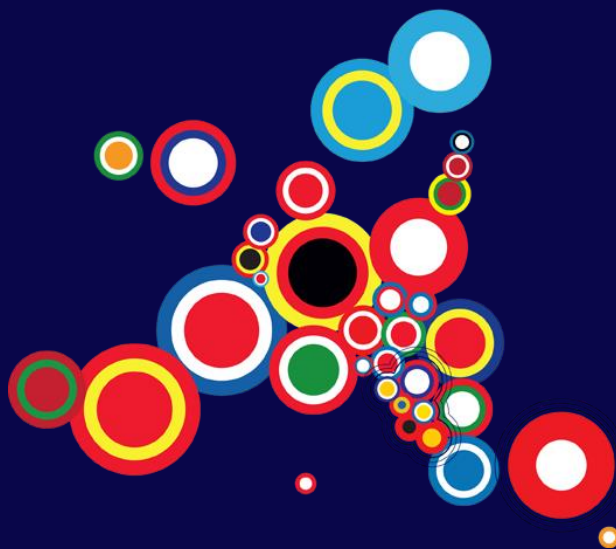




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

MULTI-COUNTRY

The Western Balkan Enterprise Development and Innovation Facility (WB EDIF) Competitiveness, Guarantees, Venture Capital Ecosystem



Action summary

The Western Balkans Enterprise Development and Innovation Facility (EDIF) was launched in December 2012 in response to the demand for enhanced private sector financing in the region, in particular for the innovative and high-potential SMEs. Via EDIF's two equity funds, a newly created lending component, a guarantee facility and a technical assistance pillar, the current action will support the private sector development in the Western Balkans as an engine for growth, jobs creation and economic integration.

This action has three components/activities:

- EUR 15 million for the EBRD Competitiveness Programme to operationalise the EDIF Lending Pillar.

- Top up of the EDIF Guarantee Facility II with EUR 10 million by also introducing incentives for youth employment.

- Entrepreneurial Capacity Building Action with EUR 3 million (a follow up of World Bank's Venture Capital Ecosystem Development).

Action Identification	
Action Programme Title	IPA II Annual Multi-country Action Programme 2017
Action Title	The Western Balkan Enterprise Development and Innovation Facility (WB EDIF) Competitiveness, Guarantees, Venture Capital Ecosystem
Action ID	IPA 2017/039-402.17/MC/EDIF
Sector Information	
IPA II Sector	9. Regional and territorial cooperation
DAC Sector	32130 – SME development
Budget	
Total cost	EUR 28 million ¹
EU contribution	EUR 28 million
Budget line(s)	22.020401 – Multi-country programmes, regional integration and territorial cooperation
Management and Implementation	
Management mode	Indirect management
<i>Indirect management:</i> Entrusted entity	NEAR D.5 - Western Balkans Regional Cooperation and Programmes European Bank for Reconstruction and Development (EBRD) (for activity 1) European Investment Fund (EIF) (for activity 2) World Bank (for activity 3)
Implementation responsibilities	European Bank for Reconstruction and Development (EBRD) (for activity 1) European Investment Fund (EIF) (for activity 2) World Bank (for activity 3)
Location	
Zone benefiting from the action	Western Balkans (Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Kosovo*, Montenegro, Serbia)
Specific implementation area(s)	N/A
Timeline	
Final date for contracting including the conclusion of delegation agreements	31 December 2018

¹ As those programmes are led by International Financial Institutions, some of the activities are co-financed (leverage effect). At this stage, a concrete figure for the leverage cannot be provided.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo Declaration of Independence.

Final date for operational implementation	31 December 2028 ² (for activity 1: December 2020; for activity 2: December 2028; for activity 3: December 2021)		
Policy objectives / Markers (DAC form)			
General policy objective	Not targeted	Significant objective	Main objective
Participation development/good governance	<input type="checkbox"/>	x	<input type="checkbox"/>
Aid to environment	<input type="checkbox"/>	x	<input type="checkbox"/>
Gender equality (including Women In Development)	<input type="checkbox"/>	x	<input type="checkbox"/>
Trade Development	<input type="checkbox"/>	<input type="checkbox"/>	x
Reproductive, Maternal, New born and child health	x	<input type="checkbox"/>	<input type="checkbox"/>
RIO Convention markers	Not targeted	Significant objective	Main objective
Biological diversity	x	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	x	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	x	<input type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	x	<input type="checkbox"/>	<input type="checkbox"/>

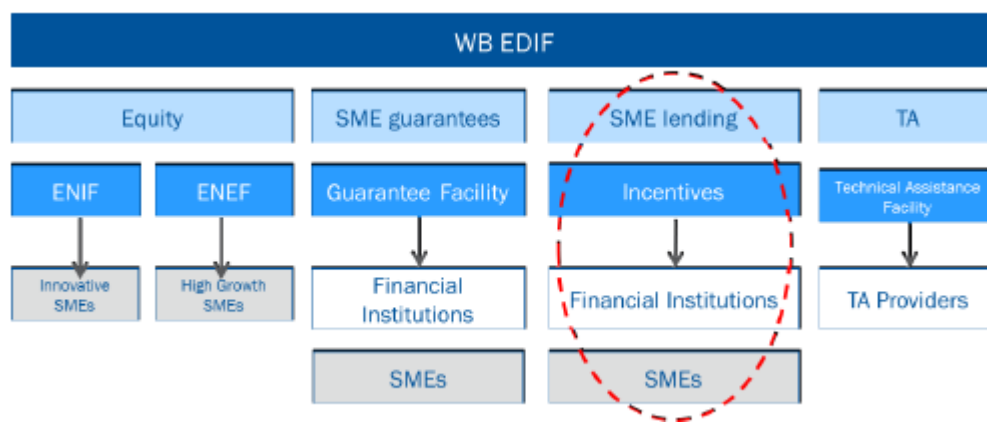
² The long implementation period concerns the financial instrument, i.e. the GF II top up and should be harmonised with the existing GF II period as per contract.

1. RATIONALE

PROBLEM AND STAKEHOLDER ANALYSIS

The Western Balkan Enterprise Development and Innovation Facility (WB EDIF) was launched in 2011 as a platform to foster economic development and access to finance of small- and medium-sized enterprises (SMEs) in the region. WB EDIF offers a variety of financing instruments, including the provision of early-stage financing, expansion capital, a guarantee facility and a facility for technical assistance/support services to enable regulatory reforms in the area, as well as to build up the capacities of SMEs³. In June 2016, in Vienna, at the EDIF Platform Advisory Group (PAG) meeting- the highest governance body of the facility, the partners pointed out the need to create a **lending pillar** that will complement the array of instruments offered by EDIF and reinforce their complementarity resulting in enhanced access to finance for SMEs.

After the addition of the lending pillar, the EDIF structure looks like this:



Appraising the achievements and weaknesses of the platform's implementation since 2011 the EDIF Platform Advisory Group (PAG)⁴ arrived to some conclusions on where assistance should be directed in the years to come:

- more targeted technical assistance to help SMEs become investment ready;
- support SMEs with potential and focus on increasing their competitiveness outlook;
- build guarantee mechanisms that facilitate the extension of loans;
- target youth employment;
- recognition of the importance of the innovation agenda

As the Western Balkans move closer to the European Union, the private sector is encountering both new opportunities and competitive challenges. Therefore, a key priority for sustainable economic development in the region is to support businesses with high-growth potential and those trying to export and innovate, as

³ EDIF Pillars include: the Enterprise Innovation Fund (ENIF), the Enterprise Expansion Fund (ENEF), the Guarantee Facility and the Support Services Pillar.

⁴ PAG meetings in Vienna, June 2016 and in London, December 2016

well as to meet their financing requirements, in order to encourage the expansion of the private sector and elicit higher levels of competition and innovation.

Despite numerous efforts, however, small businesses continue facing severe obstacles to development, and increased competition from the European markets is generating increased pressure on local businesses and limiting their growth. Private sector development is generally constrained by low levels of efficiency, limited value added and lack of product development and innovation. Limitation in management capacity and corporate governance standards, in particular related to financial management, is also a major impediment to private sector growth.

The three proposed activities under this programme aim at providing a coherent response to the above mentioned market failures, as well as to tailor EDIF in line with the decisions taken by its PAG members. The focus is on the continuation of the successful activities under EDIF and the inclusion of new ones that will complement the array of instruments and products that are in the disposal of SMEs as to collectively enhance the access to finance, the job creation and the growth in the region:

Therefore a **Regional Competitiveness Programme** will be established as a new lending pillar within the structure of EDIF. The EBRD would provide financing in the form of credit lines to local commercial banks and credit institutions in the Western Balkans for on-lending to local SMEs until 2020.

The **WB EDIF Guarantee Facility** which improves SMEs' access to finance by lowering the cost of borrowing in the Western Balkans will be replenished with new **youth component** as to respond to the challenges and the political priorities at regional level.

The reasons behind the third initiative are related to the fact that the two equity funds under EDIF- (ENIF⁵ and ENEF⁶) are facing absorption challenges. The activity "**Building Entrepreneurial Capacity to Boost Innovation and Productivity Growth in the Western Balkans**" (World Bank), will improve the investment readiness of the SMEs.

SMEs are essential for economic growth and job creation and across the Western Balkans, they account for over half of value added and generate between 60% and 80% of total employment. The region has made substantive progress in SME development. Various measures to improve the business environment have successfully been implemented and governments have increasingly adopted a "think small first" approach, recognising the importance of the SME sector for the development of their economies.

EDIF partners include, the European Commission, the Western Balkans, the European Investment Bank (EIB)/the EIF, the EBRD, Italian Investment Special Fund (IISF), the Kreditanstalt für Wiederaufbau (KfW)/Deutsche Investitions- und Entwicklungsgesellschaft (DEG) (Germany) as financing Members, as well as the Organisation for Economic Co-operation and Development (OECD) and the World Bank.

OUTLINE OF IPA II ASSISTANCE

The **Regional Competitiveness Programme** will be established in cooperation with the EBRD which will complement existing finance activities of the platform (ENIF, ENEF and Guarantees). The Programme associates EBRD SME credit lines with incentives which are paid out directly to the borrowing SMEs upon completion of the project, thereby encouraging them to make investments to upgrade production capacities, enhance processes and improve product quality in line with EU acquis. Those measures will be complemented by provision of technical assistance to partner financial institutions to support their capacities to provide loans- external consultants will be engaged to assist sub-borrowers and PFIs and verify investments. This synergy between provision of financing and investment incentives **will improve SME**

⁵ Enterprise Innovation Fund (ENIF)

⁶ Enterprise Expansion Fund (ENEF)

access to finance in order to introduce EU standards. The expected results are related to improved SME's competitive position, productivity and growth, production capacities, enhanced processes and quality.

The second activity will **improve SME access to credit for job creation and will place special focus on youth. WB EDIF Guarantee Facility** will help improving SMEs' access to lending and lowering the cost of borrowing in the Western Balkans, where access to loan finance remains one of the biggest difficulties for the business. The two IPA allocations so far of EUR 21 million and EUR 17.5 million have been fully committed. A further replenishment will increase the Guarantee Facility's scale and impact in the region. This new replenishment will also, but not exclusively, be used to incentivise the development of guarantee loan portfolios by SMEs that secure **youth employment and training**- in line with the decisions taken at the Western Balkans Summits in Vienna (2015) and in Paris (2016). The programme is expected to provide more possibilities for SMEs to accede to financing and stimulate jobs creation, especially for young women and men.

The third activity is designed to **increase the regional investment readiness and entrepreneurial capacity through systematically delivered direct advisory assistance linked to access to finance measures.** Western Balkan SMEs are not prepared enough, but also lack traditions and experience, to submit credible investment proposals and attract equity. The World Bank Group will try to respond to those challenges through its programme "**Building Entrepreneurial Capacity to Boost Innovation and Productivity Growth in the Western Balkans**" which is a continuation of its "Venture Capital Ecosystem" initiative, implemented under EDIF since 2014. The activity aims at supporting and preparing the business environment in general and thus underpinning the absorption of the two equity funds within EDIF- ENIF and ENEF. The programme will provide acceleration services to innovative start-ups and SMEs at early stages of development, with the objective of helping them to grow, as well as investment readiness training to improve access to external sources of funding such as equity. The expected outcomes are related to the objective of creating regional entrepreneurial and innovative capacity, the development of the business environment, increased investment readiness and quality of new business proposals as to help building EDIF's pipeline.

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

EU internal and external investments are focussing on the partnerships between public and private sectors as a precondition for more investment projects, sustainable prosperity and job creation. Private sector development, as part of the economic reform processes in the Western Balkans, continues thus being a priority for the Commission. The last report on the "Enlargement package"⁷ also reiterated that more needs to be done on youth employment and investments- areas in which this action adds value. The action is entirely in line with the EU Enlargement Strategy and also supports the implementation of the SEE 2020 Strategy as it improves competitiveness of SMEs as well as the overall business and investment environment.

The Multi-country Indicative Strategy Paper 2014-2020⁸ (hereafter referred to as Strategy Paper) states that in order to increase competitiveness, businesses need to move further up the value chain and to offer specialised, high quality and high value-added services and products. In this context, the conditions and capacities of small and medium-size enterprises (SMEs) need to be further improved. The governments need to facilitate their growth through improvements in the business and investment regulatory environment including supporting the ability of businesses to compete and innovate through ICT and broadband improvements, training and digital skills development. Furthermore, the Strategy Paper underlines that EDIF provides for a comprehensive set of complementary measures to improve access to finance for SMEs and to foster economic development in the region. It does this through creation of preconditions for establishment and growth of innovative and high-potential companies and stimulating the emergence of a venture capital

⁷ COM(2016) 715 final, 9.11.2016

⁸ C(2014) 4293, 30.06.2014

system. The EDIF provides early-to-development stage equity financing, development and expansion capital to established SMEs, improves SMEs' access to bank lending and lowers the cost of borrowing. It also supports the governments in implementing priority reforms to create a favourable regulatory environment for innovative and high-potential SMEs. Finally, it includes actions that provide direct consulting services to SMEs to increase their investment capacity.

Through this programme for 2017, EDIF will continue with the implementation and further financing of some of its existing and successful activities while adding more elements to this holistic platform. As of 2017, EDIF will include a lending pillar to complement the pillars of equity, guarantees and technical assistance.

LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE

The Western Balkan are about to recover from the crisis and GDP is moving up but sustainable development and employment generating growth remains a challenge and will depend on reforms being implemented across a range of sectors. Despite all efforts of the donors, including the EU measures under EDIF, many of the SMEs in the region continue to experience:

- 1) Liquidity problems amid limited credit growth, high borrowing costs and restrained public investment;
- 2) Limited capacity to develop, expand and access financing.

It should be noted that access to credit remains a constant constraint and it is not only the result of unattractive loan conditions, but also due to insufficient business and investment planning of enterprises. One key lesson of the past years has been that the combination under EDIF of advisory services provided to SMEs and the availability of funding to support their financing needs, integrated in a cohesive package, can create the best conditions for SMEs to grow beyond their internally generated means. EDIF is designed to provide the Western Balkans with crucial demand and the supply-side resources but the facility is also constantly adapting to the new challenges, based on the lessons learnt and in tackling the remaining bottlenecks to the private sector development in the region. The proposed actions aim at filling the major identified gaps in the two sides of the private sector development support, as described above:

√ Supply side: On the supply-side EDIF will make significant efforts to increase the sources of external funding for firms and further more with the current proposal- by creating a new lending pillar into EDIF through the EBRD Competitiveness Programme, as well as by topping up the Guarantee Facility and inserting a new youth component in to it.

√ Demand side: the analysis of the support provided under EDIF and the business ecosystems in the region showed that there is a need to boost also the demand of the SMEs for development, strengthen their readiness to absorb, search for, access financing. In the region, there is a perceived lack of: (i) acceleration services, (ii) investment readiness of innovative start-ups to compete for, and take on, outside equity, and (iii) an enabling business environment that supports the creation of new ideas. The EDIF Platform will cover those needs through an updated Technical Assistance Action. The new support will be even more targeted to the investment readiness needs in the region.

All three programmes proposed pursue holistic approach: the EBRD Programme is offering blended assistance in the form of access to finance, combined with know-how in the form of technical assistance; the youth component of the Guarantee Facility will be complemented by a current EIB lending programme outside EDIF; the World Bank's assistance for enhanced entrepreneurship is directly linked to EDIF equity, lending and guarantee pillars.

2. INTERVENTION LOGIC

LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	
To contribute to the EU efforts on strengthening the economic convergence and growth in the Western Balkans	<ul style="list-style-type: none"> - Annual FDI inflow per capita - Volume of trade (Exports and imports) as percentage of GDP - Ranking of Western Balkans in the Global Competitiveness Report of the World Economic Forum 	Eurostat SEE 2020 Strategy Monitoring Framework International reports	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
To unleash the potential for SMEs development competitiveness and job creation in the Western Balkans by complying with EU and international standards	Net enterprise creation (new business per year) Number of jobs created.	OECD Competitiveness Outlook framework SEE 2020 Strategy Monitoring Framework International reports Eurostar	<ul style="list-style-type: none"> - Necessary reforms are pursued also at the beneficiary level - There are no major political and/or economic crises having impact on the region
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
Result 1: Improved SME access to financing towards EU standards investments	<ul style="list-style-type: none"> - Total number⁹ of SMEs certified or upgraded to specific EU standards; - Total number and volume of EBRD loans to participating financial institutions for on-lending to SMEs 	Reports to the PAG and the Commission	<ul style="list-style-type: none"> - Normal take-up of the programmes offered - Reasonable level of political and economic stability. - Reasonable level of stability of the financial sector - Financial institutions willing to participate in the action - Responsiveness and commitment of entrepreneurs to enhance and grow their businesses and access finance.
Result 2 Improved SME Access to credit for job creation, with special focus on youth Result 3: Increased regional investment readiness and entrepreneurial capacity through systematically delivered direct advisory assistance linked to access to finance measures	<ul style="list-style-type: none"> - Number of SMEs reached through the new credit action of the financial intermediaries covered by guarantees; - Number youth employment jobs/vocational trainings created and performed - Number of entrepreneurs trained - Number of entrepreneurs that improved their investment readiness scores - Number of beneficiaries that got access to external sources of funding – EDIF and others 		

⁹ Assumption average sub-loan amount of EUR 250,000

DESCRIPTION OF ACTIVITIES

Activity 1 Regional Competitiveness Programme

The WB EDIF Competitiveness Programme is a new initiative under EDIF and should be housed in a separate, recently created lending pillar. The programme will help the operationalization of the facility's lending component.

This programme is a follow-on from the successful 2010-2015 EU-EBRD Private Sector Support Facility which was supported with EUR 19.4 million grant resources under 2009 IPA – and helped source 257 sub-projects, verified for a value of EUR 91 million. The initiative is tailored in a way which builds synergies with existing activities by the EBRD within the WB EDIF, notably the existing Advice for Small Businesses programme.

Under the proposed programme, dedicated credit lines will be extended to partner financial institutions for on-lending to SMEs in support of investments that lead to improvement of their overall competitiveness. These are complemented with investment incentives for SMEs to blend EBRD funding. Furthermore technical assistance is offered to partner financial institutions to support their capacities to provide loans under the Programme and to promote these loans to the SME sector in the relevant IPA II beneficiary. Therefore a two-tiered approach would be followed that works at the market level to increase the supply of credit to the SME sector whilst simultaneously stimulating demand for such loans. Specifically, the proposed Programme would provide the following:

1. **Dedicated credit lines to eligible participating financial institutions (PFIs)** (“Loans”) to facilitate access to funding (“Sub-loans”) for eligible investments that will enhance SMEs’ competitiveness (Sub-projects”);
2. **Investment incentives for SMEs** (“Sub-borrowers or End-borrowers”) to blend EBRD funding and incentivise investments by SMEs;
3. **Technical assistance** to be implemented by a Project Consultant (“PC”) to develop the programme, to build a pipeline, help with loan applications, develop systems and tools to provide appropriate and dedicated services to SMEs, as well as to market the Programme. A Verification Consultant (“VC”) will also be involved as to verify the compliance of implemented sub-projects before the investment incentives can be released.

Financing of sub-projects will be subject to the successful adoption and implementation by the Sub-borrowers of a set of measures aimed at enhancing their overall competitiveness. The general character of such measures will be jointly pre-defined by EBRD and the European Commission and further tailored if need be, with the PFIs that will on-lend the loans.

The programme will assist SMEs improving production capacities (all sectors), enhancing processes and product quality through the introduction of EU standards in the field of environmental protection, product safety and quality and occupational health and safety. These improvements will enhance the overall competitiveness of SMEs within the economies of the Beneficiaries, regionally and in the EU internal market, and help the private sector in the region to better cope with the increasing competitive challenges stemming from EU approximation. It will further strengthen existing, or to-be-established, local programmes in specific Western Balkans which share the same objectives, thereby further intensifying their impact.

Within the proposed Programme, the EBRD envisages to provide financing in the form of EBRD-funded credit lines of up to EUR 70 million to local commercial banks and credit institutions in the Western Balkans for on-lending to local SMEs until 2020. These will complement the EBRD-funded credit lines of up to EUR

70 million under the local IPA Facilities in Bosnia Herzegovina (committed), Kosovo and the former Yugoslav Republic of Macedonia (expected)¹⁰. Assuming that the EBRD is able to receive additional local IPA funding in 2017 and beyond, which would match the level of regional funding to be provided through EDIF in Serbia, Montenegro, and potentially Albania, the overall lending through PFIs would rise to EUR 200 million, potentially reaching out 800 SMEs. The EDIF Platform shall ensure the coordination between the regional and the IPA II beneficiary's activities. The activities under the regional and the specific IPA II beneficiary's envelopes will complement each other, as to avoid possible overlaps and ensure value for money. The overall ratio between the EBRD's resources and the EU Contribution for all programmes shall be of approximately 4.5:1.

The EBRD will be responsible for the implementation and monitoring of a set of output indicators for the Programme.

Activity 2 Replenishment of Guarantee Facility II with incentives for Youth Employment and Training

The intervention is a unique opportunity to reach geographical diversification with high additionality. Based on the experience of the ongoing activity and also the needs assessment as performed by EIB, there is abundant evidence that guarantees are very much asked for and needed in the region. Given that the local financing institutions are generally liquid, the provision of first loss portfolio guarantees incentivises these local banks to extend loans to non – serviced SMEs besides leading to additional benefits for SMEs, such as lower collateral requirements or potentially better pricing and longer maturities.

So far, the Commission has programmed about EUR 40 million for the WB EDIF Guarantee Facility, which is one of the fastest implemented instruments under EDIF. This contribution was allocated through two different contracts, the first mandate under IPA I (IPA MC 2011) and the second delegation agreement under IPA 2014. The two contributions have been fully utilised. The second EU financing to the facility (just over EUR 16 million) was translated into an overall expected portfolio volume of EUR 107 million for lending to SMEs, resulting in an expected leverage effect of 6.7.

With the proposed replenishment, the EDIF Guarantee Facility will continue functioning on a fully delegated basis, where financial intermediaries would build individual portfolios of SME transactions (or guarantees covering SME Transactions) complying with WB EDIF Guarantee Facility eligibility criteria (“Individual Portfolios”). Financial intermediaries would use their funding sources to build their Individual Portfolio and potentially using also other International Financial Institutions' (IFIs) credit lines to finance part of the portfolio.

In the same time unemployment rates across the Western Balkans region reach 25% on average. Youth unemployment rates are usually higher and in the case of the Western Balkans, they have remained about twice as high - at about 50%. High unemployment and a modest economic outlook are seen as main reasons for the continued flow of economic migrants to Western Europe. The importance of education and employment, especially for young people, was stated in the Vienna 2015¹¹ Summit. In 2016 the Paris WB6 Summit confirmed this priority with the signature of the Agreement on establishment of the Regional Youth Cooperation Office (RYCO) of the Western Balkans¹².

Given the limited size of the new envelope for the Guarantee Facility under consideration (EUR 10 m), and in order to mitigate the risks of not using fully the guarantee if targeting only the youth employment, EIF and

¹⁰ In Bosnia and Herzegovina, the programme has already been implemented since 2015, whilst negotiations in Kosovo and the former Yugoslav Republic of Macedonia are currently being finalised and expected to be rolled-out in 2017.

¹¹ http://europa.eu/rapid/press-release_IP-15-5529_en.htm see also: <https://www.bmeia.gv.at/en/european-foreign-policy/foreign-policy/western-balkans-summit-vienna-2015/>

¹² See: <https://rycowesternbalkans.org/2016/07/05/ryco-signed-at-paris-balkans-2016-conference/>

EIB propose to continue making the guarantee available to portfolios of ‘unspecific’ loans, but to put special focus and provide preferential conditions for Youth Employment and Training loans portfolios.

Outside EDIF, the EIB is already implementing a programme in the region which is providing loans to SMEs that have hired or plan to hire a number of young persons, or offer vocational training and internships to them. The availability of cheaper funding, however, proved sometimes to be insufficient, to ensure buy-in if the loans offered are not assisted by a guarantee. For this purpose, EIF and EIB proposed to deploy a specific guarantee product under the WB EDIF Platform, to complement the current loan programme in the region and presented a combined *Initiative for Youth Employment and Training for the Western Balkans* (WB-EYET) under the EDIF Guarantee Facility.

For the purposes of WB-EYET, EIF plans to deploy the same guarantee instrument which is currently utilised under the WB-EDIF Guarantee Facility, i.e. the First Loss Portfolio Guarantee (FLPG) product with the possible deviations outlined below. Those measures will be combined with a liquidity line provided by and with EIB resources (but not exclusively) at favourable conditions to enhance access to finance specifically for those SMEs committed to create employment and/or offer training opportunities for young people in the Western Balkans.

Under the proposed WB-EYET guarantee EIF would issue a guarantee call which would be open to Youth Employment loans, although available also to ‘unspecific’ loans, along the lines of the Guarantee Facility II.

Eligible final beneficiaries under WB-EYET would be SMEs which at the time of signature of the sub-loan agreement with the Financial Intermediary meet at least one of the following criteria:

- a) in the last 6 months the Final Beneficiary (FB) has hired and still employs at least 1 young person (2 for medium-sized enterprises); the Final Beneficiary commits to keeping the young people¹³ in employment for up to 1 year; and/or;
- b) in the last 6 months, the Final Beneficiary has provided a vocational training or internship position to at least 1 young person (2 for medium-sized enterprises). The training/internship has duration of at least 6 months and is formalised by an active cooperation agreement with a technical school, university or public employment agency.

However, as the simple scoring advantage has not proved sufficient till now to encourage financial intermediaries to develop youth focussed portfolios, EIF is suggesting to attract interest on the initiative by differentiating the guarantee rates applicable to Youth Employment and Training to those used for the regular, unspecific loans under the Guarantee Facility II was. As a result:

- the guarantee rate applicable to unqualified loans would amount e.g. to 50% or 60% (so far it was 70%);
- the guarantee applicable to Youth Employment and Training portfolios would amount e.g. to 80%.

It should be mentioned that in the case of Serbia, the activities will take into account the setting up of a special window for Serbia under the Guarantee Facility of the Western Balkans Enterprise Development and Innovation Facility (WB EDIF), financed through IPA budget 2016¹⁴.

¹³ For the purpose of the above, “young persons” refers to persons being at least 15 years old and younger than 25 years in line with the corresponding EU definition. This definition may be adjusted in accordance with national policies and programmes to fight youth unemployment.

Activity 3 Entrepreneurial Capacity and Innovation Growth

On the supply-side EDIF has made significant progress to increase the sources of external funding for firms. However, there is a strong need to build the demand-side too as to help develop high-quality pipelines. This has been recently acknowledged by consensus of all EDIF stakeholders. Therefore, an action will be implemented under EDIF, under which the World Bank will offer, design, implement, and evaluate an entrepreneurship program “Building Entrepreneurial Capacity to Boost Innovation and Productivity Growth in the Western Balkans”. This programme aims to provide acceleration, investment readiness services and after-pitching support, with the purpose of strengthening the demand-side of the platform and maximizing the likelihood of materializing new investment deals that can help innovative start-ups and SMEs scale-up their business.

The final objective of investment readiness programs is, therefore, to enlarge the size and quality of the pipeline for supply-side interventions and maximize the probability of materializing new investment deals. It is expected that the new programme will provide opportunity for at least 50% of the firms that receive assistance to experience higher levels of investment readiness.

The proposed program is based on the WB EDIF – Venture Capital and Investment Readiness programme implemented by the World Bank, but incorporates also some new elements as to better correspond to the current needs:

- **Ensure highly targeted interventions** geared to identify entrepreneurs with high potential;
- **Extension of the of the acceleration phase' duration** to allow entrepreneurs to spend more **time with main mentors** and to strengthen the acceleration phase. Potential areas to be included are: (i) commercialization strategy, (ii) managerial practices, (iii) intellectual property rights, (iv) investment readiness services, (v) networking services, and (vi) legal advice to negotiate with investors;
- **Expansion of the training curricula** in order to incorporate focus on key issues that investors look for when considering to invest in SMEs, such as managerial practice, intellectual property rights protection, dealing with the due diligence process, and negotiating with investors;
- **Eventual extension of the geographical scope:** the action may include additional beneficiaries.

The programme will benefit the region, as in the first phase (except Croatia). This second phase, however, will also cover Albania. A gap analysis will be conducted at the initial stage of the action as to detail the profile of the beneficiaries (number of beneficiaries, range of potential costs for the intervention at company level etc.).

The action will also complement the ongoing Advice for Small Businesses programme (managed by EBRD) that is also aimed at helping companies to transform and expand their business. The two teams will organize a coordination sessions as to avoid overlaps in their approach.

The regional focus of the program brings several advantages in terms of program goals and evaluation objectives. These advantages includes: exploiting implementation economies of scale, fostering regional learning and knowledge spillover effects, and guaranteeing take-up; although relevant IPA II beneficiaries are at different stages of development in terms of quality and size of the pipeline for equity finance and start-up and SMEs financing through local equity markets.

¹⁴ IPA 2016/039919.10/Serbia/ Western Balkans Enterprise Development and Innovation Facility (WB EDIF) Guarantee Facility (GF)- Serbia Window

RISKS

The timely EU support is key precondition for the sustainability of the proposed activities as they are entirely built on actions already implemented or ongoing (complementarity, or and targeted prolongation of previous actions).

Some of the challenges EDIF is facing are related to the take-up for the programmes it proposes, linked to the realities of the regional market. There is a risk for example related to the degree of attractiveness of the products to be offered to the SMEs concerning the youth employment and training component under the Guarantee Facility. Being pilot, the action will be designed in a flexible way as to overcome those risks when it comes to absorption.

CONDITIONS FOR IMPLEMENTATION

The main condition that has to be in place for an effective and timely implementation of the action is related to the need of building consensus among main stakeholders (e.g., governments officials, donors, entrepreneurs, investors, business services providers and multilateral organizations) that the proposed programmes are key priority in the region.

The absorption capacity in the region regarding the measures to be offered is very important. The partners will work together with the beneficiaries as to guarantee that the support provided is needed, corresponds to the actual needs and will be adapted accordingly if need be and within the scope of the actions.

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

EDIF involves financial engagement of several institutional partners, such as the European Commission, EIB/EIF, EBRD, KfW/DEG (Germany), Italy (Italian Investment Special Fund ("IISF")) and, importantly, the beneficiaries themselves, through investments in the Enterprise Innovation Fund (ENIF). OECD and the World Bank do not contribute financially but align their activities in the region with the EDIF agenda. EDIF has its own governance structure and rules for operation and decision-making to ensure efficient coordination and a build-up of synergies between all its components.

The facility is structured around components:

- **The Enterprise Innovation Fund (ENIF)**, for which a Fund Manager was selected by EIF following a call for expression of interest- South Central Ventures. The Western Balkans beneficiaries committed to contribute to the fund as well. Some contributions are already provided.
- **The Enterprise Expansion Fund (ENEF)**, managed and advised by the EBRD
- **The Guarantee Facility (GF)**; managed via a Fiduciary Management Agreement (FMA) with EIF, and
- **The Support Services** facility which is managed and coordinated by the EIB

Acting as WB EDIF Platform Coordinator, the European Investment Fund assists and facilitates the dialogue between the different advisers, stakeholders and the equity funds' managers (ENIF and ENEF).

IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING

Activity 1 Regional Competitiveness Programme

The implementation of the Regional Competitiveness Programme (EUR 15 million) will be done through a financial instrument covered by a Delegation Agreement with the EBRD. This programme is a regional

programme and in some of the IPA II beneficiaries (Bosnia and Herzegovina, Kosovo, the former Yugoslav Republic of Macedonia) will be implemented alongside an identical component per Beneficiary. The implementation will rely on the smooth coordination between the relevant EUD (as contracting authority of the specific IPA II beneficiary's components) and unit NEAR D.5 being responsible of the regional component. The EBRD team that is managing the specific IPA II beneficiary's components will also take on the regional action. The biggest part of those funds will be dedicated for kick starting the programme in those IPA II beneficiaries that do not have their specific IPA II beneficiary's component (i.e. Serbia, Albania and Montenegro). The rest will be split between the replenishment of the Bosnia and Herzegovina programme (fully utilised) a reserve cushion to fill in financing gaps of Kosovo and the former Yugoslav Republic of Macedonia.

Activity 2 Guarantee Facility II with Youth Employment and Training component (EYET)

For a contribution of EUR 10 million to the financial instrument, the European Commission will have a Delegation Agreement with EIF¹⁵ (the existing Delegation Agreement with EIF for the Guarantee Facility; or if need be- the signature of a new Delegation Agreement could be envisaged related to the focus on youth). The intended delegation agreement is to replenish the existing EU contribution. EIB and EIF will closely coordinate on the different element of the EYET component.

Activity 3-“Building Entrepreneurial Capacity to Boost Innovation and Productivity Growth in the Western Balkans”

For the contribution of EUR 3 million, the European Commission and the World Bank Group will sign an Administration Agreement. The World Bank will design and evaluate the program but will also select an agency to be responsible for implementing the new program: through an award of a service contract following the World Bank's procurement rules.

4. PERFORMANCE MEASUREMENT

METHODOLOGY FOR MONITORING (AND EVALUATION)

Implementation is to be monitored through the EDIF existing governance arrangements: the Platform advisory Group (PAG) semi-annual meetings, the meetings of the EDIF Working Group preceding each PAG meeting and the EDIF Coordinator's (EIF) regular oversight and reports to PAG. The semi-annual PAG reports provide information on overall progress of all EDIF components and the Platform level activities, as well as information per EDIF different components/funds.

The European Commission may carry out a mid-term, a final or an ex-post evaluation for the actions proposed or their components- via independent consultants, through a joint mission, or an implementing partner. In case a mid-term or final evaluation is not foreseen, the European Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner. The evaluations will be carried out as prescribed by the DG NEAR guidelines for evaluations. In addition, the action might be subject to external monitoring in line with the European Commission rules and procedures set in the Financing Agreement.

EIF, directly managing the Guarantee Facility, has reporting obligation with the European Commission under the Fiduciary and Management Agreement.

Furthermore, all initiatives under the Support Services pillar are subject to oversight by the EDIF Support Services Manager- EIB, who coordinates, monitors, reports on, as well as assesses the needs and impact of the Support Services delivered under EDIF.

¹⁵ And in accordance with the European Commission - EIF Financial and Administrative Framework Agreement

For its Entrepreneurial Capacity Programme the World Bank is considering to conduct an impact evaluation through a randomized controlled trial experiment to analyse the effects of the acceleration and investment readiness entrepreneurial program.

INDICATOR MEASUREMENT

Indicator	Baseline (2010)	Target 2020	Final Target (2023)	Source of information
(i) <i>Net enterprise creation</i> ¹⁶ (ii) <i>Number of jobs generated</i>	(i) 19,492 2012-2013 (ii) 0	(i) 33,760		International data sources EUROSTAT) OECD Competitiveness Outlook framework SEE 2020 Strategy Monitoring Framework
Result 1 (i) Volume of EBRD lending to participating financial institutions for on-lending to SMEs (ii) Number of sub-loans supporting the certification or upgrade of the SME to specific EU standards	(i) 0 (ii) 0	(i) EUR 70 m (ii) 140	(i) EUR 70 m (ii) 280	Action progress and final reports Consultant reports Reports to PAG
Result 2 (i) Number of SMEs benefiting from the credit (ii) % of guarantee line used for youth employment (iii) youth employment jobs, vocational training created	(i) 1200-1400 reached in 2012-2013 (ii) 0 (iii) 0	(i) 796-1265 (ii) up to 2/3 of the guarantee (iii) up to 626 young women/men employed/trained	(i) 796-1265 (ii) up to 2/3 of the guarantee (iii) up to 626 young women/men employed/trained	Action progress and final reports Reports to PAG
Result 3 (i) Number of entrepreneurs trained (ii) Number of entrepreneurs that improve their investment readiness scores (iii) Number of beneficiaries that got access to external sources of funding – EDIF and others	(i) 0 (ii) 0	(i) 100 entrepreneurs trained under the program (ii) 30 entrepreneurs trained under the program that increased their investment readiness scores (iii) 10 entrepreneurs trained under the program that got access to external sources of finance after 5 year the program has deployed	(i) 100 entrepreneurs trained under the program (ii) 30 entrepreneurs trained under the program that increased their investment readiness scores (iii) 10 entrepreneurs trained under the program that got access to external sources of finance after 1 year the program has deployed	Action progress and final reports Reports to PAG

¹⁶ Eurostat, SEE2020

5. CROSS-CUTTING ISSUES

GENDER MAINSTREAMING

Gender mainstreaming will be envisaged, where applicable, as a cross-cutting issue. The main project financing decisions have to be taken on a purely random basis, after a pre-screening process to guarantee the compliance with the eligibility criteria and quality standards, in order to conduct the impact evaluation. All activities will support equally men and women.

Development of women entrepreneurship has been identified as an engine for job creation and economic growth. In the Western Balkans, this source of business however, remains largely unused and female participation in the labour force remains limited. Promoting entrepreneurship and SME growth in the region, the action will, to the extent possible, address these limitations following the principles and practice of equal opportunities.

There are ongoing initiatives under EDIF to promote gender mainstreaming (for example EBRD is focusing on female entrepreneurs through its Business Advisory Services (Women in Business Programme) and the good practices, already shared in the framework, will be further developed and spread.

The action will try to introduce also gender specific reporting under the different actions, where relevant.

EQUAL OPPORTUNITIES

Development of women entrepreneurship has been identified as an engine for job creation and economic growth in the region. Female participation in the labour force however remains limited and women in the Western Balkans still face many difficulties regarding their opportunities to enter and develop professionally in the business community. The action will, to the extent possible, address these limitations following the principles and practice of equal opportunities. Although activities will equally target men and women (regarding eligibility criteria), measures will be taken under EDIF as to further support and promote female participation in the programmes: provision of services will contribute to greater competitiveness of women's enterprises; development of the new financial instruments for SMEs and entrepreneurs will take into account the needs and the position of female entrepreneurs.

MINORITIES AND VULNERABLE GROUPS

Not directly applicable.

ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)

EDIF is mostly addressed to the market participants (SMEs) directly or through the financial intermediaries in the region directly and address their problems related to access to finance, regulatory environment and availability of professional advisory services. In course of the project preparation business representatives from the region were consulted on a number of occasions and expressed their support to EDIF. They will be further involved through the EDIF communication and networking activities.

ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

The Action does not have environmental considerations *per se*, however through various activities, it will support SMEs to comply with relevant environmental regulations and promote energy efficient technologies and environmental protection, in line also with the EU *acquis*. (The proposed Competitiveness programme, for example, will assist SMEs improving production capacities, enhancing processes and product quality through the introduction of EU standards in the field of environmental protection). In general, companies participating in the action are expected to be adhering to relevant environmental standards.

Climate action relevant budget allocation: EUR 0
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6. SUSTAINABILITY

The Action is part of a multi-annual undertaking with the implementation horizon until at least the end 2023. Since 2011, EU has provided more than EUR 131 million to EDIF also leveraging additional resources amounting to more than EUR 0.6 billion not only from financial institutions, but also governments and private investors (investment leverage ratio 1:6).

The Western Balkans are participating in the platform and form part of the decision making, which contributes to the ownership and the relevance of the activities proposed for the benefit of the region.

The real effects of EDIF will only be visible in the longer term, especially as the life-span of the financial pillars is around 10 years. At the same time, EDIF has been designed as a flexible hub for SME support in the region and its individual pillars can be replenished, reshaped or complemented by new components, as necessary. All this gives EDIF a solid long-term basis for operations and sustainability of results.

The extension of the benefits and the results achieved through the activities undertaken is linked to a broader consensus-building effort to guarantee also follow-up clients' and donors' contributions, where needed. As package the programmes aim at building sustainable local capacity- ecosystems, entrepreneurship, business etc. The governments, representatives of core policy-making organizations linked to the actions proposed, as well as representatives of the business community (entrepreneurs, investors, business facilitators) and donors are also involved in the consultation process.

The envisaged results contribute to achieving a coherent regional SME support scheme that aims at creating jobs, business activation, attracting knowledge and boosting economic development. The action will create a coordinated and more effective mix of services, including available finance and specific advice. Such sustainable system will help enterprises to overcome the challenges they are currently facing and strengthen their prospects for increasing productivity and raising their competitiveness in the global markets.

7. COMMUNICATION AND VISIBILITY

Communication and visibility will be given high importance during the implementation of the action. The implementation of the communication activities shall be the responsibility of the various EDIF implementing partners under the respective agreements, and shall be funded from the amounts allocated to the action. The European Commission shall be fully informed of the planning and implementation of the specific visibility and communication activities. In addition, the Guarantee Facility is being promoted through various events led by EIF as the EDIF Coordinator.

All necessary measures will be taken to publicise the fact that the action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions. Additional Visibility Guidelines developed by the European Commission (DG NEAR) will have to be followed. Visibility and communication actions shall demonstrate how the benefits of the intervention for the general public and its contribution to the agreed programme objectives and the accession process. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value and impact of the EU's interventions and will promote transparency and accountability on the use of funds.

Furthermore, all reports and documents produced in the context of EDIF follow the European Commission requirements for visibility as per the Visibility Guidelines (http://ec.europa.eu/europeaid/work/visibility/index_en.htm). These requirements are passed on to the EDIF intermediaries in the region. The EIF has now produced a website, leaflets and quarterly reports to PAG members. It also represents and promotes the EDIF Platform and its underlying pillars at events and conferences on a regular basis.

It is envisioned that the European Commission, together with other EDIF stakeholders update the communications plan for the entire platform in conjunction with its evolution and new/different communications/marketing needs which arise.

Each programme will have at least one high-visibility intervention, like press conferences, roadshows, local community gatherings and regional workshops, as to promote the initiatives and foster EU and EDIF's visibility.

The financial allocation under this action takes into account the communications needs. In parallel it is envisioned that the EIB and EIF will coordinate closely on the communications plans for the Support Services and EDIF Platform Coordination (managed by the respective institutions) in order to deliver a comprehensive set of measures.