countries.”

Marco Domaschio, [Canadian International Development Agency](#)

Preparation of securities market laws, Azerbaijan

At the request of the Azerbaijan State Committee for Securities, the EBRD provided advice and assistance in drafting two pieces of primary legislation governing the securities market of Azerbaijan - a new Law on Joint Stock Companies and a new Law on Securities.

Funding source: [United Kingdom](#)

Telecommunications regulatory development programme, Georgia

The EBRD assisted authorities in Georgia in adopting a modern telecoms regulatory framework that would be clear and predictable, and therefore likely to attract private investment and enable the overall development of the sector. The EBRD also assisted the Georgian authorities in developing a policy on universal access and interconnection issues. The assignment deals with the delivery of a tariff/ revenue/cost model, together with on-site training of the Georgian authorities.

Funding source: [European Union](#)

Strengthening financial institutions, Armenia

Institution building assistance is being provided to Armenian banks participating in the Multi-Bank Framework Facility, which provides financing to local commercial banks. The assistance includes helping banks to: implement effective credit policies and procedures; analyse and structure sub-loans; and monitor the performance of the sub-loan portfolio. The assignment also provides for due diligence on new participating banks.

Funding source: [Japan](#)