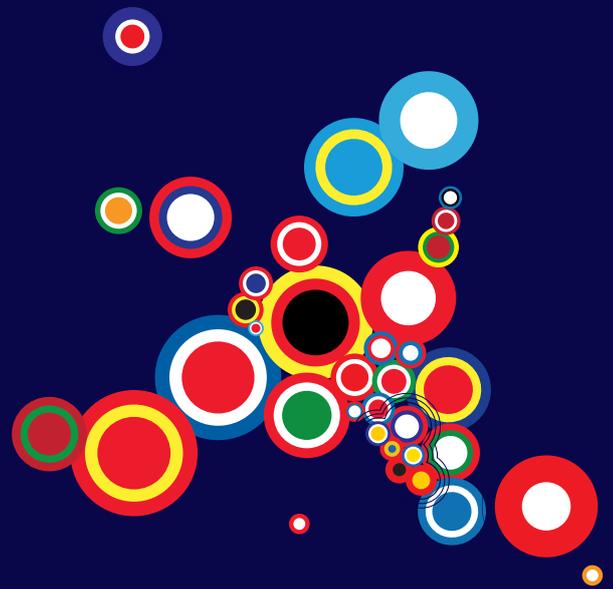




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

MULTI-COUNTRY

Support to Western Balkans
Infrastructure Investment
Projects for 2014



Action Summary

This Action will allow financing Technical Assistance for the preparation of major investment projects. In particular, it will support investment projects with a regional dimension which are priorities for the IPA II beneficiaries in the Western Balkans and the enlargement process.

The Western Balkans Investment Framework (WBIF) has proven to be an effective forum for beneficiaries, the EU, financial institutions and bilateral donors to pool their knowledge, experience and resources so as to expedite priority investments in key sectors.

| Action Identification | |
|---|--|
| Programme Title | IPA II Multi-country action programme 2014 |
| Action Title | Support to Western Balkans Infrastructure Investment projects for 2014 |
| Action Reference | IPA 2014/031-603.14/MC/WBIF |
| Sector Information | |
| ELARG Sectors | Transport, Energy, Environment and climate action, education, employment and social policies |
| DAC Sector | 43010 |
| Budget | |
| Total cost (VAT excluded)¹ | EUR 35.54 million |
| EU contribution | EUR 35.54 million |
| Management and Implementation | |
| Method of implementation | Indirect management |
| <i>Indirect management:</i> Implementing Agency | European Investment Bank (EIB) |
| Implementation responsibilities | EIB |
| Location | |
| Zone benefiting from the action | Western Balkans |
| Specific implementation area(s) | Western Balkans |
| Timeline | |
| Deadline for conclusion of the Financing Agreement | n/a |
| Contracting deadline | 31 December 2015 |
| End of operational implementation period | 31 December 2020 |

¹ The total action cost should be net of VAT and/or of other taxes. Should this not be the case, clearly indicate the amount of VAT and the reasons why it is considered eligible.

1. RATIONALE

The Western Balkans Investment Framework (WBIF) was created in response to the call of the European Council in 2008 to create a wider framework for coordinated and coherent support to the Beneficiaries of the Western Balkans by way of grants and loans. Thus, WBIF grants are pooled from the EU budget, International and National Financial Institutions (FIs) and bilateral donors into a Joint Grant Facility to support investments that will need loan co-financing from the FIs working together within a Joint Lending Facility.

The WBIF is open for all types of investment requiring grants and loans; not only infrastructure but also access to finance for SMEs and energy efficiency. The projects with a clear regional dimension are particularly targeted by the WBIF.

WBIF's objective is to expedite priority investments that contribute to socio-economic development and EU accession in the region. Furthermore, it provides a forum for strategy and policy discussions and communications among key actors.

The WBIF is perceived by all stakeholders to have been successful in its first four - five years of operation and the results speak for themselves – a pipeline of about 150 investment projects with a potential investment value of nearly EUR 13 billion. The value of the loans identified has reached EUR 5.7 billion and out of these, EUR 2.7 billion have already been signed. These loans have been signed with the respective beneficiaries. Furthermore, it is also encouraging to see that approximately 50% of the grants approved from the first two years (2009 and 2010) have progressed to construction stage (altogether 26 projects of which 4 are completed). This has been achieved in the context of a difficult economic climate globally that has affected the capacity of governments to finance investments from national or external sources and considerable challenges in aligning the systems and procedures of all the different stakeholders.

The Commission contribution to the WBIF has – since 1 January 2009 – been EUR 260 million. The amount has been allocated to the following activities:

- Infrastructure Project Facility - IPF (Technical Assistance): EUR 95 million
- European Western Balkans Joint Fund (EWBJF)² (mainly Technical Assistance): EUR 38.3 million
- Enterprise Development Innovation Facility (EDIF) (SME support): EUR 58.6 million
- Municipal Window (investment grants): EUR 57.2 million
- Regional Energy Efficiency Programme (REEP) (mainly Technical Assistance): EUR 20 million
- Horizontal support to the WBIF Secretariat: EUR 4.2 million

The Infrastructure Project Facility (IPF) – providing exclusively Technical Assistance services – will require further contributions from the Commission to continue TA activities.

New methodology

It is crucial that investment projects should not be proposed on an ad-hoc basis, but fit into wider and more long-term **sector development plans**. The Commission will provide its assistance under the Instrument for Pre-Accession Assistance (IPA II) on the basis of (multi-) country indicative strategy papers 2014-2020 (MCSP). More and more, the FIs define similar multi-annual strategies for their interventions. The beneficiaries are equally invited to introduce multi-annual and sector specific planning tools. Regional organisations such as the South-East Europe Transport Observatory or the Energy Community develop and regularly update strategic planning documents identifying priorities.

² The European Western Balkans Joint Fund is a fund where bilateral donors, FIs and the Commission can pool their grant funds. The EWBJF is co-managed by EBRD and EIB.

The beneficiary countries need to ensure **ownership** for the relevant major investment projects and political commitment by the respective government, not just the National IPA Coordinator (NIPAC) or a line minister. Where appropriate, National Investment Committees (NIC) bringing together the Minister of Finance, the competent line ministers, the social partners and donors (including the Commission and the FIs) should be set up to ensure coherent planning and endorsement of investment priorities by the entire government.

A further condition for successfully implementing infrastructure projects refers to **efficient project preparation**. Technical assistance should be made available to the beneficiary countries for all projects in the single project pipelines, not only for projects which will eventually be supported by the WBIF in the implementation phase. The different sources of financing technical assistance (e.g. IPF under WBIF, JASPERS etc.) should be streamlined or at least coordinated.

In order to ensure swift and efficient **implementation** of well-prepared investment projects, the following should apply:

- A clear distinction should be operated between investment projects with a national (or local) dimension and investment projects with a **regional dimension**, i.e. having an impact beyond the territory of the country where the investment takes place. Projects with a regional dimension are covered under this action. In particular, projects which are part of the priority axes identified in macro-regional strategies³, which are part of the indicative extension of the Trans-European Transport network (TEN-T)⁴ or the projects of Energy Community interest.
- The possible **sources of funding** (national budget, EWBJF, national IPA programmes, FI loans, other donors, private capital) need to be identified and the most advantageous form of funding (including the impact on the fiscal headspace of the country) should be retained. Grant funds should be used only to the extent necessary, i.e. to remedy market failures, to create favourable conditions for IFI loans or to cushion the risks for private investors. EWBJF grant funds should be considered only for investment project having a regional dimension.
- The **prioritisation of projects** should take place in line with relevant macro-regional strategies, be based on reliable and state-of-the-art sector studies (e.g. transport network update) and follow a proper investment co-financing methodology which takes into account the countries' fiscal space, economic viability (return on investment) and financial affordability.

PROBLEM AND STAKEHOLDER ANALYSIS

The substantial socio-economic needs of the region have been exacerbated by the global economic downturn over the last years, which has had a severe impact on the Western Balkans. The crisis has also reduced inflows of foreign direct investment to the region and affected donor funded assistance programmes. Therefore the need to ensure close coordination and cooperation between the multiple actors involved - beneficiary administrations, regional sectoral organisations, Commission, IFIs and bilateral donors - is greater than ever to ensure that scarce resources are targeted at the investments most likely to stimulate the socio-economic growth required by the region to secure stability and to advance the process of EU accession. Given the scale of the investments required, the different sectors that need to be addressed and the number of actors that should cooperate together, there is a continued

³ EU Strategy for the Danube Region and (draft) EU Strategy for the Adriatic and Ionian Region

⁴ as identified by Annex III of the TEN-T guidelines Regulation (EU) No 1315/2013 on Union guidelines for the development of the trans-European transport network. The network has been identified on the basis of the South East European Transport Observatory (SEETO) network

need to ensure the provision of services to facilitate better coordination and communication amongst all stakeholders. In particular there is a need to ensure that:

- investment decisions are taken in the context of the relevant sectoral and accession strategies and policies
- decision makers have up to date information on the overall environment and other relevant activities in the different sectors
- common obstacles to implementation are identified and addressed jointly and
- timely and comprehensive information flows allow all parties to contribute as appropriate.

The differing mandates, areas of interest and resources available to the various actors mean that such services are more efficient and effective if provided on a horizontal basis.

Given the success to date of the WBIF including its expansion into new sectors and sub-sectors such as private sector development and energy efficiency, as well as the greater emphasis being placed on the development and implementation of sector based strategies, this support needs to be continued and intensified. The overall cooperation and coordination among the beneficiaries, EC, FIs and bilateral donors need to be continued. In particular, technical assistance to the NIPACs and project promoters in beneficiary countries, which is currently provided by the IPF to better identify and prepare a sound pipeline of projects to be funded by FIs needs to be maintained.

RELEVANCE WITH THE IPA II MULTI-COUNTRY STRATEGY PAPER AND OTHER KEY REFERENCES

The IPA II multi-country indicative strategy paper 2014-2020⁵ (hereafter referred to as Strategy Paper) clearly underlines the importance of cooperating and coordinating closely with FIs providing loan financing for the implementation of investment projects in the transport, energy, environment and social sector. The Strategy Paper also makes a clear reference to the importance of a constructive cooperation with FIs for the attainment of a balanced and equitable socio-economic development in the region.

LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE

As the WBIF moves into its 5th year of operation it faces a number of challenges including the immense scale of financing required for socio-economic investments, the limited fiscal space available to the beneficiaries, the need to attract more Foreign Direct Investment and to implement policy reforms and to ensure that grant funds are targeting priority projects that are most relevant for growth, stability and accession.

To stimulate socio-economic growth and to enhance the EU accession process, it is essential that there be proper co-ordination and good communication between all key partners. The WBIF has proven to be an effective forum for beneficiaries, Commission, FIs and bilateral donors to pool their knowledge, experience and resources so as to expedite priority investments in key sectors. It has also provided a platform to share and discuss research and analyses of common issues and to identify ways forward. These policy and strategy discussions also feed into other regional and sectoral fora including those concerned with IPA programming. The WBIF has demonstrated that it can achieve such results.

In this time of restrained budgets, it is even more important to ensure that priority projects are prepared and implemented. The WBIF Steering Committee of June 2012 has requested that project prioritisation is further enhanced.

⁵ C(2014) 4293, 30.06.2014

A detailed review of WBIF was carried out in 2013 and 2014. Such review has resulted in a series of recommendations which have been adopted by the WBIF Steering Committee in June 2014. They aim at making WBIF more efficient by:

- providing advance notice about possibility to submit requests for funding of projects;
- providing TA for the establishment of the NICs in the beneficiary countries;
- strengthening the commitment of beneficiaries and a FIs associated to the projects;
- consider options for speeding up the implementation;
- associate more closely the EU Delegations; and
- improve the reporting of the EWBJF.

2. INTERVENTION LOGIC

LOGICAL FRAMEWORK MATRIX

| OVERALL OBJECTIVE | OBJECTIVELY VERIFIABLE INDICATORS (OVI) | SOURCES OF VERIFICATION | |
|---|---|---|---|
| Support the socio-economic growth of the Western Balkans by implementing the WBIF | <ul style="list-style-type: none"> Public sector investment GDP growth Human development index Total value of all investment projects (private and public) made in the region | National/Central Banks reports National Statistical Offices Eurostat | |
| SPECIFIC OBJECTIVE | OBJECTIVELY VERIFIABLE INDICATORS (OVI) | SOURCES OF VERIFICATION | ASSUMPTIONS |
| <p>Support the preparation and implementation of priority infrastructure investment projects that may be financed by a combination of grants and loans</p> <p>Enhanced cooperation and coordination between FIs, beneficiaries, bilateral donors and regional organisations.</p> <p>Exchange of skills and knowledge</p> <p>Loans leveraged with grants</p> | <ul style="list-style-type: none"> Total number of projects implemented (construction completed); Number of projects prepared which found financing (signed loans); | WBIF's online Management Information System, MIS; FIs information; WBIF Annual Reports; WBIF bi-annual Monitoring reports; Detailed Review of the WBIF project pipeline; Government budgets. | <p>Capacity to borrow from Beneficiaries remains</p> <p>Recovery from the crisis allows further development and creates further loans demand</p> <p>Political stability in the region</p> |
| RESULTS | OBJECTIVELY VERIFIABLE INDICATORS (OVI) | SOURCES OF VERIFICATION | ASSUMPTIONS |
| Improved number, speed and quality of priority infrastructure investment projects in transport, environment and climate change, energy and in the social sector. | <ul style="list-style-type: none"> Number of TA projects financed and delivered by the WBIF and TA projects managed by the Financial institutions; | EIB and EBRD reports, WBIF's online MIS, WBIF Annual Reports; WBIF bi-annual Monitoring reports; Detailed Review of the WBIF project pipeline; | <p>WBIF continues to receive support from the different partners</p> <p>NIPACs present multiple good projects for financing.</p> <p>IFIs availability to</p> |

| | | | |
|--|---|---------------------|--|
| | | | provide loans remains high in the region |
| ACTIVITIES | MEANS | OVERALL COST | ASSUMPTIONS |
| Technical assistance for investment projects for the four sectors (transport, environment and climate change, energy, social) for project preparation and project implementation | Indirect Management Delegation Agreement with the EIB | EUR 35.54 million | |

ADDITIONAL DESCRIPTION

The action proposed could include the following activities:

- Technical assistance for project preparation, project implementation and project management as well as sector analysis through service contracts, such as the existing Infrastructure Project Facilities (IPF), or through sub-delegation agreements with IFIs; funding will be allocated to extend the activities of the IPF 4, which is currently starting its activities, as appropriate;
- Actions related to the floods which affected Serbia and Bosnia and Herzegovina in May 2014 and regional assistance for flood prevention.

The European Western Balkans Joint Fund (EWBJF)

Grants that are managed directly by the lead FI are funded from the European Western Balkans Joint Fund (EWBJF). Funds of the EWBJF are co-managed by the EBRD and the EIB. An implementation agreement (IA) is signed between the co-managers and the lead financial institution, to provide the terms by which the funds are to be transferred and may be utilised. Once signed, the lead FI submits a request for payment for the funds to be disbursed. The IA is signed after the WBIF Steering Committee (SC) approval and before the consultancy contract is signed.

Each institution has a tailored template to suit its mandate, policies and procedures whilst adhering to the terms specified in the General Conditions of the EWBJF, the rules governing donor resources. It has been necessary to adapt IA templates over time to provide for the implementation fee introduced in 2012 as well as enhanced provisions for controls, audits and financial reporting to comply with the terms by which the EU contributed to the EWBJF in 2011 and 2012.

Lead FIs that use EWBJF resources provide financial and technical information to the co-managers of the EWBJF on an annual basis for fund management and reporting purposes, in order to allow the SC to confirm that resources have been used appropriately and in accordance with decisions of the SC and the General Conditions of the EWBJF. An audited financial statement of the EWBJF is submitted annually to the SC.

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

The **eligible beneficiaries** of the WBIF are Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Kosovo*, Montenegro and Serbia. The **WBIF financiers** are the Council of Europe Development Bank (CEB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), The World Bank Group (WB), Kreditanstalt für Wiederaufbau (KfW) and bilateral donors to the Joint Grant Fund.

Other stakeholders are:

The WBIF Steering Committee (SC)

It takes all decisions related to the Joint Grant Facility including project approvals and provides strategic guidance for the WBIF. The Steering Committee brings together representatives of the beneficiary countries, the Commission, partner IFIs and bilateral donors) and meets every six months. It is co-chaired by the Commission (on a permanent basis) and one of the bilateral donors (on an annual rotating basis).

The Project Financiers' Group (PFG)

It is responsible for screening and assessing requests for financial support from the Joint Grant Facility with the objective of establishing a pipeline of priority projects. It is also responsible for the coordination of approved grant operations. The Group is composed of representatives of the Commission (DG Enlargement coordinates the participation of all relevant Commission services), FIs and bilateral donors. It is co-chaired by the Commission (on a permanent basis) and the partner FIs (on a rotating basis every 6 months).

WBIF Secretariat in DG Enlargement

It is responsible for the day to day management, coordination and administration of the WBIF. In particular, the Secretariat issues calls for proposals for projects and manages the screening and assessment process. Furthermore, it coordinates all strategy and policy tasks related to the WBIF through the Task Force by conducting a complete review of the WBIF.

Infrastructure Project Facility – IPF

It is a Commission-financed facility for the WBIF that provides teams of technical experts, to assist beneficiaries and financiers with the preparation of infrastructure projects that have been identified as a priority by WBIF stakeholders. IPF assistance is also made available to assist with investment implementation which is approved by the WBIF Steering Committee. The IPF also supports the operation of the PFG. For more information please see <http://www.wbif-ipf.eu>

IFI Coordination Office – IFI CO

It is a Commission-financed project that supports better coordination and communication among the Commission, FIs, bilateral donors and beneficiaries in the Western Balkans. It focuses on policy and strategy issues in the key sectors of energy, environment, transport, social issues and private sector development. It provides a range of services including research and analyses, technical assistance, communications and administrative support. In particular it supports the WBIF Steering Committee and manages the WBIF website and the ad hoc Management Information System (MIS).

IMPLEMENTATION METHODS AND TYPES OF FINANCING

Technical assistance services will be implemented by the EIB through an Indirect Management Delegation Agreement; such services might include an extension of the activities of the existing IPF 4 or sub-delegations to other IFIs.

4. PERFORMANCE MEASUREMENT

METHODOLOGY FOR MONITORING AND EVALUATION

Overall monitoring of the WBIF funded projects will be carried out by the WBIF secretariat, notably through the ad-hoc MIS⁶. More specifically, the IPF service contract will be monitored by the Task Manager in DG ELARG. The use of Result Oriented Monitoring (ROM) is also foreseen.

An evaluation of WBIF is planned to be launched at the end of 2014 and another evaluation will be scheduled in 2016.

⁶ Access available on internet by logging at the following link: <http://www.wbif-mis.eu/monitoring> user name: WBIF\wbif.monitoring password: monitor1234!

INDICATOR MEASUREMENT⁷

| Indicator | Description | Baseline 2014 | Target 2017⁸ | Target 2020⁹ |
|---------------------|---|--------------------------|------------------------------------|------------------------------------|
| outcome indicator 1 | 1. Total number of projects implemented (construction completed) | 4 | 8 | 12 |
| outcome indicator 2 | 2. Number of projects prepared which found financing (signed loans) | 40 | 60 | 80 |
| output indicator 1 | 3. Number of TA projects financed and delivered by the WBIF and TA projects managed by the Financial Institutions | 150 | 195 | 220 |

⁷ In view of the long time required to complete major infrastructure investments, the targets below reflect the development of the overall WBIF project pipeline and not purely the outcomes/outputs of the 2014 programme.

⁸ Source of information: see logical framework.

⁹ Source of information: see logical framework.

5. CROSS-CUTTING ISSUES

ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

In June 2013, a Climate Change Window was introduced to the WBIF, in line with EU policies for blending facilities worldwide. At present, the Climate Change Window is focused on tracking financing allocated to investments in mitigation and adaptation measures and climate resilience. It also aims to raise awareness so that climate change considerations are incorporated in project design for strategic infrastructure areas such as transport, energy and environment.

The 10th Round of Applications served as a pilot phase and 52% of the grants approved by the WBIF Steering Committee were for projects that target both adaptation and mitigation. This represents a total amount of approximately EUR 3.1 million of EU contributions to climate financing efforts from this Round of Applications. Since 2009, approximately 20% of EU grants have been dedicated to the preparation of projects which will contribute to the mitigation and adaptation to climate change. This represents EUR 58 million of EU contributions to climate finance.

The WBIF pipeline of environment projects to date includes two projects related to flood protection and prevention.

ENGAGEMENT WITH CIVIL SOCIETY

The preparation of investment projects is always accompanied by the consultation of stakeholders, including representatives of civil society organisations.

EQUAL OPPORTUNITIES AND GENDER MAINSTREAMING

Cross-cutting issues such as gender and equal opportunities are taken into account during the preparation of Terms of Reference for the Technical Assistance which is deployed for preparation of investment projects.

Projects funded through the WBIF should benefit the whole population. When relevant the projects submitted for funding should take into consideration gender differences in the use of a service or construction funded and analyse this accordingly. The action will encourage and promote equal opportunities for women and men which will be communicated in the calls for proposals and mainstreamed in all other relevant activities.

MINORITIES AND VULNERABLE GROUPS

Investment projects provide benefits to the groups of population without distinction, including people belonging to minorities and vulnerable groups.

6. SUSTAINABILITY

In order to ensure their sustainability, the preparatory actions for investments, such as feasibility studies, Environmental Impact Assessments, Cost Benefit Analysis, must be specifically requested by the beneficiary country (via the NIPAC) and should be supported from the beginning by a lead FI. In order to proceed to the implementation phase, the greater element provided by the EC is associated to a substantial loan. The financial burden which has to be borne by the Treasury of the beneficiary country is a strong factor to ensure the maximisation of the advantages and impact of the public investment after its completion and during its whole operation life.

7. COMMUNICATION AND VISIBILITY

Communication and visibility will be given high importance during the implementation of the Action. All necessary measures will be taken to make public the fact that the Action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions.

The implementation of the communication activities shall be the responsibility of the contractors and shall be funded from the amounts allocated to the Action.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process. Actions shall be undertaken to strengthen general public awareness and promote transparency and accountability on the use of funds.

The Commission shall be fully informed of the planning and implementation of the specific visibility and communication activities.

Specific communication and visibility activities are included in the IFICO contract which is ongoing until 2016 and could be renewed, as appropriate, once the existing contract comes to an end. Printed documents and, in particular, a compendium presenting all WBIF projects, supports the information provided on the WBIF website. The Management Information System (MIS database) will be revamped so relevant information can more easily be extracted for the different communication products.