

Project Fiche No 7

Western Balkans Investment Framework 2011

1. Basic information

1.1 CRIS Number: 2011/022-964

1.2 Title: Implementation of the Western Balkans Investment Framework (WBIF)

1.3 ELARG Statistical code: 02.20 - Enterprise and industrial policy

1.4 Location/Beneficiaries: Western Balkans: Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Iceland, Montenegro, Serbia, as well as Kosovo¹

Implementing arrangements:

1.5 Contracting Authority (EU): The European Union represented by the European Commission on behalf of the Beneficiaries

1.6 Implementing Agency: For activity 1: Not applicable
For activity 2: The WBIF partner IFIs (currently EIB, EBRD and CEB) under joint management with the European Commission
For activity 3: EIB/EBRD in accordance with Article 54 (2) (b) of the Financial Regulation

1.7 Beneficiary: Western Balkans: Albania, Croatia, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Iceland, Montenegro, Serbia, as well as Kosovo

Financing:

1.8 Overall cost (VAT excluded)²: EUR 700 000 000

1.9 EU contribution: EUR 70 000 000

1.10 Final date for contracting: 30/11/2012

1.11 Final date for execution of contracts: 31/12/2018

1.12 Final date for disbursements: 31/12/2019

¹ under UNSCR 1244/99

² The total cost of the project should be net of VAT and/or other taxes. Should this not be the case, the amount of VAT and the reasons why it should be considered eligible should be clearly indicated

2. Overall Objective and Project Purpose

2.1 Overall Objective

The overall objective of the Project is to support the socio-economic growth of the Western Balkans by implementing the Western Balkans Investment Framework (WBIF).

The Project will contribute to strengthen the economies of the Western Balkans in a sustainable manner, prepare for sound recovery from the global economic crisis in the region, while protecting the environment.

2.2 Project purpose

The purpose of the Project is to put into practice the WBIF, in particular, to support the preparation and implementation of priority infrastructure investment projects, financed by a combination of grants and loans and to provide the necessary means (financial and/or human) to the economic actors, i.e. financial institutions and businesses, to enable them to offer competitive products and services and to face challenges following the economic crisis.

2.3 Link with AP/NPAA / EP/ SAA³

All key documents on the Enlargement Strategy and the European perspective of candidate countries and potential candidates underline the importance of new and upgraded infrastructure as a critical element for their sustained socio-economic development and for their progress towards eventual EU membership. Thus, the EC's sound collaboration with IFIs involved in promoting infrastructure investments is essential.

The Accession and European Partnerships emphasise that Beneficiaries should implement measures to improve the competitiveness of their economies and to sustain macro-economic stability. These include measures to increase flexibility in the labour market and to promote adaptability and skills of the labour force, the design and application of an integrated research policy and for some Beneficiaries further measures to boost innovation and competitiveness in small companies.

With regard to private sector development and small businesses, the European and Accession Partnerships require the implementation of the SME Charter and of comprehensive industrial policy strategies in key sectors of the economy as well as measures to reduce the share of the grey economy.

In the field of energy efficiency, European and Accession Partnerships stipulate that Beneficiaries are to fulfil their obligations arising from the Energy Community Treaty and to complete their alignment with the EU *acquis*, in particular in the field of energy efficiency and renewable energy sources.

³ AP = Accession Partnership; NPAA = National Programme for the Adoption of the Acquis (for Candidates), National Action Plan (for Potential Candidates); EP= European Partnership; SAA = Stabilisation and Association Agreement

2.4 Link with MIPD

The Multi-Beneficiary MIPD 2011-2013 (section 3.4 and 3.5) foresees the promotion of infrastructure investments and support in private sector development. The MIPD emphasises that investments in transport, energy, environment and social infrastructure hold the key to future economic development in the countries of the region. Support in the area of private sector development and investment aims to raise regional competitiveness, including through increased competence of human capital, attract investments, facilitate trade and establish a business climate conducive to the development of SMEs.

3. Description of project

3.1 Background and justification

The Western Balkans Investment Framework

In 2008, the European Council called for the creation of a wider framework for coordinated and coherent support by way of grants and loans to the Beneficiaries of the Western Balkans. Consultations took place between the Commission, the EIB, EBRD and the Council of Europe Bank (CEB), with guidance from a Steering Group of EU Member States actively working in the region.

It was agreed to set up the *Western Balkans Investment Framework* in which grants would be pooled from the EU budget, IFIs and bilateral donors into a Joint Grant Facility (JGF) (Terms of reference can be found in annexe 6). Funds can be requested from the JGF to support investments that will need loans co-financing from the IFIs and bilateral Financing Institutions 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 governance and procedures for the WBIF are set out in its Terms of Reference. These have been agreed by the EU Member States and the IFI governing boards, and were adopted formally by the Steering Committee of the WBIF at its first meeting on 8 December 2009.

Beneficiaries play a central role in the selection of priority projects. Projects are submitted to the Project Financiers Group (PFG) by NIPACs or IFIs for screening, assessment and prioritisation. After wide consultation and assessment, the PFG makes a proposal to the WBIF Steering Committee to allocate grants from the JGF.

The grant approval and implementation process under the JGF has six phases (developed in the Terms of reference of the WBIF in annexe 6):

- I: Project identification in close cooperation with the beneficiaries, National IPA Coordinator (NIPAC), Donor Coordination Offices and other relevant local stakeholders;
- II: Submission of grant requests by the beneficiaries to the PFG via NIPACs or by the partner IFIs in coordination with the NIPACs and Donor Coordination Offices;
- III: Screening of submitted grant requests to verify eligibility and consistency of proposed projects with EU pre-accession policies;

- IV: Assessing the long-term sustainability, technical and financial quality of project requests;
- V: Submission of grant requests by the PFG to the Steering Committee for its approval;
- VI: Implementation of approved projects under the coordination of the PFG.

The eligibility for the WBIF is determined according to the following criteria:

- Geographical coverage: Western Balkans
- Sectors: All contributing to socio-economic and environmental development
- Eligible beneficiary entities: Public, private or mixed capital
- Eligible costs: All eligible under respective rules
- Type of grant: Technical Assistance, co-financing of investments, incentives, interest rates subsidies, insurance premiums
- Beneficiary ownership: by endorsement or submission
- Complementary: IPA national programmes and other donors' initiatives
- Blending grants and loans: joint financing with JLF
- Consistency with policies, rules and procedures of the contributors

The present Programme intends to implement priority projects for which grants and loans are needed, using the WBIF mechanism in three different ways:

a) The Infrastructure Projects Facility (IPF)

One of the components of the Joint Grant Facility of the WBIF is the IPF, previously financed under CARDS and IPA programmes and now fully integrated into the WBIF.

The IPF provides Technical Assistance to support project development (pre-investment, feasibility) and implementation of bankable infrastructure projects in the Western Balkans. This facility is multi-annual, in line with the IPA programming cycle and pre-supposes a long-term commitment from the Commission, EIB, EBRD and the CEB to commit adequate grants and loan resources to facilitate the investment required in the region. Technical Assistance (TA) is available for transport and energy infrastructure projects, environmental schemes and for investments that will improve energy efficiency and/or use renewable energy. The IPF also covers projects in the social sector such as health, education and urban development.

The decision to create the IPF was taken in December 2007. A technical assistance contract was signed in May 2008 to provide expert services to Beneficiaries for the preparation of investment proposals to be financed by IFIs. An initial amount of EUR 16 000 000 from the CARDS 2005 and 2006 programmes was allocated to the Facility with a view to its being replenished from IPA Multi-beneficiary funds.

It quickly emerged that the needs by far exceeded the initially allocated resources. Therefore two additional tranches of EUR 16 000 000 and 15 000 000 were allocated to the IPF TA in 2008 and 2010 respectively. The IPF TA represents a large share of the WBIF project pipeline at the end of 2010. Within the WBIF, 53 IPF TA projects are under implementation in the 4 sectors (35% in Environment, 30% social, 19% in the energy and 16% in the transport sectors).

It is now proposed to extend the IPF TA window to allow for the continuation of the work launched and to ensure sustained support to beneficiary institutions at national, regional and municipal level. This will enable infrastructure investment projects financed by IFIs and other donors to be prepared and implemented, thus implementing the WBIF.

b) Support to the Private Sector through the WBIF

Under the heading of Private Sector Development, the MIPD identified access to financing for SMEs in the region, competitiveness and competence as the main challenges.

Micro, small and medium sized enterprises

With over 90% of the private sector constituting micro, small and medium sized enterprises, it is crucial that financial institutions will be in the position to meet the financing demands from micro, small and medium-sized enterprises. The continued availability of financing for business activity will further contribute towards re-establishing confidence in the financial markets and will reduce the risks of further deposit withdrawals. It will also help to reassure foreign direct investors and reduce the risk of disruption of foreign direct investment flows in the financial and other sectors of the economy.

In order to be competitive in the future EU single market, companies should continue to upgrade their industrial equipment in line with the EU *acquis* because meeting standards in the field of environmental protection, occupational health and safety and product safety will be a principal factor when competing with others for business from the EU and elsewhere. Support to the Private Sector should foster economic development in the region through the creation of preconditions for the establishment and growth of innovative and high-potential companies as well.

Energy efficiency

The increase in energy consumption and the dependence on energy supplies for the economy to function effectively render the continued investment in energy cost savings particularly important in times of crisis. Financial institutions should be able to reinforce their supply of financial products to both the private and public sectors in order that these may realise important long-term energy savings that will both increase the competitiveness of businesses and benefit citizens.

The Project intends to support SMEs to become more competitive and to facilitate their access to financing.

c) Support to the economies through the European Western Balkans Joint Fund (EWBJF)

The present Project intends to support infrastructure, SMEs and the financial sector by providing grants and loans in cooperation with the IFIs, through the EWBJF mechanism.

The EIB and the EBRD have set up a jointly managed fund with other donors as contributors. The EWBJF is an integral part of the WBIF and the decision-making process follows the Terms of Reference of the WBIF (including the General Conditions of the EWBJF).

The following types of support are foreseen:

- **development of infrastructure:** the Project will assist in the development of infrastructure investments, including the extended provision of affordable basic services such as water, electricity, transport and communications as well as social services;
- **promotion of private sector, in particular the SME/MSE:** this will focus on strengthening access to finance and advice for businesses, recognising the important link between private sector job creation and poverty reduction.
- **strengthening of the financial sector** - this will focus on further strengthening the capacities of financial institutions to expand private sector access to finance;
- **promotion of environmental protection:** the Project will support investments for the preservation and the protection of the environment, including energy efficiency and renewable energy projects.

3.2 Assessment of project impact, catalytic effect, sustainability and cross-border impact

The **project impact** stems from the fact that the WBIF helps to enhance the cooperation with IFIs, to reach economies of scale in mobilising the necessary funds (loans and grants) and technical expertise to prepare and support economic development in the region.

The WBIF also facilitates networking and the exchange of know-how among Beneficiaries, the Commission DGs, the IFIs and other donors.

The Project will leverage loans from IFIs that complement IPA and donor grants. It will therefore lead to an increased number of transport, environment, energy and energy efficiency, social infrastructure projects and access to finance. It also will lead to a greater coordination between the donors and will support the priority projects. To illustrate this, in the first year of implementation, the WBIF provided grants of about 136 million EUR, which are thought to leverage loans of 3.6 billion corresponding to investments of 6.8 billion.

EU grants supporting access to finance for the private and public sector are likely to generate a leverage effect of more than EUR 500 million in loans from IFIs and will allow for investments in infrastructure, SMEs and energy efficiency to take place that may otherwise not be able to be financed.

The Project will have a significant **catalytic effect** as it will encourage extensive synergies between grants and loans financing of infrastructure investments and SME financing. It will also raise the capacity of the beneficiary institutions to prepare and implement infrastructure and economic development projects. Practical synergies between projects receiving technical assistance from the different sources of funds under the WBIF increase the coherence and complementarity of donor funding. IPA national funds can additionally be mobilised.

The **sustainability** of the initiative is to be examined at several levels. First, beneficiary ownership and participation in the process is essential to ensure that the political and policy sustainability of the investments will be supported through the project. Ownership would ensure that supported investments align with national and sector strategies, generate possible co-financing from national funds and help building technical and managerial capacities within the competent authorities for the supervision and implementation of the investments.

Second, financial sustainability is guaranteed through the early involvement of IFIs and by carrying out, all the affordability analysis in the preparatory phase of the projects, particularly where tariffs for public utilities have to be revised.

Third, as to the cross-border impact, many projects in transport, energy and environment have a trans-boundary regional impact. It is important to bear in mind that projects in the transport and energy sector will be given priority if they feature in the SEETO and Energy Community investment pipelines.

The WBIF intends to adopt the Logical Framework methodology in order to monitor achievement of its objectives and its impact on the ground.

3.3 Results and measurable indicators

Result 1. *Improved number, speed and quality of priority infrastructure investment projects in transport, environment, and energy and in the social field;*

Indicators for Result 1:

- Number and quality of investment proposals approved for support under this Project;
- Percentage of national budgets allocated to investments receiving support from the IPF;
- Volume and percentage (on total investment value) of loans/grants activated through IPF;
- Average time between identification (approval for support by this project) and end of project preparation (completion of all relevant documentation for project preparation), including those fitting within National Investment Plans;

Result 2: *Continued availability of finance for private and public sector operations is ensured in the short and medium term;*

Indicators for Result 2:

- Number of micro loans to households and enterprises;
- Number of enterprises carrying out capital investments over a period of three years;
- Ability of local financial intermediaries to mobilise additional finance, based on re-financing from this Programme;
- Increased number of innovative and technology based SMEs

Result 3: *Enhanced financial cooperation between the Commission, IFIs and beneficiary authorities;*

Indicators for Result 3:

- Number of projects delivered by the IPF TA financed by IFIs;

- Resulting level of signed loans (for individual investment project and at aggregate level);
- Number of realised projects lead by IFIs

Result 4: *Exchange of skills and knowledge among the international experts and the beneficiary institutions, including local authorities and municipalities.*

Indicators for Result 4:

- Number of staff from the beneficiary institutions responsible for investment proposal preparation and implementation trained on the job by the IPF Consultants;
- Quality and number of project dossiers prepared by beneficiary institutions;

Result 5: *Renewable Energy and Energy efficiency promoted;*

Indicators for Result 5:

- Number of enterprises carrying out energy efficiency investments over period of three years;
- Energy savings of 20% and 30% per project in the industry sector and building sector respectively;
- Reduction of CO2 emissions by 20% and 30% in the industry sector and in the building sector respectively;

Result 6: *Loans leveraged with grants;*

Indicators for Result 6:

- Number of projects prepared for which financing has been found;
- Number of projects co-financed;
- Total number of projects;
- Indicators relating to the quality and quantity of services (number of households covered, quality of water resources, etc)

Result 7: *Cooperation between IFIs, beneficiaries, donors and regional actors enhanced;*

Indicators for Result 7:

- Number of projects co-financed;
- Amount of grants raised by other donors;
- Perception of greater effectiveness by beneficiaries, NIPACs,

Result 8: *High priority projects selected;*

Indicators for Result 8:

- Implementation of WBIF Management Information System;
- Development of WBIF database;
- Improvement of sectoral indicators;
- Amount of government budgets;
- Sharing of donors' databases shared;

3.4 Activities:

Activities for achieving Results 1, 3, 4, 5, 6, 7, 8: Infrastructure Project facility

- Development and preparation of a pipeline of investment projects for the four sectors (transport, environment, energy, social) in the context of the relevant national and regional investment strategies and plans.
- Technical support to detailed preparation and implementation of pipeline projects.
- Ad hoc assessment of individual investment projects as needed.
- Upstream and downstream cooperation with IFIs and regular exchange of information, advice and opinions between the Commission, IFIs and beneficiaries on the status of priority projects,
- Update of capacity needs assessment of stakeholders concerned,
- Training and capacity building of beneficiaries.

Contracting arrangements: Activities will be implemented by means of one or more technical assistance contracts encompassing a range of services geared towards the implementation of assignments decided by the Steering Committee of the WBIF. The extension of an existing contract is envisaged and has been foreseen in the contract CN224490 IPF TA. For practical reasons, it is proposed to use the contractors recruited under these activities to carry out similar assignments in Iceland, if requested.

Activities for achieving Results 2, 3, 5, 6, 7, 8: Loans and technical assistance for industrial upgrading of SMEs in line with the EU *acquis* and energy efficiency investments in the private sector via two or three "Private Sector Support Facilities".

In cooperation with the NIPACs, IFIs will prepare Private Sector Support schemes incorporating an SME Competitiveness Support Window and an Energy Efficiency Window.

This activity will establish new Private Sector Support Facilities incorporating an SME Competitiveness Support Window and an Energy Efficiency Window in co-operation with the partner IFIs. The activity will provide loans and technical assistance for a) industrial investments necessary for SMEs to be in line with the *acquis*, and b) energy efficiency investments in the private sector.

In practice, this will involve:

- re-financing of financial intermediaries (loans combined with EU funded financial incentive) for onward-lending to SMEs to carry out industrial upgrading in line with the EU *acquis* and investments in energy efficient;
- provision of direct lending to end-borrowers for energy efficient investments;
- provision of technical assistance to financial intermediaries and end-borrowers;
- provision of cheaper loans to end-borrowers.

Features of the Activities

Eligible beneficiaries: SMEs in Western Balkans

In close cooperation with the NIPACs, IFIs will identify potential projects and propose grant/loan packages intended to provide investment support for private enterprises.

The loans may be combined with an EU grant for (not exhaustive list):

- Grant co-financing of loans to end-borrowers of up to 20% of capital investment costs;
- Financial incentives to the financial intermediaries of up to 5% of the loans to compensate for additional costs and risks by lending under two Windows;
- Technical assistance to end-borrowers (SMEs and beneficiaries of energy efficiency investments) and financial intermediaries to assist with the preparation of eligible sub-projects and sub-project implementation verification;

Prior to approving the schemes, and following the decisions of the Steering Committee of the WBIF, the Commission will receive a detailed description of the project structure (loan/grant package size and percentage), amount and justification of each category of EU grant requested. The Projects will be implemented under Joint Management with the selected partner IFIs (currently EIB, EBRD and CEB).

Contracting arrangements: A call for proposals will be launched by the NIPACs and the IFIs to prepare and submit suitable projects to the WBIF for SME support and investments in energy efficiency. The projects will be screened and assessed by the PFG and those with the greatest priority will be proposed to the Steering Committee for grant approval according to the WBIF mechanism.

The projects will then be implemented by Joint Management with the partner IFIs (currently EIB, EBRD and CEB).

Activities for achieving Results 1, 2, 3, 5, 6, 7, 8: *Participation in the European Western Balkans Joint Fund (EWBJF)*

The purpose of the EWBJF is to make use of the Fund Resources within the framework of the JGF of the WBIF to provide support to projects, approved by the Steering Committee and supervised by one of the Partner Organisations. The European Commission will become a contributor to the fund.

Implementation Mechanism: The PFG will make proposals to the Steering Committee for projects to be financed from the Fund Resource, in accordance with the Terms of Reference of the JGF, s .

Sources of Verification

The achievement of these results will be verified by the following sources:

- WBIF Management Information System,
- WBIF Annual reports,
- IPF bi-monthly reports,
- WBIF logframe
- EIB and EBRD progress reports;
- WBIF Management Information System;
- WBIF database;
- Government budgets;
- Donors' databases;

3.5 Conditionality and sequencing

This project builds on the success of the first year of operation of the WBIF, which saw the creation of a portfolio of seventy (70) projects leveraging loans of 3.6 billion EUR corresponding to a cost of 6.8 billion EUR. The success of the project is conditional upon the following considerations:

- Capacity of beneficiaries to borrow remains sufficiently high;
- Recovery from the crisis allows further development and create further demand for loans;
- Political stability in the region;
- WBIF continues to be supported by the different partners;
- NIPACs present enough good projects for financing;
- IFIs' willingness to provide loans remains high in the region;

The implementation mechanisms and sequencing of the various activities have been designed on the basis of the following key principles: a) a proactive involvement of the beneficiaries; b) early involvement of and close cooperation with the partner IFIs throughout the cycle; c) continuing support to capacity building of end beneficiaries through the IPF, d) continuing collaboration of the Commission with the IFIs and beneficiaries to provide in-house sectoral and methodological expertise.

3.6 Linked activities

For decades, the EU, other donors and IFIs have been involved in the IPA region to support socio-economical development. Several Beneficiaries receive assistance under national programmes for the implementation of major infrastructure investments. Specific facilities have been developed with the IFIs to support private sector development or energy efficiency measures. All WBIF partner IFIs, as well as a number of bilateral donors are active in the region in the different infrastructure sectors (transport, energy, environment and social sectors)

Attention should be given to the complementarity of resources from the IPA national programmes. Particularly in potential candidates, support from the national IPA programmes under component I can complement support from this project, thus facilitating loan financing of priority investments at national level. Candidate countries (Croatia, the former Yugoslav Republic of Macedonia and Turkey) benefit also from component III (regional development), which finances investments in both transport and environment including energy efficiency and renewable energy. Component III also provides technical assistance for the preparation of investment projects.

The WBIF website (www.wbif.eu) gives detailed information on activities and infrastructure projects financed by IFIs and bilateral donors as well as strategy and policy documents of the most important partners in the region.

3.7 Lessons learned

For the WBIF to reach its objectives, it is essential that there be proper co-ordination and good communication between the key partners of the Commission during implementation. The WBIF Steering Committee will be the forum to ensure that the Project achieves results as quickly as possible.

After almost a year of existence, a review of the WBIF was undertaken at the end of 2010 to assess how the WBIF had worked so far and to suggest directions for possible improvement. The review team consulted extensively with beneficiaries, the donors and the staff of their own institutions. The document was submitted to the Steering Committee after the PFG had approved the overall recommendations. The Steering Committee will decide what it intends to do with the report.

The table below summarizes the main recommendations of the report:

No	Subject	Recommendation	Time frame
1.	WBIF ambitious new initiative with substantial achievements after one year	Despite limited grant funds available the objective is to be as inclusive as possible. This requires large coordination which entails costs (see para 6). Idea of formalising a Secretariat introduced (see para 3)	N.A. Introductory paragraph, introduces some of the recommendations of the report.
2.	Comparison with NIF and ITF trust funds shows that WBIF has greater role of beneficiaries, more limited grants available, no secretariat, lower remuneration for the IFIs, relatively slower decision making, higher degree of coordination, lower degree of pooling between EU and Member states grants.	Increase grants from EU budget and donors (see 6) Improve cost coverage for the Commission and the partner IFIs of WBIF (see 7) Streamline procedures in view of achieving faster decisions (see 3). Consider further and/or phased pooling of grant resources (see 13)	Starting from 2011 for EU grants As soon as possible As soon as possible in a phased way
3.	Assess work done by WBIF and suggests ways for improvement	Negotiate and agree standard EU/IFI Contribution Agreements Strict analysis of project preparedness at initial stage Reach a certain level of	Second half of 2011 First half of 2011 Starting with the

		<p>predictability of the Joint Grant Facility (about EUR 40-50m per year)</p> <p>Focus to projects supported by loans already signed</p> <p>Acceleration by introducing written procedure and possibly have more frequent Steering Committees</p> <p>Inform beneficiaries of the budget available every year</p> <p>Guidelines for NIPACs could be prepared</p> <p>More upstream cooperation</p> <p>Enhance website use</p> <p>Formalise a Secretariat funded in principle by the Commission, open to seconded members of IFIs and bilaterals at their own cost.</p>	<p>EU 2011 budget</p> <p>In 2011</p> <p>Starting from 2011</p> <p>Immediate</p> <p>In 2011</p> <p>In 2011</p> <p>Immediate</p> <p>In 2011</p>
4.	Rules of co-financing	<p>The term ‘Co-Financing’ under the WBIF means that grants should be allocated for projects co-funded by more than one Financial Institution. Co-financing should remain the rule, with the following exceptions :</p> <p>Projects at a very early stage of implementation</p> <p>Projects too small to attract two IFIs (under EUR 40 million cost)</p> <p>Projects in sectors where only one IFI is active (i.e. prisons where only CEB is active)</p> <p>Projects in geographic locations where only few development financial institutions are active (e.g. Kosovo)</p> <p>Specific projects in the private sector where cooperation between</p>	<p>In 2011</p>

		<p>IFIs may not be suitable (credit lines for SMEs).</p> <p>Any other exceptional case where co-lending is not suitable not anticipated here above by motivated proposal of the PFG</p>	
5.	Sectors of SMEs and Energy Efficiency	Extension being done, rules to be defined in the NIPAC Guidelines	2011
6.	Resources of the WBIF	<p>To strengthen the coordination with IPA national programs and with bilateral donors' programs. Introduce local coordination meetings every semester and use of video-conference.</p> <p>To make the case upon present and potential donors the continuous need of grant funds for the WBIF. In order to be efficiently integrated into beneficiaries and financiers investment plans an essential quality of the grant funds shall be their predictability. As mentioned previously in point 3, this predictability could start to be achieved from the beginning of 2011.</p>	<p>A programme of these meetings could be approved by the PFG at the beginning of 2011</p> <p>2011</p>
7.	Costs coverage including staff requirements	Suitability to recover IFI costs either from beneficiaries through interest rates, from donors through fees or from shareholders through the operational budget of the IFI. Possibility to introduce a fee for the Lead IFI along the lines of NIF	In 2011
8.	Monitoring and use of the log Frame	Recommends establishment of a Log Frame for WBIF	In 2011
9.	Pipeline	Recommends establishment of a database of investment projects managed by an external consultant to realize effectively the coordination of investments to be linked to the MIS and or the	In 2011

		website as appropriate.	
10.	Role of consultants	Set up the necessary clauses in future contracts with IPF consultants for technical assistance in the WBIF, so that financial institutions could be assured of the quality of the individual experts and that the financial institutions could more deeply and directly control the management of the technical assistance works to be performed by the consultants. In practice this means that where possible studies and designs should be on a "global price" basis and the circuit of invoices of the Consultants should include the beneficiaries and offer this possibility to the Lead IFIs to intervene. The Lead IFI should be given the opportunity to approve the technical proposals and the CVs of the experts.	Starting from 2011
11.	Integration of the World Bank	The World Bank has expressed its interest to become involved in the WBIF (and took part, in an observer capacity, in the spring 2010 Steering Committee meeting in Prague). Taking the World Bank on board as a full member is welcome and could take place under the same terms and conditions, obligations and rights that apply to the already participating partner IFIs.	Starting from 2011
12.	Integration of IFIAG consultant	Whilst valuable, the work programme of the IFIAG has brought about a plethora of additional meetings involving not only the IFI representatives working on the WBIF, but also a number of operational staff from institutions who participate in other multilateral meetings such as EU-NIF, IFCA etc	Starting from 2011

		It is recommended that IFI AG integrates its activity within the WBIF perimeter, in order to avoid overlapping and duplication of meetings.	
13.	Pooling of JGF grant funds	<p>The review team recommends that partner institutions and other stakeholders explore all possibilities for pooling of grant resources as much as possible. If this is not achievable, a phased approach is proposed, where those institutions that become capable of pooling funds shall gradually join the fund starting from 2011. For the others, and as long as this is not achievable, it is recommended to enhance coordination efforts between all donors within the WBIF.</p> <p>New institutions that would like to join freshly would be requested to enter directly into the Joint Fund.</p> <p>EBRD and EIB are invited to complete operational procedures and implementation agreement to establish an efficient way of disbursing monies from the EWBJF to Partner Institutions for implementation of assignments.</p>	Starting from 2011

4. Indicative Budget (amounts in EUR)

			SOURCES OF FUNDING									
			TOTAL EXP.RE	IPA EU CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	%(2)	Total EUR (c)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/ Local EUR (y)	IFIs EUR (z)	EUR (d)	% (2)
Activity 1		x	300 000 000	30 000 000	10	270 000 000	90			270 000 000		
Contract 1.	-	x	150 000 000	15 000 000	10	135 000 000	90			135 000 000		-
Contract 2		x	150 000 000	15 000 000	10	135 000 000	90			135 000 000		
Activity 2	-	X	300 000 000	30 000 000	10	270 000 000	90			270 000 000		
Contract 3 (the number of contracts is indicative under activity 2)			To be determined	To be determined								
Contract 4			To be determined	To be determined								
Contract 5	-	X	To be determined	To be determined								-
Activity 3	-	x	100 000 000	10 000 000	10	90 000 000	90			90 000 000		
Contract 6	-	x	100 000 000	10 000 000	10	90 000 000	90			90 000 000		
TOTAL IB			0	0								
TOTAL INV			700 000 ,000	70 000 000	10	630 000 000	90			630 000 000		
TOTAL PROJECT			700 000 000	70 000 000	10	630 000 000	90			630 000 000		

Amounts net of VAT

(2) Expressed in % of the **Total** Expenditure (column (a))

5. Indicative Implementation Schedule (periods broken down per quarter)

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1	NA	4/2011	4/2018
Contract 2	3/2011	2/2012	4/2018
Contract 3	NA	1/2012	4/2018
Contract 4	NA	2/2012	4/2018
Contract 5	NA	4/2012	4/2018
Contract 6	NA	4/2011	4/2012

6. Cross cutting issues (where applicable)

6.1 Equal Opportunity

All activities will support actively an equal involvement of men and women.

6.2 Environment

All investments shall be carried out in compliance with relevant EU environmental legislation. As a consequence, since projects might correspond to projects falling within the cope of annex 1 and 2 of the EIA directive⁴, an environmental impact assessment shall be made for each project, equivalent to that provided for by the EIA Directive.

⁴ Council Directive 85/337/EEC of 27 June 1985 on assessment of the effects of certain public and private projects on the environment (OJ L 175 5.7. 1985, p.40 Directive as last amended by Directive 2003/35/EC (OJ L 156,25.6.2003, p.17)

ANNEXES

- I- Logical framework matrix in standard format
- II- Amounts (in EUR) contracted and disbursed per quarter over the full duration of project
- III- Description of Institutional Framework
- IV - Reference to laws, regulations and strategic documents
- V- Details per EU funded contract (where applicable)

For *TA contracts*: account of tasks expected from the contractor

For *grants schemes*: account of components of the schemes

For *investment contracts*: reference list of feasibility study as well as technical specifications and cost price schedule + section to be filled in on investment criteria (**)

For *works contracts*: reference list of feasibility study for the *constructing works* part of the contract as well as a section on investment criteria (**); account of services to be carried out for the *service part* of the contract

(*) non standard aspects (in case of derogation to PRAG) also to be specified

(**) section on investment criteria (applicable to all infrastructure contracts and constructing works):

- Rate of return
- Co financing
- compliance with state aids provisions
- Ownership of assets (current and after project completion)

ANNEX 1: Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX FOR Project Fiche		Programme name and number:	CRIS No: 022-964	
		Contracting period expires 30/11/2012	Disbursement period expires: 31/12/2019	
		Total budget : EUR 700 000 000		IPA budget: EUR 70 000 000
Overall objective	Objectively verifiable indicators	Sources of Verification		
Support the socio-economic growth of the Western Balkans by implementing the WBIF	Public sector investment GDP growth Human development index Stable development in other economic sector employment Corruption index Stable development of private sector lending	National/Central Banks reports National Statistical Offices Eurostat WBIF logframe		
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions	
a) to support the preparation and implementation of priority infrastructure investment projects that may be financed by a combination of grants and loans; b) to provide economic actors, i.e. financial institutions and businesses, with the necessary means (financial and human), allowing them to offer competitive products and services and to support them to recover from the economic crisis;	Number of projects delivered by the IPF TA financed by IFIs; Number of realised projects lead by IFIs Resulting level of signed loans (for individual investment project and at aggregate level); Number of micro loans to households and enterprises will increase by at least 50% by 2013 (from 98000 to 150000) Number of enterprises which carried out capital investments and energy efficient investments over period of 3 years; Financial actors able to mobilise additional finance, based on re-financing from this Programme; Energy savings of 20% and 30% per project in the industry sector and the building sector respectively; Reduction of CO2 emissions by 20% in the industry sector and 30% in the building sector.	OECD progress and final report, OECD labour market study, OECD Investment Reform Index 2009 IFIs information Annual Report of the WBIF Monitoring reports WBIF logframe	Capacity to borrow from beneficiaries remains Recovery from the crisis allows further development and creates further loans demand Political stability in the region	
Results	Objectively verifiable indicators	Sources of Verification	Assumptions	
Improved number, speed and quality of priority infrastructure investment projects in transport, environment, and energy and in the social field; Continued availability of finance for private and public sector operations is ensured in the short and medium term; Financial cooperation between the Commission, IFIs and beneficiary authorities enhanced; Exchange of skills and knowledge exchanged; Renewable Energy and Energy efficiency promoted; Loans leveraged with grants; Cooperation between IFIs, beneficiaries, donors and regional actors enhanced; High priority projects selected;	Number of staff from the beneficiary institutions responsible for investment proposal preparation and implementation trained on the job by the IPF Consultants; Quality and number of project dossiers prepared by beneficiary institutions; Number of enterprises which carried energy efficiency investments over period of 3 years; Energy savings of 20% and 30% per project in the industry sector and in the building sector respectively; Reduction of CO2 emissions by 20% in the industry sector and 30% in the building sector; Number of projects prepared which found financing; Number of projects co-financed; Total number of projects; Indicators related to quality and quantity of services (number of households covered, quality of water resources, etc) Number of projects co-financed; Amount of grants raised by other donors; Perception of greater effectiveness by beneficiaries, NIPACs;	EIB, EBRD reports, IPF bi-monthly reports, EIB and EBRD progress reports; OECD Investment Compact semi-annual progress and final report WBIF Management Information System; WBIF database; Improvement of sectoral indicators; Government budgets; Donors databases;	WBIF continues to receive support from the different partners NIPACs present multiple good projects for financing. IFIs availability to provide loans remains high in the region	

Activities	Means	Costs	Assumptions
<p>Developing and preparing a pipeline of investment projects for the four sectors (transport, environment, energy, social) in the context of the relevant national and regional investment strategies and plans.</p> <p>Technical support to detailed preparation and implementation of pipeline projects.</p> <p>Ad hoc assessment of individual investment projects as needed.</p> <p>Upstream and downstream cooperation with IFIs and regular exchange of information, advice and opinions between the Commission, IFIs and beneficiaries on the status of priority projects.</p> <p>Update of capacity needs assessment of concerned stakeholders</p> <p>Training and capacity building of beneficiaries</p> <p>Financing SMEs (loans combined with EC funded financial incentive) to carry out industrial upgrading in line with EU <i>acquis</i> and in energy efficient investments;</p> <p>provide financial intermediaries and end-borrowers with technical assistance;</p>	<p>Extension of the Infrastructure Project facility</p> <p>Preparation of projects intended to provide investment support for private enterprises</p> <p>Participation in the European Western Balkans Joint Fund (EWBJF)</p>	<p>EUR 30 000 000</p> <p>EUR 30 000 000</p> <p>EUR 10 000 000</p> <p>Total: EUR 70 000 000</p>	

ANNEX II: Amounts (in EUR) contracted and disbursed per quarter over the full duration of project

Contracted	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Contract 1	15 000 000												
Contract 2		15 000 000											
Contract 3		10 000 000											
Contract 4			10 000 000										
Contract 5					10 000 000								
Contract 6	10 000 000												
Cumulated	25 000 000	50 000 000	60 000 000		70 000000								
Disbursed	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Contract 1		3 000 000		3 000 000		3 000 000		3 000 000		3 000 000			
Contract 2			3 000 000		3 000 000		3 000 000		3 000 000		3 000 000		
Contract 3			5 000 000			3 000 000				2 000 000			
Contract 4				5 000 000			3 000 000				2 000 000		
Contract 5						5 000 000			3 000 000				2 000 000
Contract 6		10 000 000											
Cumulated		13 000 000	21 000 000	29 000 000	32 000 000	43 000 000	49 000 000	52 000 000	58 000 000	63 000 000	68 000 000	68 000 000	70 000 000

ANNEX III: Description of Institutional Framework

Infrastructure investments in the transport, energy, environment and social sectors are a priority for all Beneficiaries. The project brings added value through maintaining a regional aspect. It also liaises closely with the various regional platforms in each target sector, namely the South-East Europe Transport Observatory (SEETO), the Energy Community Treaty (ECT), the Regional Environmental Programme (RENA), etc.

The private sector covers a wide range of different stakeholders, whereby the state is to ensure the right conditions for a prosperous private sector and Small and Medium Enterprises (SMEs) are the main private stakeholder in terms of total number as well as the principal providers of private employment opportunities. The sector is generally represented by Employers' Organisations, Employee Unions and Chambers of Commerce. To address the sector's more precise needs for financing, competitiveness and competence, cooperation exists between IFIs and banks, the education sector including universities, technological institutes and research institutions.

Examples of existing platforms for regional cooperation are the Regional Cooperation Council (RCC), the Central European Free Trade Agreement (CEFTA) and the South East European Centre for Entrepreneurial Learning (SEECCEL).

Reports on the Beneficiaries from

http://ec.europa.eu/enlargement/press_corner/key-documents/reports_nov_2010_en.htm

- Albania 2010 Progress Report
- Bosnia and Herzegovina 2010 Progress Report
- Croatia 2010 Progress Report
- The former Yugoslav Republic of Macedonia 2010 Progress Report
- Montenegro 2010 Progress Report
- Serbia 2010 Progress Report
- Kosovo 2010 Progress Report
- Turkey 2010 Progress Report

ANNEX IV: Reference to laws, regulations and strategic documents

Characteristics of the infrastructure in the Western Balkans

One of the major obstacles to the economic development in SEE is the poor quality of the **transport** infrastructure in the countries and the poor connections between the countries as well as with EU Member States.

The objective of support in the transport infrastructure is to create a multimodal transport network for the region covering all modes of transport adjusted to the present and future needs for passenger and goods traffic in the area. Countries in the region continue to make progress in reforming the transport sector and implementing their National Transport Strategies. The development of the Core Regional Transport Network is considered to be one of the most important policies to bring long-term stability and economic prosperity to the region.

Regarding **water and waste infrastructure**, the differences between individual countries are considerable. In general, the water supply infrastructure is at a relatively satisfactory level, whereas sewage, wastewater treatment and waste management infrastructure face deficiencies.

The level of waste collection, transport, treatment and disposal is below that required for compliance with EU standards. The available facilities and capacities for the treatment and disposal of waste are inadequate; legislation and standards are not effectively enforced; and current waste management practices are contributing to the pollution of air, water resources and land.

Investments in the municipal solid waste infrastructure in the region are urgently needed to reduce the pressure on the environment resulting from unsystematic dumping and from the depositing of waste in landfills with low or no standards. This pressure is exacerbated by the increased generation of municipal solid waste associated with economic development and with the accompanying growth in private consumption.

National **Energy** Strategies have the main goal of providing a secure energy supply and promoting compatible energy reforms in accordance with the Energy Community Treaty.

In order to improve the balance between energy supply and demand, it is critical to boost and sustain economic development in South Eastern Europe. The enhancement of energy interconnections and the construction of new generating facilities are very important steps both in regional energy cooperation development and necessary technical prerequisites for the realisation of an operational regional energy market.

It has been estimated that the energy-saving potential in the region ranges between 20% and 40% of electricity consumed while significantly reducing the emission of greenhouse gases. That was the main rationale behind the concept of “**greening**” the Energy Community and establishment of Energy Community Energy Efficiency Task Force.

Regional cooperation in the infrastructure sector has been reinforced in recent years as it is seen essential for successfully tackling trans-boundary issues and key common challenges such as energy shortages and transport infrastructure.

- All beneficiaries are included in the Energy Community.
- All beneficiaries are included in the Memorandum on the establishment of the Core Regional Transport Network. They are part of the negotiations of the Transport Community Treaty as well as of the European Common Aviation Area Agreement (ECAA).
- The regional cooperation in the field of environment is ensured under the Regional Environmental Network for Accession (RENA).

Inventories of priority projects in the energy, transport and environmental sector have regularly been created, developed and updated under the framework of ECT, the South East Europe Transport Observatory’s (SEETO) Multi-Annual Plan, the Priority Environmental Investment Programme (PEIP) and DABLAS task force list of projects.

However, a large gap still exists between the available infrastructure and what is needed in terms of infrastructure to ensure sustainable development. Insufficient maintenance in the past, stopped investments and slow reform linked to some serious social implications compound the problem.

The main challenges for the regional infrastructure sector are:

- Low energy security in the region due to both an unfavourable state of infrastructure and a high level of energy import dependency.
- Urgent need to develop environmentally friendly and economically viable transport modes and inter-modality.
- Vulnerability of the region to climate change.
- Insufficient and even deteriorating financing opportunities for the development of infrastructure caused by the economic and financial crises.
- Tariffs for infrastructure products and services that are not affordable or do not reflect the real costs of the investment.
- Slow decision-making to construct new infrastructure.
- Lack of fair, transparent and diligent public tendering procedures.
- Insufficient mechanisms in attracting private sector participation in financing infrastructure development.
- Delay in implementation of EU infrastructure norms and ensuring the enforcement of relevant legal acts.
- Insufficient public support to infrastructure reform and development.
- Preparing feasible and attractive projects for funding.

The present project aims at addressing these issues.

Private sector in Western Balkans

The economies of the IPA region have grown slowly but steadily during recent years with governments making an effort to stabilise their economies and undertake reforms. This phase of growth resulted in the following characteristics with regards to macro economic stability and the financial sectors in particular:

(1) The strong growth of imports and the lack of growth of exports contributed to rising current account deficits: A rapid and "non-productive" credit expansion took place due to consumption credits to private individuals for the purpose of financing their purchases of imported consumer goods, in particular in the Western Balkans. It contributed both to an increased indebtedness of financial institutions and to increased debts of individuals. The lack of credit expansion for productive activities i.e. loans to businesses, and persisting high unemployment rates, due to missing human capital reforms and a lack of innovation, inhibited an increase in productivity and stronger export performance.

Foreign direct investments and remittances helped financing the current account deficits.

(2) The capital markets, in particular in the Western Balkans, remain relatively underdeveloped and financial actors had so far limited access to the international financial markets.

(3) The banking sector developed into a highly concentrated market mainly dominated by large international banking groups. The four largest international banking groups (Erste Bank;

Raiffeisen, Société Générale and Unicredit) alone make up a combined market share of more than one third in the Western Balkans for example. Austrian Banks alone have created approx. 325,000 jobs in the region.

(4) Due to the limited access to financing from international capital markets, domestic banks, in particular, developed into institutions mainly relying on customer deposits for the financing of their operations, while foreign owned banks mainly relied on re-financing via their parents.

ANNEX V: Details per EU funded contract

Contracts	Type
Contract 1	Call for tender and/or extension of (service contract) Foreseen in the existing contract CN224490 IPF TA. Indicative tasks: Preparation of feasibility studies, designs, tender documentation, impact and environmental assessments, contract management, supervision of works, technical assistance to final beneficiaries
Contract 2	Call for tender (service contract) Indicative tasks: Preparation of feasibility studies, designs, tender documentation, impact and environmental assessments, contract management, supervision of works, technical assistance to final beneficiaries
Contract 3	Contribution agreement with an IFI (Joint Management)
Contract 4	Contribution agreement with an IFI (Joint Management)
Contract 5	Contribution agreement with an IFI (Joint Management)
Contract 6	Contribution agreement to a joint fund managed by IFI

ANNEX VI:

WESTERN BALKANS INVESTMENT FRAMEWORK

JOINT GRANT FACILITY

TERMS OF REFERENCE (Consolidated Version – 8 December 2009)

Preamble

The Western Balkans Investment Framework (WBIF) is a joint initiative of the European Commission of the European Communities (the “Commission”), the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), and the Council of Europe Development Bank (CEB) (collectively referred to as the “partner IFIs”), endorsed by the European Council, to enhance harmonisation and co-operation in investments for socio-economic development of the Western Balkans. These Terms of Reference set out the principles, objectives and mechanism of the Joint Grant Facility (JGF).

1. Aims and general principles

1.1. The WBIF aims at streamlining existing facilities and pooling resources from the Commission, the partner IFIs, the Member States and other donors, so as to enhance support to the Western Balkans Beneficiaries (as defined in Section 3.1.1 below).

1.2. The JGF provides grant resources to projects supported by loans from the partner IFIs and other financing intermediaries in order to offer to the Beneficiaries an integrated financial package for investment projects in priority infrastructure and other socio-economic development areas in the Western Balkans. Priority projects are defined and proposed by Beneficiaries and the allocation of JGF resources is subject to screening and approval of the JGF governance bodies.

1.3. The JGF is governed by a Steering Committee and a Project Financiers’ Group. The Steering Committee provides strategic guidance and advice on the operations of the WBIF; approves Grant operations (as defined in Section 3.5 below) to be supported by the JGF; and monitors the implementation of the JGF. The Project Financiers’ Group is the single entry point for grant support requests from the JGF and is responsible for screening and assessing requests for financial support from the JGF and submitting its proposals to the Steering Committee for approval.

1.4. Beneficiary ownership and long-term sustainability are the guiding principles of the JGF, including a clear financing perspective for the implementation of the supported investments. Beneficiaries shall be involved from the earliest stages throughout the entire life cycle of the investment implementation. For this, the JGF allows upstream and downstream cooperation and coordination among all concerned supporters of investment projects.

1.5. The JGF resources are intended to be used principally to support operations for which loans are jointly provided by the Financial Institutions cooperating in the framework of the Joint Lending Facility (JLF)⁵.

2. Resources

The resources of the JGF originate from:

- a) Grant resources allocated from the EC Instrument for Pre-Accession (IPA)⁶.
- b) Grant contributions from the EIB⁷, the EBRD and the CEB.
- c) Bilateral grant contributions from Member States and other donors through the European Western Balkans Joint Fund (EWBJF)⁸.

3. Eligibility rules

To be eligible for support from the JGF, investment projects shall comply with the following criteria:

3.1. Geographical coverage

3.1.1. Eligible investment projects must be on the territory of one or more of the following Beneficiaries in the Western Balkans: Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia and Kosovo under UNSCR 1244 (herein after the "Beneficiaries").

3.1.2. For trans-national and/or regional projects involving one or more of the eligible Beneficiaries but also other non eligible countries, the JGF support will only cover the investment part pertaining to the eligible Beneficiary.

3.1.3. The place of registration of the legal entity benefiting from the grant shall be within a Beneficiary. For regional projects involving also non-Beneficiary countries, the institution or body in charge of the investment could also be based in a non-Beneficiary country, but the JGF support will only cover the part of the investment taking place in any of the Beneficiaries.

⁵ The JLF is an informal arrangement between the partner IFIs, whose key principles are set out in a separate document agreed between the partner IFIs and made available to all the JGF members.

⁶ In 2007, the Infrastructure Projects Facility was set up by the European Commission, EIB, EBRD and CEB. The IPF has channelled IPA multi-beneficiary grants for infrastructure investments in the Western Balkans. The IPF consisted of two windows: a) the Technical Assistance window, whose grants are used for helping preparing infrastructure investments to be financed through IFIs loans and b) the Municipal Window, whose grants are used to co-finance, together with IFIs loans, infrastructure investments at municipal level. The IPF technical assistance will remain as an implementing mechanism under the WBIF, while the JGF will replace the IPF for project selection with IPA funds made available for this purpose. IPF has given priority to the Potential Candidates for accession since the Candidate Countries have access to component III of IPA, and this approach will apply also to future allocation to the JGF from IPA.

⁷ The EIB's contribution would be used for technical assistance activities.

⁸ The EWBJF will be set up building upon the existing EBRD Western Balkans Fund, to be enhanced for new contributions to the WBIF.

3.2. Eligible sectors

3.2.1. Investment projects should support any sector that contributes to the economic, social and environmental development of the Western Balkans, including:

- 1) Environment: water supply, waste water treatment, sewage systems, solid waste and hazardous waste management, emission control, etc.
- 2) Energy: renewable energy, interconnection systems, transmission, co-generation, hydro, gas pipelines, etc.
- 3) Energy Efficiency and savings
- 4) Transport: railways and inland waterways including river ports, roads, seaports, airports, border facilities, inter modal terminals and urban transport.
- 5) Social: schools and education centres, hospitals and health centres, social housing, recreation centres and other public buildings.
- 6) SMEs, private and financial sector support
- 7) Other sectors supporting socio-economic development as agreed by the Project Financiers' Group and the Steering Committee.

3.2.2. Within these sectors, IPA funds of the JGF will be used only for the purpose defined in each relevant Commission Decision (e.g. for IPF TA and Municipal window) following EU Member States approval in the IPA Committee. The IPA Funds cannot be used for activities already supported by or eligible for the Regional Development Component of IPA⁹.

3.3. Eligible beneficiary entities

Investment projects may benefit public or private entities or entities with mixed public-private capital responsible for the provision, management, construction and negotiation of public utilities and services.

3.4. Eligible Costs

All elements of the eligible cost¹⁰ of the investment projects are in principle eligible for grant financing subject to approval of the Steering Committee.

⁹ The Regional Development Component of IPA (IPA III) provides support to candidate countries for the policy development as well as for the preparation to the implementation of the Community's Cohesion policy, in particular in their preparation for the European Regional Development Fund and the Cohesion Fund. They require the relevant management structures to be in place in the Beneficiaries, and the IPA Funds will thus be managed directly by the Beneficiaries under decentralised management which entail, *inter alia*, specific project selection and approval procedures, similar to those applied for EU Cohesion Policy funds. Potential candidates can benefit from similar measures implemented through component I. Support concentrates on transport and environmental infrastructure investment as well as measures to enhance competitiveness.

¹⁰ When calculating the eligible costs of a project that may benefit from grant financing or co-financing, the rules and procedures of the Commission, the partner IFIs and the EWBJF will apply. According to the IPA Regulation the following expenditures are not eligible: a) taxes, including value added taxes (in principle); b) customs and import duties, or any other charges; c) purchase, rent or leasing of land and existing buildings; d) fines, financial penalties and expenses of litigation; e) operating costs (can be allowed on a case-by-case basis); f) second hand equipment; g) bank charges, cost of guarantees and similar charges; h) conversion costs, charges and exchange losses associated with any of the component specific euro accounts, as well as purely financial expenses; and i) contributions in kind. In addition, any leasing costs or depreciation costs are not eligible. In the case of revenue-generating projects, meaning a project involving an investment in infrastructure, which is subject to charges

3.5. Type of Grant operations

The grant financing to a specific investment project (“Grant operation”) may take the form of:

- 1) Technical assistance: financing technical assistance including preparatory work for eligible investment projects such as impact assessments, feasibility studies, detailed design, project supervision and targeted capacity building and implementation support.
- 2) Investment grants: direct grants for specific project components, as well as incentive schemes based on performance of implementing institutions.
- 3) Incentive payments to financial intermediaries.
- 4) Interest rates subsidies: provision of a lump-sum amount to ensure that the loan finance needed for the investment project can be made available at reduced interest rates.
- 5) Insurance premia: funding of insurance premia necessary to implement the investment projects.

3.6. Beneficiary Ownership

3.6.1. Project proposals could be identified by different stakeholders, including national and local authorities of the Beneficiaries, the partner IFIs, other Multilateral and Bilateral financing institutions, regional and local institutions and bodies. They will be considered eligible only if submitted to the JGF by the Beneficiaries, either via the NIPACs¹¹ or via the partner IFIs.

3.6.2. The projects for which the grant is requested should be consistent with the EU Pre-Accession Strategy and relevant sector policies and national investment plans, when these are available and/or up-to-date and, at regional level, support investments with high regional impact and/or a strong social and environmental dimension. The priority given to support these projects should also be consistent with the list of projects identified and prioritised in the context of regional networks (SEETO, REC, PEIP, ECS etc.)¹². Ideally, proposed projects should also be part of relevant national sector strategies with clear resources allocated from national budgets.

3.7. Complementarities with IPA National Programmes and other donors' initiatives

Grant requests shall explicitly mention any complementarities or coherence with projects supported or planned for support under the IPA National Programmes (for implementation by the EC Delegations or by the Beneficiaries authorities) and/or other donors activities, by

borne directly by users, the eligible cost is calculated according to a funding gap method deducting the value of the net revenue over a specific time from the value of the investment cost.

¹¹ NIPAC = National IPA Coordinator. The NIPAC is responsible for coordination of programming and monitoring the implementation of IPA in the Beneficiaries of the Western Balkans and Turkey. As IPA represent the biggest source of external aid and is linked to the progress and development needed in the EU accession process, and in line with the local ownership over donor funds and donor coordination as foreseen in the Paris declaration, the involvement of the NIPAC is of utmost importance for the effectiveness of the JGF and the WBIF.

¹² SEETO = South Eastern Europe Transport Observatory; REC = Regional Environment Centre; PEIP = Priority Environmental Investment Projects, ECS = Energy Community Secretariat.

providing at least a preliminary indication of the type and amount of donor support that the investment project may receive from sources other than the JGF.

3.8. Blending grants and loans

The JGF resources are intended to be used principally to support operations jointly financed by the institutions cooperating in the framework of the Joint Lending Facility. On an exceptional basis technical assistance may be proposed for standalone assignments not directly related to loans from the JLF.

3.9. Consistency with policies, rules and procedures of the Contributors

Each Grant operation funded by the JGF and its implementation shall be consistent with the policies, rules and procedures of each source of funds (Commission, EIB, EBRD, CEB and EWBJF).

4. Governance structure

4.1. The Steering Committee

4.1.1. Functions

The Steering Committee decides on the JGF grant allocations, takes all decisions related to the Joint Grant Facility and provides strategic orientation on the Western Balkans Investment Framework. The Steering Committee has the following strategic, operational and supervision tasks:

Strategic tasks – The Steering Committee provides strategic guidance and advice by consensus on the strategy and policies of the JGF and of the WBIF through:

- a) Advice on long-term strategic objectives of the JGF in line with the EU Pre-Accession Strategy;
- b) Revision of eligibility criteria, terms of reference and other policy issues of the JGF;
- c) Advice and guidance on the achievement of the WBIF.

Operational tasks – the Steering Committee approves the requests for grant support from the different funding sources of the JGF, namely the IPA funds, the partner IFIs contributions¹³ and the Contributions to the EWBJF. The Steering Committee may decide to reject grant requests for financing under the JGF, or to refer them back to the Project Financiers' Group for further screening and re-submission.

Supervision tasks – The Steering Committee will supervise and review the operations of the JGF through the annual progress reports submitted by the Project Financiers' Group. The Steering Committee may request the Project Financiers' Group to provide clarification or additional information on specific projects.

¹³ The approval of grant resources from the partner IFIs would require also the approval of the IFIs' respective governing bodies, according to their respective rules and procedures.

4.1.2. Structure and composition

Members - The Steering Committee is composed of representatives of the Commission, the partner IFIs and the Contributors to the EWBJF. Each member institution or Contributor to the EWBJF appoints up to two representatives. Experts/advisers from the lead IFIs can attend, as appropriate, for the projects of their competence.

Chairmanship - The Steering Committee is co-chaired by the Commission (permanent) and one of the Contributors to the EWBJF (on rotating basis every 12 months) holding the Chair of the Assembly of Contributors to the EWBJF.

Observers - The Beneficiaries and Member States not contributing to the EWBJF as well as the Regional Cooperation Council will be invited to the Steering Committee meetings for discussions on strategy and policy orientations of the WBIF. Other donors actively engaged in the Western Balkans as well as other stakeholders in the region may be invited by the Chairs as observers to the discussions.

4.1.4. Methods of work

Meetings - The Steering Committee meets at least twice a year in the headquarters of the Commission in Brussels, *or* in the headquarters of a partner IFIs *or* in the country of the EWBJF Co-chair, upon its request. Meetings may also be organised in the Western Balkans. The Project Financiers' Group proposes an agenda for these meetings which is approved by the Co-chairs and issued at least 3 weeks before the meeting. The agenda shall be structured into a strategic & policy section and an operational section focusing on the JGF so as to allow for orderly discussions.

Decision making system - The Steering Committee will seek decisions by consensus for the approval of grant requests to be supported by the JGF. Where this proves impossible, the final responsibility for deciding on the allocation of the funds follows the management responsibilities of each funding source (i.e. the Commission for EC funds, each of the partner IFIs for their contributions, and the EWBJF Contributors for the EWBJF in accordance with the voting rules of the Fund).

Administrative Support - The Commission provides the necessary administrative support for the organisation, running and follow-up of the meetings of the Steering Committee. The Co-chair from the EWBJF or the partner IFIs will take care of the logistics support and administrative support needed at the meeting, in case it hosts the meetings. The Commission will draft conclusions of the meetings and seek adequate input from participants so that the Co-chairs can finalise them. The final conclusions will be issued at the latest 3 weeks after the meeting.

Costs - Members of the Steering Committee and any other participant shall not receive from the JGF any form of remuneration for their participation in the Steering Committee nor any other compensation associated to their status including any costs incurred by them in relation to travelling to and attending the Steering Committee meetings.

4.2. The Project Financiers' Group

4.2.1. Objectives

The Project Financiers' Group provides a "single entry point" for requests for grant support from the JGF. The Group is responsible for screening and assessing requests for financial support from the JGF.

The main objective of the screening and assessment is to establish a pipeline of priority projects eligible for JGF grant support, to be submitted for approval to the Steering Committee.

4.2.2. Functions

The Project Financiers' Group coordinates the identification, screening & assessment of investment projects. The Member institutions of the Project Financiers' Group shall make available technical expertise within their organisations to facilitate this task. It submits grants requests to the Steering Committee and coordinates the implementation of approved Grant operations. This process is structured in the phases described in Section 5 below.

4.2.3. Structure and composition

Members - The Project Financiers' Group is composed of representatives of the Commission, each of the partner IFIs and EU bilateral Financial Institutions or development agencies of EWBJF Contributors participating on equal conditions as the partner IFIs to the JGF, and abiding to the principles of the Joint Lending Facility. All donors to the JGF, EU Member States and the Beneficiaries will be kept regularly informed about the work of the Project Financiers' Group and all grant requests sent to the Group will be made available for information following their submission. Each member institution appoints up to two representatives as regular members of the Group. For the technical work of the Project Financiers' Group, each member institution will draw from technical/sector expertise available within its organisation.

Chairmanship - The Project Financiers' Group is co-chaired by the Commission (permanent) and the partner IFIs (on rotating basis every 6 months), each leading for the matters of its competence as described under Section 5 below.

Liaison with other actors - The Project Financiers' Group will ensure timely and effective liaison within its organisations (Commission with other Commission Directorates General and relevant Delegations of the Commission, IFIs with their local offices), with the Beneficiaries (NIPACs and other relevant Beneficiary institutions), the Regional Cooperation Council and other Regional bodies set up by the Beneficiaries, as well as with the contributors to the EWBJF and with other donors and IFIs (e.g. the World Bank) operating in the region.

4.2.4. Methods of work

Work Programme - The Project Financiers' Group adopts an annual calendar of meetings, which takes into account of the meetings of the JGF Steering Committee.

Reporting - The Project Financiers' Group submits annual reports to the Steering Committee on the status of implementation of the JGF, including global achievements on all aspects of the JGF, from the resources allocation, commitment and disbursement, the investment projects supported and the status of their implementation. Detailed project reporting is the responsibility of the lead institution for each specific project. The Project Financiers' Group will decide on the standard format and content of this reporting.

Technical expert inputs - The Project Financiers' Group will be assisted, when needed, by the technical expertise within the member organisations. To this aim and where appropriate, technical experts from each member institution can be invited to attend meetings of the Project Financiers' Group to provide an opinion on projects requiring their technical expertise.

Frequency of meetings - The Project Financiers' Group meets at least on a quarterly basis (four times per year) in accordance with the agreed annual calendar. In addition to these regular meetings, the Project Financiers' Group may decide to hold additional *ad hoc* meetings and/or video/teleconferences to discuss projects and issues that require immediate action. If appropriate and with the agreement of the Project Financiers' Group members, the regular, scheduled meetings can also take place through teleconference.

Location of meetings - The regular meetings of the Project Financiers' Group shall normally be held in the premises of the Commission in Brussels. Alternatively, the Project Financiers' Group can decide to hold meetings in the headquarters of the partner IFIs or in a different location, for instance in the Western Balkans.

Administrative Support - The co-chairs of the Project Financiers' Group will each ensure that adequate administrative support is provided in terms of administrative, logistical, organisation functions for the tasks directly under their responsibility. To this aim, a contact point for administrative support will be appointed in each of the member institutions of the Project Financiers' Group referred to in Section 4.2.3.

Costs - The member representatives of the Project Financiers' Group as well as experts attending the meetings shall not receive from the JGF any form of remuneration for their participation in the Project Financiers' Group nor any other compensation associated to their status including any costs incurred by them in relation to the travelling to and attending the Project Financiers' Group meetings.

5. Processing of projects requests and implementation of grant operations

The process for approving and implementing grant operations of the JGF is coordinated by the Project Financiers' Group and it is structured along the following key phases:

- Phase I: Upstream work and Project identification in close cooperation with Beneficiary NIPACs¹⁴, Donor Coordination Offices and other relevant local stakeholders.
- Phase II: Submission of grant requests to the Project Financiers' Group by the Beneficiaries via NIPACs or by the partner IFIs in coordination with the NIPACs and Donor Coordination Offices.
- Phase III: Screening of submitted grant requests to verify eligibility and consistency of proposed projects with the EU Pre-Accession policies.
- Phase IV: Assessment of eligible project requests to verify their long-term sustainability, technical and financial quality.
- Phase V: Submission of grant requests by the Project Financiers' Group to the Steering Committee for its approval.
- Phase VI: Implementation of approved projects under the coordination of the Project Financiers' Group.

5.1. Phase I - Upstream work and Project identification

In this phase projects are identified and discussed jointly by the Beneficiaries and potential donors and IFIs in order to be presented to the JGF. This process will include the following elements that can be run in part or total in parallel depending on the degree of maturity of the examined projects:

- Upstream discussions on potential investment projects are initiated by NIPACs in liaison with National Donor Coordinator Offices (if different) and in coordination with EC Delegations, IFIs and (concerned) donor representatives on the ground. Potential implementing institutions/investors in the Beneficiaries should also be involved in these discussions. This coordination work aims at ensuring that requests for support from the JGF are consistent with relevant National (Sector) Strategies, investment plans, with national budgets and IPA programmes under decentralised management. In this context, they also identify together with other concerned stakeholders the questions that need to be addressed by the Project Financiers' Group during the screening and assessment of proposed projects.

¹⁴ The NIPAC is not always the same as the Donor Coordination Office in the Beneficiary. However, as IPA Funds represents the largest source of Donor support in the Western Balkans, the NIPAC remains the key interlocutor of the Beneficiary for planning and prioritisation of Donor support. In particular since the main part of the IPA support will be implemented locally, and not be channelled via the JGF, it is crucial that support requested via the JGF is done by or with the involvement of the NIPAC. When a different body is appointed as Donor Coordinator it is important also to involve it.

- Joint missions – the Commission and IFIs may organise joint missions to facilitate these discussions between the Beneficiaries and partner IFIs and to support the Beneficiaries to make the best possible use of the joint grants and loans resources from the EC (IPA funds allocated via the JGF and IPA funds implemented by the EC Delegations or implemented by decentralised management¹⁵ by the Beneficiary), the partner IFIs and from other donors operating in the region.

5.2. Phase II - Submission to of grant requests to the JGF

As a result of phase I, the requests for grant support shall be submitted to the Project Financiers' Group by the Beneficiaries, either by the NIPACs or by the partner IFIs. If a grant request is submitted without the Beneficiary's endorsement as to the priority for them of the proposed investment, the Project Financiers' Group will need to consult with the NIPAC and Donor Coordinators Office in the relevant Beneficiary following the submission. Grant requests shall be submitted according to the deadlines for submission indicated in the Annual Work Programme (see Section 4.2.4 below) of the Project Financiers' Group. The following functional mail box also included in the WBIF website shall be used for formal submission: ELARG-Joint-Grant-Facility@ec.europa.eu .

Both for projects requesting investment grants and preparatory grants (TA grants) and in order to be able to screen projects requests effectively, applicants are requested to submit a summary for the investment using the "JGF Project Application Form" (established and updated as needed by the Project Financiers' Group).

5.3. Phase III: Project Screening

In this phase requests for investment support presented by the Beneficiaries to the JGF are analysed under the lead of the Commission in its role as co-chair of the Project Financiers' Group. The screening work is based on a sound identification of the projects along with the questions to be addressed. The screening work aims at drawing a list of eligible projects ready for the assessment phase. It focuses on the following activities, in particular checking the eligibility of grant requests and related investment projects as defined under Section 3 above:

- | | |
|-------------|---|
| Activity 1: | Ensuring beneficiary ownership and capacity building by collaboration with the NIPAC office and other Beneficiary and regional bodies |
| Activity 2: | Assessing project consistency with national (sector) strategies, national and regional investment plans and with the IPA priorities and the project potential for IPA support (not allocated via the JGF) or other donor funding. |

15 In the **external actions** field (i.e. EU activities involving non-Member States), budget appropriations may be managed ([art. 163 Financial Regulation](#)) **on a decentralised basis by the beneficiary third country or countries**. The implementation of actions by beneficiary third countries or international organisations is subject to scrutiny by the Commission ([article 165 of the FR](#)). For Candidate Countries, the objective is that all IPA support shall be implemented under decentralised management and for component III of IPA, this is always the case. For the potential candidates for accession, implementation is done in close cooperation with the Beneficiary authorities by the Commission Delegations in the concerned Beneficiary allowing for appropriate preparation for decentralisation.

- Activity 3: Assessing project consistency with EU policies (pre-accession agenda, sector priorities, competition rules etc.) drawing from and involving the EC Delegations, line DGs and ELARG geographical teams
- Activity 4: Assessing eligibility of projects for support from the JGF and the appropriate mix of funding sources.

5.4. Phase IV - Project Assessment

Project requests considered eligible under the JGF are also assessed, under the lead of the partner IFIs according to the rotating co-chair assignment, to verify the technical quality, compliance with environmental and social standards including the promotion of gender equality, procurement requirements, financial and economic profitability, credit risks and legal aspects. In this phase, a “lead IFI” will be identified among the partner IFIs that also co-finance with loans the project, to coordinate the lending process among co-financiers and to implement the JGF grant support, subject to approval of IFI loan (for investment grants). The assessment phase can be run in parallel with the screening phase depending on the nature and quality of the request, and needs to duly take into account of the due diligence process of the participating partner IFIs. Key activities for this assessment phase are:

- Activity 1: Technical aspects, environmental and social standards, procurement, financial and economic profitability, credit risk, legal aspects.
- Activity 2: Consistency with IFIs’ policies and procedures
- Activity 3: Analysis and estimation of TA/grants needs
- Activity 4: Financial structuring/identification of lending under the Joint Lending Facility (only IFIs)
- Activity 5: Identification of lead IFI and possible mutual reliance
- Activity 6: Link with project borrowers and promoters on technical and financial aspects
- Activity 7: Exchange of information among Finance Institutions (e.g. pricing, conditionality)

The following criteria (not in order of priority) will be used to assess and prioritise the eligible projects:

- *Rationale for use of grant funds*: Based on the justification for the use of grant funds provided in the grants application, the Project Financiers' Group will further analyse the economic justification for the request for and the use of grants for the project. The Project Financiers' Group will examine the leverage of the grant and the loan; the value-added to final beneficiaries in terms of social impact, acceleration, targeting or quality enhancement of project preparation, delivery and operation; and the financial, social and environmental sustainability of the project to which the grant contributes.
- *The Financing Perspective*: Proposals should be accompanied by a clear perspective of financing from the JLF and an indication of possible additional grant funding from IPA National Programmes and/or other donors and from the Beneficiary's own (national) budget. In particular for investments where the affordability necessitates substantial donor grant support in addition to loans, it should be verified whether the project has received earlier support from an EC Programme or if there is planned or potential further support from IPA outside the JGF (National Programmes implemented locally), and/or from other donors, for the implementation of the project.

This does not preclude approval of projects that require upstream work, e.g. feasibility studies and thus need not necessarily already have a financing perspective at that time. At the same time an indication of the maturity and readiness for implementation of the project should be provided. If a project is not ready for a quick start for any reason, the Project Financiers' Group will include it in the reserve list of grants requests ready to be presented again when the conditions are favourable

- *The Regional / Cross Border Impact:* Project with a strong regional and/or cross border impact will have a higher priority than those restricted to local impacts.
- *Conformity with socio-environmental standards:* The proposed investment project should meet EC and IFI policies and standards on social issues, on the environment, and threats against all categories of human rights and against ensuring equal opportunities.
- *Economic and Financial soundness:* It is recognized that proper assessment can only be done after the availability of a Feasibility Study/Report. The assessment of economic and financial soundness will be done by the lead IFI, in coordination with the co-financing IFIs, using their normal internal processes with respect to JLF financing for the project. Proposals to the JGF should only be made if the underlying JLF investments have a perspective of economic viability.
- *Capacity of Beneficiary institution:* The Beneficiary institutions must have a reasonable capacity to define their investment plans, to procure and implement the project, possibly supported with some specific technical assistance.
- *Balanced use of resources:* The Project Financiers' Group will endeavour to present projects across a balance of sectors and Beneficiaries, paying due regard to the guidance of the Steering Committee.

Following the screening and assessment phases, the Project Financiers' Group will establish and update the JGF project pipeline with priority and reserve lists of projects which are eligible under the JGF.

5.5. Phase V - Approval

The members of the Project Financiers' Group will endeavour to agree by consensus on the grant requests for submission to the Steering Committee, and issue them at least 3 weeks before the Steering Committee meetings.

5.6. Phase VI - Implementation

Implementation of support from the JGF will follow rules and modalities of the relevant funding source. The following general principles will apply:

- (1) For support originating from IPA under the IPF Technical Assistance, the Commission implements the TA contract(s) under direct centralised management¹⁶.

¹⁶ As defined by the EC Financial Regulation art. 53b, and the Implementing Regulation art. 35a, 42 and 42a , and specified in the Guidance for [joint co-financing with Member States and other bilateral donors](#)

- (2): For support originating from the IPA/IPF Municipal Window, the “lead IFI” implements the projects under Joint Management mode¹⁷.
- (3): For support provided from the EWBJF or the partner IFIs’ grant resources, the “lead IFI” implements the project.
- (4): Once projects are approved and ready for implementation, for each project, relevant contacts will be identified from the lead IFI and other co-financing IFIs, the EC Delegation and the Beneficiary institution, with the purpose to follow-up in a coordinated manner on the project implementation progress and project completion. The “lead IFI” will inform the Project Financiers' Group.

6. Reporting, monitoring and review

On an annual basis the Project Financiers’ Group reports to the Steering Committee on the progress achieved in implementing the JGF. The report will cover all aspects of the JGF, from the resources allocation, commitment and disbursement, the investment projects supported and the status of their implementation.

The JGF mechanism (e.g. grant needs vs. actual grant resources pooled, governance, single fund) and the EWBJF (e.g. fees, level of contributions, decision-making) will be reviewed by the participating Institutions (EC and partner IFIs) and contributors following one year of activities from the first Steering Committee meeting and prior to 31 December 2010, based on the annual reports submitted by the Project Financiers' Group and considering issues raised by the Steering Committee members and other stakeholders participating to the Steering Committee meetings.

7. Amendments and withdrawal

These ToRs may be modified at the request of any member of the Steering Committee. Such request, including rationale and justifications, shall be submitted to the Steering Committee, via the Commission, for approval by consensus. If consensus cannot be reached, the proposed amendments will be referred to the Governance Bodies of the Contributors to the JGF; i.e. the Commission, the partner IFIs and the EWBJF, who will agree or take a position on the proposed amendments in accordance with their respective procedures and/or voting rules, and then refer it back to the Steering Committee for approval. Changes to the practical methods of managing the grant requests as set out under Section 5 above can be made by the Project Financiers' Group, informing the Steering Group.

Any participating institution or donor may withdraw from the Joint Grant Facility as described in these terms of reference upon prior 6 months’ notice to the other participants.

¹⁷ As defined by the EC Financial Regulation art. 53d and the Implementing rules of the FR art. 35 and 43.