

**Project Fiche – IPA Multi-beneficiary programmes / Component I**

**1 IDENTIFICATION**

<b>Project Title</b>	<b>Western Balkans Investment Framework (WBIF) 2013 - EDIF</b>
<b>CRIS Decision number</b>	2013/024091
<b>Project no.</b>	03
<b>MIPD Sector Code</b>	3. Private Sector Development (34 200 00) 4. Transport and Energy infrastructure (5 000 000)
<b>ELARG Statistical code</b>	02.20 - Enterprise and industrial policy
<b>DAC Sector code</b>	43010
<b>Total cost (VAT excluded)<sup>1</sup></b>	EUR 69 200 000
<b>EU contribution</b>	EUR 39 200 000
<b>Management mode</b>	Component 1: direct centralised management Component 2: joint management and indirect centralised management
<b>Responsible Unit</b>	ELARG D3
<b>Implementation management</b>	Component 1: Service Tender Component 2: EIB, EIF, World Bank under joint management and EIF by indirect centralised management with the European Commission
<b>Implementing modality</b>	Stand alone projects
<b>Project implementation type</b>	Component 1: Service Contract Component 2: Contribution and Delegation Agreements
<b>Zone benefiting from the action(s)</b>	Western Balkans: Albania, Bosnia and Herzegovina, Croatia, Kosovo*, the former Yugoslav Republic of Macedonia, Montenegro, Serbia

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

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

## 2 RATIONALE

### 2.1 PROJECT CONTEXT: ISSUES TO BE TACKLED AND NEEDS ADDRESSED

This WBIF project fiche includes two components: Component 1 to continue the work of the IFI Coordination Office and Component 2 to complete financing for the *Western Balkan Enterprise Development and Innovation Facility (EDIF)*.

- The IFI Coordination Office has been instrumental in providing support to donor coordination activities, as well as strategy and policy discussions since 2010, and this project aims at further expansion of the Office's activities. The IFO Coordination office has been fully integrated into the WBIF by decision of the WBIF Steering Committee.
- EDIF financing was already provided through the WBIF under IPA 2011 and IPA 2012. This third tranche completes the EDIF financing plan as approved by the WBIF Steering Committee in December 2011.

The *Western Balkans Investment Framework* (WBIF) was created in response to the call of the European Council in 2008 to create a wider framework for coordinated and coherent support to the Beneficiaries of the Western Balkans by way of grants and loans. Thus, under WBIF grants are pooled from the EU budget, International Financial Institutions (IFIs) and bilateral donors into a Joint Grant Facility to support investments that will need loan 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 projects with a clear regional dimension are particularly targeted by the WBIF.

WBIF builds on the previous fora for cooperation among the EC, IFIs and bilateral donors, namely IFI Advisory Group which sought to ensure better alignment between the activities of the IFIs and the policies and strategies required by the EU Accession process in the region. WBIF's objective is to expedite priority investments that contribute to socio-economic development and EU accession in the region. Furthermore, it provides an excellent forum for strategy and policy discussions and communications among key actors.

Since February 2010, the WBIF has been supported by the EC-financed IFI Coordination Office which provides technical, managerial, communication and administrative support to ensure that WBIF stakeholders have access to research and information on key strategy and policy issues and that there are comprehensive communication flows among all stakeholders involved in socio-economic activities in the region. The availability of such support is deemed crucial to the continued success of the WBIF and cooperation between beneficiaries, EC, IFIs and bilateral donors, particularly as the region moves to make greater use of sector based development strategies and programming of assistance.

This project provides for the necessary funding to allow the IFI Coordination Office to continue and intensify its work in the dynamic and challenging economic environment in the Western Balkans. In particular, the project will provide technical assistance to the NIPACs and project promoters in beneficiary countries to better identify and prepare a pipeline of projects to be funded by IFIs.

In 2011, Serbia submitted, on behalf of the beneficiaries in the region, a project proposal to the WBIF to create a regional Venture Capital Fund and a Guarantee Facility. This was the first project submission in the area of Private Sector Development through the WBIF. In the course of 2011 this proposal was further developed with support of the European Investment Bank (EIB) / European Investment Fund (EIF) and EBRD to become the Western Balkan Enterprise Development and Innovation Facility. This new regional facility was approved by the WBIF Steering Committee of 7 December 2011 including four components:

- the Enterprise Innovation Fund (ENIF),
- the Enterprise Expansion Fund (ENEF),
- the Guarantee Facility (GF), and
- the Technical Assistance (TA) Facility.

The present project intends to replenish the financing in the area of SME access to finance by contributing to the EDIF project, which has already benefited from the MBP IPA 2011 (EUR 30 million) and IPA 2012 (EUR 2 million, pending decision) financing.

## **2.2 LINK WITH MIPD AND NATIONAL SECTOR STRATEGIES**

The Multi-beneficiary MIPD 2011-2013 clearly underlines the importance of cooperating and coordinating closely among IFIs providing loan financing for the implementation of investment projects in the transport, energy, environment and social sector. The MIPD makes a clear reference to the importance of a constructive cooperation with IFIs for the attainment of a balanced and equitable socio-economic development in the IPA region.

The IPA Multi-beneficiary programme sets aside annually some €50 million for cooperation with IFIs. The Western Balkan Investment Framework is active since December 2009 and requires increasing and closer coordination with IFIs, other donors as well as with IPA national programmes, especially at the strategic and sectoral level.

The Multi-Beneficiary MIPD 2011-2013 also states that in order to support sound recovery and generate future growth beneficiaries need to improve access to finance for SMEs, develop efficient mechanisms to raise competitiveness, including competence of human capital, favourable business environment to attract FDI and trade facilitation. Moreover, the private sector needs to increase efforts to strengthen research and innovation capacity.

Section 3.4 - Support in the area of private sector development and investment aims to raise regional competitiveness, including through increased competence of human capital, investments, trade facilitation and establishment of a business climate conducive to the development of SMEs.

As emphasised in the Enlargement Strategy, all enlargement countries are expected to pursue EU-related reforms, and to improve the business environment, thereby helping to overcome the economic crisis, create employment and generate conditions for sustainable growth, and low carbon development, therefore also supporting the targets of the Europe 2020 strategy.

### **2.3 LINK WITH ACCESSION PARTNERSHIP (AP) / EUROPEAN PARTNERSHIP (EP) / STABILISATION AND ASSOCIATION AGREEMENT (SAA) / ANNUAL PROGRESS REPORT**

The Communication from the Commission to the European Council and Parliament in October 2011 noted that the recent global financial crisis and the present difficulties in the Eurozone have highlighted the interdependence of national economies both within and beyond the EU. These events underline the importance of further consolidating economic and financial stability and fostering growth, also in the enlargement countries. The Communication also highlighted the need for further progress in energy, environment, transport, social issues and private sector development – all sectors addressed by the WBIF and in wider EC/IFI cooperation.

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 in particular, the European and Accession Partnerships require the implementation of the SME Charter (Small Business Act for Europe) and of comprehensive industrial policy strategies in key sectors of the economy as well as measures to reduce the share of the grey economy.

### **2.4 PROBLEM ANALYSIS**

#### ***IFI Coordination and Technical Assistance to Beneficiaries***

The substantial socio-economic needs of the region have been exacerbated by the on-going economic crisis, which has had a severe impact on the Western Balkans. The crisis has also reduced inflows of foreign direct investment to the region and affected donor funded assistance programmes. Therefore the need to ensure better coordination and cooperation between the multiple actors involved - beneficiary administrations, regional sectoral organizations, EC, IFIs and bilateral donors - is greater than ever to ensure that scarce resources are targeted at the investments most likely to stimulate the socio-economic growth required by the region to secure stability and to advance the process of EU accession. Given the scale of the investments required, the different sectors that need to be addressed and the number of actors that should cooperate together, there is a substantial need to continue to ensure the provision of services to facilitate better coordination and communication amongst all stakeholders. In particular there is a need to ensure that:

- Investment decisions are taken in the context of the relevant sectoral and accession strategies and policies
- decision makers have up to date information on the overall environment and other relevant activities in the different sectors
- common obstacles to implementation are identified and addressed jointly and

- timely and comprehensive information flows allow all parties to contribute as appropriate.

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

Since 2010, such support has been provided by the EC-financed IFI Coordination Office and its activities have been expanded at the request of various stakeholders. In October 2011, the WBIF Project Financiers' Group unanimously approved the EC's decision to extend the first contract for this Office until January 2014. The RCC, ECS, SEETO, RENA and the SEE Investment Committee have all requested on-going support from the IFI Coordination Office. NIPAC Offices have responded very favourably to the seminars and workshops prepared and delivered by the Office. The WBIF website, developed and maintained by the IFI Coordination Office shows an increasing number of hits every month.

Given the success to date of the WBIF including its expansion into new sectors and sub-sectors such as private sector development and energy efficiency, as well as the greater emphasis being placed on the development and implementation of sector based strategies, this support needs to be continued and intensified. As other EC-financed projects such as the Infrastructure Project Facility (IPF) come to an end, some of the tasks undertaken by these projects that support the overall cooperation and coordination among the beneficiaries, EC, IFIs and bilateral donors need to be continued. In particular, technical assistance to the NIPACs and project promoters in beneficiary countries which is currently provided by the IPF to better identify and prepare a sound pipeline of projects to be funded by IFIs needs to be maintained after the phasing out of the current IPF projects in 2014.

### ***Micro, small and medium sized enterprises***

In the Western Balkans economies, micro, small and medium sized enterprises constitute over 90% of the private sector. It is therefore crucial that financial institutions are in a position to meet the financing demand from this segment. 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, as well as product safety will be a principal factor when competing in the EU and global markets.

Support to the Private Sector should foster economic development in the region through the creation of preconditions for the establishment and development of innovative and high-growth potential companies.

Under the heading of Private Sector Development, the MIPD specified access to financing for SMEs, competitiveness and competence as the main challenges. These areas of support had been identified in the process taking a sector approach to programming and developed over 2009 and 2010. The Private Sector (Development) was one out of eight identified sectors. A series of consultations with stakeholders took place (within the Private Sector Programming Working Group) leading up to formulation of the 2011-2013 Sector Plan. The underlying

PSD Sector Plan is currently under implementation, and the IPA 2013 contribution to EDIF is to complete the three-year financing plans in the 'access to finance' category.

### ***WB EDIF***

Against this background, in 2011 the WBIF decided on a comprehensive Private Sector Development project, based on a proposal put forward by Serbia on behalf of the beneficiaries in the region and supported by the EIB/EIF and EBRD.

The WBIF SC also endorsed a financing plan for the period 2011-2016, foreseeing EUR 141.2 million of initial capital from the EU, IFIs, beneficiaries and bilateral donors, resulting in estimated leverage for SMEs of more than EUR 300 million. The EU contributions are estimated at EUR 65.6 million, of which EUR 30 million already approved from IPA 2011, EUR 2 million to launch the TA component, are pending approval under IPA 2012, and another EUR 34.2 million are sought from IPA 2013. This last allocation includes 30 million, as approved by the WBIF SC in the original financing plan and 3.6 million of additional TA allocation, as approved by the Private Sector Programming Working Group of 25 April 2012. The amount needs to be further increased by EUR 600 000, as a provision for trustee fees to EIF for the management of the EU contribution to the Enterprise Expansion Fund (ENEF). This is subsequent to the amendment of the MBP IPA 2011 providing for the extension of the execution period of ENEF until the end of 2025. The additional funds will provide for the seven additional years of EIF trusteeship for ENEF. This last decision brings the total initial capital of EDIF to EUR 145.4 million.

The project provides for a comprehensive set of complementary measures to improve access to finance for SMEs in the region and to foster economic development through creation of preconditions for establishment and development of innovative and high-growth potential companies. In doing so, the project also intends to stimulate the emergence of a Venture Capital market in the region by laying the foundations of the venture capital market, as well as disseminating best market practices. Over time, the project can become a flexible channel of attracting and leveraging financing for private sector development in the Western Balkan region.

To this end, the project is expected to:

- provide equity financing at early development and expansion stages in innovative SMEs,
- provide development and expansion capital to established SMEs with high-growth potential in their respective markets,
- improve small SMEs' access to bank lending and lower the cost of borrowing for expansion stage by providing financial intermediaries the SME loan portfolio guarantees,
- support beneficiary governments in implementation of priority reforms to create a favourable regulatory environment for innovative and high-growth potential SMEs.

The project will thus address the private sector development issues by coupling the enhanced provision of finance with changes in the regulatory environment for targeted SMEs. The set of complementary measures will also allow all beneficiaries to benefit according to their

specific needs, market maturity and regulatory environment conditions. The project will also seek complementarities with other donor activities in the region, such as those directed towards the market participants directly, e.g EBRD Enterprise Growth Programme and Business Advisory Service.

To this end, the Private Sector Programming Working Group endorsed in April 2012 the proposal to bring two other regional projects under the EDIF TA component: the World Bank REPARIS and the OECD-implemented Small Business Act Process (with oversight provided by DG Enterprise). REPARIS, by enhancing the accounting and financial reporting standards, will further contribute to the improvement of the overall business climate, capacity building of market participants and their attractiveness/credibility vis-à-vis banks and investors and thus reinforce the other - financial pillars of EDIF. The SBA process, on the other hand, can provide a useful monitoring mechanism for the EDIF beneficiary policy commitments, while keeping track of the overall progress of reforms in the SME environment.

The four project components will come under a single governance structure with an Advisory Board as a highest supervisory body with adequate stakeholder representation, including the EC and the beneficiaries, whereas the Facility Manger (EIF) will ensure day-to-day management and coordination. Thus, EDIF will have its own simple management and coordination structure, within which the funding decisions of the two Funds will be taken by Fund Mangers on a commercial basis, the Guarantee Facility will be implemented through the financial intermediaries (banks) in the region disbursing loans to SMEs, and the TA component will be managed by its Manager.

All beneficiaries will appoint the responsible in-country coordinators. EDIF will report to WBIF about implementation and funds disbursement, given the fact that it developed and endorsed the project for implementation, but it will not operate under its governance structures.

## **2.5 LINKED ACTIVITIES AND DONOR COORDINATION**

### ***IFI Coordination Office***

The IFI Coordination Office contributes to the strategy and policy discussions within the WBIF and provides Secretariat Services for the WBIF's highest governing body, the Steering Committee that comprises the EC, all IFIs active in the region (CEB, EBRD, EIB and the World Bank), bilateral financing institutions (KfW) and donors as well as beneficiaries and regional sectoral organisations. Under this project, these Secretariat Services would be expanded to encompass the WBIF's Project Financiers' Group following the closure of the IPF projects.

The IFI Coordination Office also works closely with all the relevant regional sectoral organisations e.g. the Regional Cooperation Council (RCC), Energy Community Secretariat (ECS), the South East Europe Transport Observatory (SEETO), the Regional Environmental Network for Accession and the SEE Investment Committee. It supports these organisations to enhance their cooperation with IFIs and bilateral donors and ensures greater communication flows between these organisations and relevant international organisations.

All of the IFI Coordination Office's activities are focused on enhancing greater cooperation between the EC, IFIs and bilateral donors in the region, therefore it works closely with a

range of departments in all of these organisations including sectoral units, economic and research units and communication departments.

The various activities undertaken by the IFI Coordination Office are increasingly popular with National IPA Coordination Offices, line ministries and EU Delegations as they provide useful information and data on regional activities that complement national strategies and assistance programmes.

### ***WB EDIF***

The project will be implemented in close cooperation between the beneficiaries, EC, IFIs (EIB/EIF and EBRD taking the lead), international organisations, such as OECD, and bilateral donors active in the region to streamline private sector development efforts in the Western Balkan region.

EDIF has benefited from the consultation processes put in place for all WBIF projects: internal screening (including consultations with other DGs and Delegations), review by the Project Financiers Group (including donors and IFIs), approval procedure by the WBIF Steering Committee (including beneficiaries, and in particular NIPACs).

Given the novel nature of the EDIF project, additional consultations were also carried out during a dedicated regional workshop (4 October 2011, Skopje) including beneficiary sectoral representatives, NIPACs and the private sector, along with the EC and IFIs involved. A dedicated EC internal Working Group meeting was also held and several consultations with DG ECFIN carried out.

The EU, other donors and IFIs have all been involved in the IPA region for a number of years to support socio-economic development. Several Beneficiaries receive assistance under national programmes. Specific facilities have been developed with the IFIs to support private sector development and access to financing.

In particular, complementarities with the IPA national programmes and the beneficiaries own actions will be sought through the project.

Croatia has already implemented a number of policies to support development of technology transfer, seed, early stage and late-stage venture financing. Croatia has two sets of policies supporting (a) the technology transfer non-grant financing (pre-seed, seed and early stage financing); and (b) development of the venture capital funds. The policies supporting the technology transfer non-grant financing were significantly reinforced by the World Bank sponsored Science & Technology Project (STP). Regarding development of venture capital market, preliminary results include formation of five new venture capital funds expected to tenfold the supply of venture capital in Croatia thanks to effective mobilization of savings from the predominately domestic institutional investors. The key challenge is to ensure continuity of sufficient funding for the technology transfer and innovation.

Serbia is now starting to implement a set of policies focusing on development of science & technology (Scientific and Technology Development of the Republic of Serbia 2010-2015). The new set of policies also focuses on establishing financing for private sector R&D and innovation (pre-seed, seed, early stage venture capital). The EU is financing an IPA project which is implemented in cooperation with the World Bank which aims to build the capacity of the Serbian Innovation Fund and to implement financial instruments for supporting innovative companies. The World Bank also supports Serbia's reform actions in three policy areas: (i)



enhancing the business enabling environment to encourage new private sector investments; (ii) strengthening financial discipline by enforcing hard budget constraints and continued reform of enterprise sector and public utilities; and (iii) building a more efficient and stable financial sector through continued restructuring of state holdings in banking and insurance sectors, enhancing crisis preparedness, and encouraging development of the capital markets.

The former Yugoslav Republic of Macedonia has policies in place for venture capital financing, and a Law on Investment Funds adopted in 2007.

Other Western Balkan countries do not yet have policies in place to support technology transfer non-grant financing or venture capital financing, although numerous initiatives have been implemented across the region regarding the business and investment environment. These are to be mapped prior to the launching of the EDIF TA component (under IPA 2012).

Apart from the reform commitments the project entails financial contributions from beneficiaries. In particular beneficiaries are to contribute EUR 5 million in total to ENIF. Channelling of individual beneficiary resources through the project, blending them with other IFI and donor means, and finally, coupling the financial support with a reform package has a potential of providing the most cost-efficient way for effective private sector support in the region.

Similarly, synergies could be sought between the Multi-beneficiary and National IPA programmes, especially when it comes to the Guarantee Facility financing, whereas the resources foreseen for similar actions at a national level could rather be directed towards the regional initiative. No such plans were however under consideration at the time of drafting this fiche according to DG REGIO, in charge of implementation of IPA Component 3 in candidate countries.

As regards the existing MB IPA support, it is provided through the following thematically related projects:

#### ***Regional Competitiveness Initiative (RCI)***

The overall objective of the RCI is to strengthen the competitiveness of the economies in the Western Balkans in the medium to long term. To this end RCI's goal is to increase productivity and output by helping countries improve the development of human capital and boost innovation in manufacturing and services firms. The RCI focuses on policy responses and capacity building support to improve human capital development and innovation.

#### ***South East European Centre for Entrepreneurial Learning (SEECCEL)***

The overall objective of this project is to create the foundations for a more developed entrepreneurship culture across the region and foster alignment with the EU in the field of entrepreneurial learning. Extensive cooperation with the European Training Foundation (ETF) is also pursued at a regional level.

#### ***Private Sector Support Facility for the Western Balkans - Crisis Response Package***

The purpose of the Private Sector Support Facility (PSSF) is to provide loans supported by grants (Direct Lending) and technical assistance to the Western Balkans for (i) industrial investments necessary for SMEs to align with the EU acquis, and (ii) energy efficiency investments in the private sector.

## ***European Fund for Southeast Europe (EFSE)***

EFSE is a form of public-private-partnership. Its objective is to attract capital from the private sector thereby leveraging public donor funds that will assist the development of the private sector in the region. EFSE extends loans to local commercial banks and micro-finance institutions in the Western Balkans (excl. Croatia) for on-lending to micro- and small enterprises and households. In the PSD area, EFSE supports the inclusive growth objectives in the region and is complementary to EDIF, which will address different segments of SME market.

### **2.6 LESSONS LEARNED**

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

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

Given the differing mandates, areas of operation, interests and resources of all the stakeholders involved, having a project such as the IFI Coordination Office dedicated to coordination and communication activities is extremely valuable.

As regards EDIF, it draws on the to-date experience of WBIF, in particular regarding donor coordination, pooling and blending of resources (including beneficiaries, donor and IFIs) to obtain synergies and best value for money.

At the same time, the entire EDIF's first financing plan is only to be completed with the present IPA 2013 allocations. The first contracts for the project, from IPAs 2011-2012 are to be signed in the course of 2012 with the official project launching planned for December 2012, while the activities would start in 2013 only. No lessons from the EDIF implementation specifically can thus be drawn yet. At the same time, EDIF builds on earlier experiences of project partners and findings as described in point 3.7 below.

## **3 DESCRIPTION**

### **3.1 OVERALL OBJECTIVE OF THE PROJECT**

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) as a major mechanism for coordination and cooperation among the beneficiaries, EC, IFIs and bilateral donors, as well as access to finance for SMEs, stimulating the emergence and development of innovative and high-growth potential enterprises, as well as the establishment of a venture

capital market, and supporting reforms of the regulatory environment for business and investment.

### **3.2 SPECIFIC OBJECTIVE(S) OF THE PROJECT**

The specific objective of the Project is twofold:

- i. to provide the necessary technical, managerial, communication and administrative services via the IFI Coordination Office to support an increase in the quality of infrastructure investments by providing technical assistance, greater cooperation and coordination among the beneficiaries, EC, IFIs and bilateral donors active in key socio-economic sectors in the Western Balkans;
- ii. to provide economic actors, i.e. financial institutions and businesses, with the necessary means, allowing them to offer competitive products and services and to support them to recover from the economic crisis, and in particular, to replenish the financing in the area of SME access to finance by contributing to the Western Balkan Enterprise Development and Innovation Facility (WB EDIF), as approved by the WBIF Steering Committee of 7 December 2011.

### **3.3 RESULTS**

The expected results of the 1<sup>st</sup> component of the Project include:

- Greater coordination among stakeholders in developing and implementing priority investments in the Western Balkans;
- Better targeting of such investments in line with the overall economic climate, the relevant sectoral policies and strategies and EU accession requirements;
- Better quality of project proposals
- Enhanced flows of information between all stakeholders;
- Improved functioning of the various WBIF structures;

#### **Indicators:**

- Availability of research, analysis and agreed strategies and policies in the different sectors to WBIF stakeholders;
- Increased number and quality of applications for and/or expedited financing of priority investments as identified in sectoral development programmes;
- Availability of reports, studies, participation in relevant workshops and seminars, increased usage of website;
- Production and circulation of agendas, minutes, key documents etc.

As regards the 2<sup>nd</sup> component, further to the 2011 and 2012 contributions to EDIF, as described in the respective WBIF Project Fiches, the expected result of the project is that continued availability of finance for SMEs is ensured in the short and medium term.

#### **Indicators:**

- Number of capital investments in new, innovative and technology based SMEs;
- Number of expansion capital investments in high-growth potential SMEs;
- Ability of local financial intermediaries to mobilise additional lending, guaranteed by the project;
- Priority reforms implemented to enhance the regulatory framework for innovative and high-growth potential SMEs and stimulate the development of a venture capital market.

### **3.4 MAIN ACTIVITIES**

For the 1<sup>st</sup> component, *IFI Coordination Office*, the main activities foreseen include:

- Research and analyses in the different socio-economic sectors including energy, environment, transport, social issues, private sector development and macro-economic issues;
- Organisation of and/or participation in sectoral workshops and seminars designed to address common challenges in developing and implementing sectoral strategies and policies and in particular the financing of necessary investments;
- Provision of long-term technical assistance to NIPAC offices, line ministries and project promoters in the beneficiary countries;
- Contribution to policy and strategy discussions and activities under the WBIF and wide EC/IFI cooperation;
- Secretariat services for WBIF structures including the Steering Committee and the Project Financiers Group;
- Provision of technical assistance and support for regional sectoral organisations including the RCC, ECS, SEETO, SEE Investment Committee and RENA;
- Development and maintenance of the database of investment flows to the Western Balkans in the key WBIF sectors and production of analyses; and
- Further development and maintenance of the WBIF website as the portal for information on EC, IFI and bilateral donor activities in the Western Balkans.

For the 2<sup>nd</sup> component, WB EDIF, the activities include:

**Activity 1:** additional EUR 21.8 million EU contribution to continue equity financing operations;

In the Western Balkans, venture capital is either absent or its availability is very limited. The Market Assessment prepared by EIF and Ventureexchange Ltd in November 2010 finds that venture capital market is in an embryonic stage in terms of number of fund managers as well as experience and best market practices. The Assessment indicates a market gap of approximately EUR 20 million per year as well as the necessity of further reforms designed to create an enabling environment and supporting ecosystem for equity financing.

Currently, only small financial allocations have been made into equity investment instruments. They are mainly made available by IFIs for specific sectors and without them, most companies in the Western Balkans will continue to face difficulties in accessing finance needed to develop and market their innovative products.

At the same time, R&D expenditure is low thus preventing the expansion of the R&D base and the technology transfer record is poor and closing the door for applying different scientific solutions in industry. According to the 2010-2011 World Economic Forum Global Competitiveness Index, the Western Balkans, with the exception of Montenegro, performed poorly in the field of innovation and the availability of venture capital, despite the relatively good quality of scientific research institutions and progress in the economy.

As a result, innovative SMEs are not sufficiently stimulated and supported to commercially exploit research excellence. This feeds into the wider picture where the private sector alone finds it difficult to build an economy based on expertise and knowledge. Furthermore, the global economic crisis has particularly hit innovative companies.

It is more difficult for innovative businesses to reduce their cost base whilst maintaining their research and development activities. Innovative and R&D focused SMEs are, by definition, highly specialised, and often have a weaker financial structure and as a result a lower or no credit rating. This means that they are usually considered high risk and more vulnerable to market turbulence. Equity investment instruments can address these shortcomings to some extent and at least set the basis for further development of those companies.

There is also a growing demand in the markets of the Western Balkans for tailor-made financing (complementary to local banks) to finance expansion capital of local SMEs. The market in the WB has been unable to provide successful experiences with (quasi) equity funds at regional level likely because of: (i) perceived risks, (ii) cost associated to a regional operation in 7-8 countries, and (iii) lack of fund managers with proven track record in the region. Consequently, the EBRD developed the Local Enterprise Facility (LEF) in order to provide various financing instruments such as debt, quasi-equity and equity financing to SMEs in Western Balkans. So far, the LEF has reached a portfolio of EUR 165 million invested in 70 deals. Expansion, restructuring or acquisitions of existing private businesses (both locally or internationally controlled) are all eligible investments according to the LEF.

The Enterprise Innovation Fund expects to create initially an investment portfolio comprising a group of approximately 20 to 50 innovative companies (depending on its final closing) at various stages of business development, from start-up to expansion. ENIF will provide equity and quasi-equity funding to those SMEs. Since local knowledge and contacts are important elements of the viability of the fund, the fund manager will be required to demonstrate its ability to ensure full regional coverage. Individual investment and divestment decisions are to be taken by the fund manager on commercial grounds.

The Enterprise Expansion Fund will provide equity and quasi-equity as well as convertible bonds to encourage the expansion of high growth SMEs in the Western Balkans and will

create an investment portfolio with an initial capital of EUR 50 million, potentially associated with an EBRD EUR 50-70 million co-financing facility. Portfolio is envisaged comprising a group of app. 15-20 companies with deals approximately ranging from EUR 1–8 million, but with the possibility to finance marginally smaller or larger deals, depending on market needs and financing gaps, and provided that deals are in line with ENEF strategic and operational objectives.

EBRD will be the Investment Advisor that will originate, structure, execute and monitor investments. An Independent Investment committee will decide on investment and divestment proposals. The fund will be supervised by the Board of Directors. EBRD will manage ENEF through its offices in each beneficiary.

EIF will act as a trustee for EU subscriptions to both Funds. Given that the original MBP IPA 2011 decision foresaw the execution period for the WBIF project fiche of 31 December 2018 and the commitment of EU funds to ENEF and ENIF needs to be done for their entire life-span, amendment 4 to MBP IPA 2011 extended the execution period until 31 December 2025. This implies the necessity to provide for the additional trusteeship fees to EIF for the extended duration.

**Activity 2:** additional EUR 5.4 million EU contribution to replenish the Guarantee Facility, to continue portfolio guarantee operations with selected financial intermediaries in the region, thus improving possibility for small SMEs to access bank lending and potentially lowering the cost of borrowing for expansion stage;

Access to loan finance remains one of the biggest difficulties for SMEs in the Western Balkans, despite of SMEs becoming the most efficient segment of their transition economies and a pillar for growth and employment. This is borne out by high interest rates and high collateral requirements. Additionally, access to bank financing for SMEs in their early stage is almost impossible due to the lack of financial history of the SMEs.

In recent years access to finance of Western Balkans SMEs has increased a lot, in particular thanks to the rapid development of EIB SME loans. However, there is a segment of the SME market, made of start-up, newly established enterprises or in general SMEs that do not have the appropriate financial history or are lacking sufficient level of collaterals and thus fall outside the current credit criteria of the commercial banks. The GF instrument will target this market segment as a priority. GF will be fully financed by the EU funds.

The benefits from the GF could take a number of forms and thus respond to the key constraints in each beneficiary. However, all of the benefits will improve the investment climate by:

- resulting in potentially longer loan maturities
- creating potentially lower cost of borrowing for SMEs
- potentially reducing collateral requirements.

In the case of innovative companies, the availability of public sector supported guarantees is usually a precondition for access to credit. Thus the GF is looking to bolster lending into start-up firms in the medium term.

It is expected that some 2,800 SMEs (considering an average loan of EUR 50,000) will directly benefit from the GF with further upstream and downstream effects to be expected. The demonstration effects of this initiative have the potential to shape the landscape of SME finance in the Western Balkans.

It is envisaged that the GF will guarantee first loss of new loans to targeted SMEs with a guarantee rate of 70% and a guarantee cap of 20% (exact figures on guarantee cap and guarantee rate to be defined on a case by case basis) in the overall loan portfolio. This will create a leverage effect of 7 which means that a potential EUR 20 million GF (representing the size of the GF as approved by the WBIF SC) will mobilise EUR 140 million of new loans.

The Guarantee Facility will be managed by the European Investment Fund (EIF). EIF is the European Union body specialised in SME risk financing and is member of the EIB Group. Local banks will be invited to participate in the GF and the proposals will be evaluated by EIF on competitive terms.

**Activity 3:** additional EUR 7 million EU contribution to the TA component, to continue supporting beneficiary governments in implementation of reforms to enhance the regulatory framework for innovative and high-growth potential SMEs and stimulate the build-up of the venture capital market;

Since the public supply of equity capital cannot be the only response to gaps in the financial market, economies in the Western Balkans should further improve the environment for innovative and high-growth potential SMEs, as well as invest in legal and institutional reforms for guarantee provision and an investment framework for equity and venture capital for SMEs. A dynamic entrepreneurial environment creates conditions for successful starts-ups and developments of competitive firms that create new jobs and strengthen economic and social cohesion.

Western Balkan businesses still fall short of the EU countries in terms of quality, equipment, efficiency and innovation. The measures to enhance entrepreneurial and investment climate should constitute key complementary remedies for market imperfections and failure in the equity financing. Without considerable legal and regulatory reforms in all fields relevant to the provision of the guarantee operations and equity finance all public interventions will not be successful enough in developing equity finance market. Similarly, enhancement of financing to innovative and high-potential SMEs has to be coupled with improvements in their regulatory environment.

Given the project focus and resources available, the platform will not be able to address from the outset all business and investment climate issues that still exist in seven beneficiary economies. To this end, consultations will take place prior to the project launching to assist the beneficiaries in prioritisation of targeted policy interventions that would be both, feasible for the governments and beneficial for innovative and high-growth potential SMEs. Such reforms would also be expected to have positive effects for the build-up of the venture capital ecosystem in the region. Governments will commit to implementation of these reforms and the project's TA component will subsequently support their implementation.

At the same time, EDIF TA will look for synergies with other existing projects. The initial TA allocation as per the EDIF financing plan approved by the WBIF, will primarily be used to finance support to priority reforms as identified in the run-up to EDIF launching. It will also finance the OECD-implemented SBA Process which will monitor implementation of the

priority reforms, while keeping track of the broader SME environment context (covered by MBP IPA 2012).

The above mentioned amount includes an additional allocation of EUR 3.6 million as endorsed by the PSD Programming Working Group held in April 2012 to bring the World Bank-implemented REPARIS programme under the EDIF TA component. It will contribute to EDIF objectives by improving the overall business environment, lowering barriers to investment and enhancing credit quality of SMEs.

**Activity 4:** EDIF governance and management, the remaining contribution of EUR 0.4 million to be provided by other donors.

EIF coordination and project architecture role will be governed under a separate contractual agreement. EIF will provide the secretariat function to EDIF Advisory Group comprising project stakeholders (investors including EC, IFIs and beneficiaries), which will supervise the project. ENIF and ENEF will be established as Luxembourg structures to be governed by General Shareholder Assemblies and the Boards of Directors. Investors (IFIs, EC and beneficiaries) will decide on the overall strategy to be followed. GF and TA will be established as virtual structures (not legal entities) through appropriate contractual arrangements. EIF's role will thus also be to coordinate among various components, report to the Advisory Group on their activities, ensure exchange of information, as well as dissemination of information to the external project stakeholders. The specific EDIF governance rules will be elaborated by EIF and adopted by the EDIF Advisory Group.

### **Implementation Mechanism**

For the 1<sup>st</sup> component, the EC will award a consultancy contract following an international competitive tender in line with the relevant financial regulations.

### **Sources of Verification**

- Bi-monthly progress reports;
- Interim progress reports;
- Final report.

For the 2<sup>nd</sup> component, the EUR 34.2 million 2013 WBIF allocation to Private Sector Development caters for equity financing and corresponding trusteeship fees, the guarantee and TA and will be disbursed through agreements with partner institutions (EIB, EIF, EBRD, OECD, World Bank). Separate agreements will be needed for:

- EIF's role as a trustee for the two Funds (ENIF - EUR 21.2 million and additional EUR 0.6 million for ENEF extension) – delegation agreements;
- and for the management of the GF funds (the first tranche to be financed from the 2011 MB IPA allocation) – contribution agreement.

The overall management of the facility for all components is being financed from the 2011 MB IPA allocation. EIF will be guided by, and accountable to, the platform Advisory Board, which will be the main supervisory body for all components. The EC will be represented on the Board. Separate contribution agreements for the TA component will also be needed.



## **Sources of Verification**

- EDIF Manager reports to the Advisory Board
- EDIF reports to the WBIF

### **3.5 ASSESSMENT OF PROJECT IMPACT, CATALYTIC EFFECT AND CROSS BORDER IMPACT (WHERE APPLICABLE)**

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.

EDIF benefited from the WBIF cooperation structures and experience and will further adopt its own coordination (Advisory Board) and communication means.

The Project will leverage loans and donor grants. It will therefore lead to an enhanced access to finance. It also will lead to a greater coordination between the donors and will support the priority activities. Practical synergies between projects receiving technical assistance from the different sources of funds under the WBIF increase the coherence and complementarities of donor funding. IPA national funds can additionally be mobilised.

In particular, over the period 2011-2015, EDIF is expected to attract approximately EUR 145 million of initial capital from the EC, IFIs, beneficiaries and bilateral donors, resulting in estimated leverage for SMEs of more than EUR 300 million. Over time, the project can become a flexible channel of attracting and leveraging financing for private sector development in the Western Balkan region. It can moreover become a TA 'cluster' for coordinated donor support to the reform processes in the region. By including complementary components in access to finance, regulatory reform and capacity building, EDIF can provide well coordinated and targeted support to markets and SME segments depending on their maturity and conditions of the regulatory environment.

### **3.6 SUSTAINABILITY**

The sustainability of the initiative can 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 actions is supported through the project. The involvement of regional sectoral organisations and NIPAC offices in its various activities is seen as particularly relevant for the IFI Coordination Office.

Greater coordination and cooperation on strategy and policy issues also requires the active involvement of relevant line DGs, IFIs and bilateral donors as does the smooth functioning of the WBIF.

For EDIF, this beneficiary ownership and participation will be particularly important regarding the beneficiary reform commitments leading to sustainable long-term improvement of business and investment environment in the region and catalytic effects on the venture capital market.

Furthermore, financial sustainability is guaranteed through the early involvement of IFIs and by carrying out the necessary qualitative and quantitative analysis in the project preparatory phase. In particular, in addition to the regular WBIF checks (internal review by the IFIs, internal review by the EC, review by the Project Financiers Group and by the Steering Committee), EIF prepared the Western Balkans Venture Capital Market Assessment in November 2010, which formed the basis for the EDIF original proposal.

As to the cross-border impact, the project would stimulate the development of a regional venture capital market and encourage cross-border business and investment.

### **3.7 ASSUMPTIONS AND PRE-CONDITIONS<sup>2</sup>**

This project builds on the success of the two and a half years of operation of the WBIF and the IFI Coordination Office. For the EDIF, it builds in particular on the WBIF SC endorsement of EDIF and its financing plan, including two tranches of EU financing under IPA 2011 and 2012, and so the preconditions for continued support are met.

The success of the project will nevertheless depend on the following assumptions:

- Sufficient market demand and capacities of individual SMEs;
- Political stability in the region;
- Continued support by various partners;
- Beneficiary governments sustained commitment for reforms;
- Stability of the financial sector;
- Sufficient geographical coverage and local experience in venture capital financing.

The regional Venture Capital market study carried out by EIF in 2010, experience of the EBRD Local Enterprise Facility programme in the region, as well as the OECD-implemented Policy Support project for EDIF (IPA 2012) and WBIF studies demonstrate that substantial market demand exists in the region, for both the equity financing and lending. At the same time, initiatives such as Vienna 2.0 recognise the need of maintaining stability of the financial sector in the region and preventing deleveraging. Provided that the political stability is maintained and the reform efforts continued, the project should help satisfy the existing demand, as well as help markets mature to benefit from other EU sources of financing, already available (CIP, 7FP) and future (structural funds).

All project partners, including the beneficiaries, IFIs and bilateral donors are contributing to the project with the EU contribution covering less than 50% of the total costs (65.6 out of 145 million). All stakeholders will be represented on the EDIF Advisory Board, its main governance body.

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<sup>2</sup> Assumptions are external factors that have the potential to influence (or even determine) the success of a project but lie outside the control of the implementation managers. Such factors are sometimes referred to as risks or assumptions but the Commission requires that all risks shall be expressed as assumptions. Pre-conditions are requirements that must be met before the sector support can start.

## **4 IMPLEMENTATION ISSUES**

Implementation of the 1<sup>st</sup> component of the project will be done through an award of a service contract following an international competitive tender.

Component 2 of the project will provide a total of EUR 34 200 000 to WB EDIF and will be partly managed by indirect centralised management through EIF, following Article 56 of the Financial Regulation and the corresponding provisions of the Implementing Rules.

Part of component 2 will be implemented in joint management with EIF, EIB and the World Bank respectively, according to Article 53d of the Financial Regulation and the corresponding provisions of the Implementing Rules, as these organisations have prepared the activities, assessed their feasibility and defined the implementation arrangements together with the European Commission.

In order to contribute Equity financing for the Enterprise Innovation Fund (ENIF) (financing for the Enterprise Expansion Fund (ENEF) already being covered by MBP IPA 2011) for an amount of EUR 21 200 000, the European Commission will sign a Delegation Agreement with EIF who is the EU specialised equity investor, thus best positioned to take up this role.

To supplement EUR 600 000 for the EIF trusteeship fees for the extended implementation period of the ENEF delegation agreement, the European Commission will sign an addendum to the Delegation Agreement CN 2012/306-667.

To replenish the Guarantee Facility with EUR 5 400 000, the European Commission will sign a Contribution Agreement with EIF.

For a contribution of EUR 7 000 000 to the TA Facility, the European Commission will sign Contribution Agreements and enter into joint management with EIB and the World Bank (part of the TA component to be implemented by OECD is covered by MBP IPA 2012).

All agreements should be signed by quarter 4, 2013 at the latest.

### **4.1 INDICATIVE BUDGET**

**Indicative Project budget (amounts in EUR) (for centralised management)**

PROJECT TITLE			SOURCES OF FUNDING									
			TOTAL EXPENDITURE*	IPA CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
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)	
Component 1												
Activity 1	X	5 000 000	5 000 000	100		0						
Component 2												
Activity 1		X	51 400 000	21 800 000	43	29 600 000	57			29 600 000		
contract 1.1	-	-		21 200 000							-	
Contract 1.2				600 000							-	
Activity 2		X	5 400 000	5 400 000	100	-	0					
contract 2.1	-	-		5 400 000							-	
Activity 3	X	-	7 000 000	7 000 000	100	-	0					
contract 3.1	-	-		7 000 000							-	
Activity 4	X	-	400 000	-	0	400 000	100			400 000		
TOTAL IB			12 400 000	12 000 000	97	400 000	3					
TOTAL INV			56 800 000	27 200 000	48	29 600 000	52					
<b>TOTAL PROJECT</b>			<b>69 200 000</b>	<b>39 200 000</b>	<b>57</b>	<b>30 000 000</b>	<b>43</b>			<b>30 000 000</b>		

\* The total project budget (financing plan) amounts to EUR 144.8 million, of which total IPA (2011-2013) contributions amount to EUR 65.6 million (including 30 million from IPA 2011 and 2 million from IPA 2012).

\*\* IFIs contributions also include EU bilateral country contributions.

Amounts net of VAT

(1) In the Activity row, use "X" to identify whether IB or INV

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

#### 4.2 INDICATIVE IMPLEMENTATION SCHEDULE (PERIODS BROKEN DOWN BY QUARTER)

Contracts	Start of Tendering/ Call for proposals	Signature of contract	Project Completion
Component 1			
Contract 1.1	Q2 2013	Q2 2014	Q4 2016
Component 2			
Contract 2.1	NA	Q3 2013	Q4 2025
Contract 2.2	NA	Q4 2013	Q4 2025
Contract 2.3	NA	Q2 2013	Q4 2025
Contract 2.4	NA	Q4 2013	Q4 2025

All Component 2 contracts will constitute follow-up to the contracts signed under IPA 2011-2012.

#### 4.3 CROSS CUTTING ISSUES

##### 4.3.1 *Equal Opportunities and non discrimination*

All activities will support equally men and women.

For the 2<sup>nd</sup> component, the main project financing decisions have to be taken however on a purely commercial basis.

##### 4.3.2 *Environment and climate change*

All EDIF's financing decisions need to be taken on a purely commercial basis and the project design does not foresee a specific focus on environment and climate change. Nevertheless, while supporting innovative and high-growth potential SMEs it may indirectly enhance their (energy) efficiency or stimulate emergence of new (environmentally friendly) technologies.

##### 4.3.3 *Minorities and vulnerable groups*

Not directly applicable, however by enhancing access to lending, through the reduction of the costs of loans and collateral requirements, EDIF can contribute to the SME sector development, thus creating more opportunities for entrepreneurship and jobs creation.

##### 4.3.4 *Civil Society/Stakeholders involvement*

EDIF is mostly addressed to the market participants (SMEs) directly or through the financial intermediaries in the region. 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.

## **ANNEXES**

- 1. Log frame**
- 2. Amounts (EUR) contracted and disbursed per quarter over the full duration of the project**
- 3. Description of Institutional Framework**
- 4. Details per EU funded contract where applicable**
- 5. Project visibility activities**

### ANNEX 1: Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX FOR Project Fiche		Project: Western Balkans Investment Framework (WBIF) 2013	Project number: 03
		Final date for contracting: 30/11/2014	Final date of execution: 30/11/2025
		Total budget : 69 200 000	IPA budget: 39 200 000
<b>Overall objective</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	
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 Employment growth	National/Central Banks reports National Statistical Offices Eurostat WBIF logframe	
<b>Project purpose</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
Component 1: To provide the necessary technical, managerial, communication and administrative services via the IFI Coordination Office to support an increase in the quality of infrastructure investments by providing technical assistance, greater cooperation and coordination among the beneficiaries, EC, IFIs and bilateral donors active in key socio-economic sectors in the Western Balkans;	WBIF able to mobilise greater investment in the region	Annual Report of the WBIF Monitoring reports WBIF logframe IFIs information	Economic and budgetary situation of the beneficiaries conducive to increased investments
Component 2: To provide economic actors, i.e. financial institutions and businesses, with the necessary means, allowing them to offer competitive products and services and to support them to recover from the economic crisis.	Financial actors able to mobilise additional finance	OECD reports, OECD SME Policy and Investment Reform Indices IFIs information Annual Report of the WBIF Monitoring reports WBIF logframe	Sufficient market demand and capacities of SMEs Political stability in the region Stability of the financial sector

<b>Results</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
<p>Component 1:</p> <ul style="list-style-type: none"> <li>Greater coordination among stakeholders in developing and implementing priority investments in the Western Balkans;</li> <li>Better targeting of such investments in line with the overall economic climate, the relevant sectoral policies and strategies and EU accession requirements;</li> <li>Better quality of project proposals;</li> <li>Enhanced flows of information between all stakeholders;</li> <li>Improved functioning of the various WBIF structures.</li> </ul>	<ul style="list-style-type: none"> <li>Availability of research, analysis and agreed strategies and policies in the different sectors to WBIF stakeholders;</li> <li>Increased number and quality of applications for and/or expedited financing of priority investments as identified in sectoral development programmes;</li> <li>Availability of reports, studies, participation in relevant workshops and seminars, increased usage of website;</li> <li>Production and circulation of agendas, minutes, key documents etc.</li> </ul>	<p>WBIF project applications</p> <p>WBIF strategy papers</p> <p>WBIF Management Information System;</p> <p>Donors databases</p>	<p>Continued support by various partners</p> <p>Beneficiary governments' sustained capacity for investments</p>
<p>Component 2: Continued availability of finance for SMEs is ensured in the short and medium term</p>	<p>Number of capital investments in new, innovative and technology based SMEs;</p> <p>Number of expansion capital investments in high-growth potential SMEs;</p> <p>Ability of local financial intermediaries to mobilise additional lending, guaranteed by the project;</p> <p>Priority reforms implemented to enhance the regulatory framework for innovative and high-growth potential SMEs and stimulate the build-up of the venture capital ecosystem.</p>	<p>EIB, EBRD, OECD reports,</p> <p>WBIF Management Information System;</p> <p>Government budgets;</p> <p>Donors databases</p> <p>EDIF Manager reports to the Advisory Board</p> <p>EDIF reports to the WBIF</p>	<p>Continued support by various partners</p> <p>Beneficiary governments sustained resolve for reforms</p>
<b>Activities</b>	<b>Means</b>	<b>Costs</b>	<b>Assumptions</b>
<p>Component 1:</p> <ul style="list-style-type: none"> <li>Research and analyses in the different socio-</li> </ul>	<p>Conducting research and analyses, as mandated by the WBIF</p>	<p>EUR 5 000 000</p>	



<p>economic sectors including energy, environment, transport, social issues, private sector development and macro-economic issues;</p> <ul style="list-style-type: none"> <li>• Organisation of and/or participation in sectoral workshops and seminars designed to address common challenges in developing and implementing sectoral strategies and policies and in particular the financing of necessary investments;</li> <li>• Provision of long-term technical assistance to NIPAC offices, line ministries and project promoters in the beneficiary countries;</li> <li>• Contribution to policy and strategy discussions and activities under the WBIF and wide EC/IF cooperation;</li> <li>• Secretariat services for WBIF structures including the Steering Committee and the Project Financiers Group;</li> <li>• Provision of technical assistance and support for regional sectoral organisations including the RCC, ECS, SEETO, SEE Investment Committee and RENA;</li> <li>• Development and maintenance of the database of investment flows to the Western Balkans in the key WBIF sectors and production of analyses; and</li> <li>• Further development and maintenance of the WBIF website as the portal for information on EC, IFI and bilateral donor activities in the Western Balkans.</li> </ul>	<p>Organisation of or ensuring participation in relevant events</p> <p>Ensuring continued presence on the ground to provide advice and assistance to beneficiaries and regional sectoral organisations, as needed</p> <p>Organisational support to WBIF</p> <p>Development and maintenance of analytical and communication tools</p>		
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<p>Component 2:</p> <p>a) equity financing operations in innovative SMEs and high-growth potential SMEs;</p> <p>b) portfolio guarantee operations with selected financial intermediaries in the region, improving SME access to lending;</p> <p>c) support to the beneficiary governments in implementation of reforms;</p> <p>d) support to EDIF governance and management</p>	<p>a) Replenishment of equity financing</p> <p>b) Replenishment of trusteeship fees</p> <p>c) Replenishment of the Guarantee Facility</p> <p>d) Replenishment of the TA Facility</p> <p>e) to be replenished by other donors</p>	<p>a) EUR 21 200 000</p> <p>b) EUR 600 000</p> <p>c) EUR 5 400 000</p> <p>d) EUR 7 000 000</p>	
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**ANNEX 2: Amounts (in EUR) contracted and disbursed per quarter over the full duration of project**

<b>Contracted</b>	<b>Q1 2013</b>	<b>Q2 2013</b>	<b>Q3 2013</b>	<b>Q4 2013</b>	<b>Q1 2014</b>	<b>Q2 2014</b>	<b>Q3 2014</b>	<b>Q4 2014</b>										
Component 1																		
Contract 1.1						5 000 000												
Component 2																		
Contract 2.1			21 200 000															
Contract 2.2				600 000														
Contract 2.3		5 400 000																
Contracts 2.4				7 000 000														
<b>Cumulated</b>		<b>5 400 000</b>	<b>26 600 000</b>	<b>34 200 000</b>		<b>39 200 000</b>												

<b>Disbursed</b>	<b>Q1 2013</b>	<b>Q2 2013</b>	<b>Q3 2013</b>	<b>Q4 2013</b>	<b>Q1 2014</b>	<b>Q2 2014</b>	<b>Q3 2014</b>	<b>Q4 2014</b>	<b>Q1 2015</b>	<b>Q2 2015</b>	<b>Q3 2015</b>	<b>Q4 2015</b>	<b>Q1 2016</b>	<b>Q2 2016</b>	<b>Q3 2016</b>	<b>Q4 2016</b>	<b>2017</b>	<b>2018</b>
Component 1																		
Contract 1.1							1 000 000		1 000 000		1 000 000		1 000 000		1 000 000			
Component 2																		
Contract 2.1			21 200 000															
Contract 2.2																		600 000

Contract 2.3			5 400 000															
Contract 2.4							3 000 000				3 000 000				1 000 000			
<b>Cumulated</b>			<b>26 600 000</b>				<b>30 600 000</b>				<b>35 600 000</b>				<b>38 600 000</b>			<b>39 200 000</b>

## **ANNEX 3: Description of Institutional Framework**

### **Component 1: IFI CO**

#### **The Western Balkans Investment Framework**

Officially launched in December 2009, the WBIF is a joint initiative of the European Commission (EC) together with bilateral donors and International Financial Institutions (IFIs), endorsed by the European Council. It is an innovative financing initiative that seeks to expedite investment projects that contribute to economic, social and environmental development in the Western Balkans, in line with EU Accession priorities. The WBIF pools grant resources in order to leverage loans for the financing of priority infrastructure and socio-economic development activities in the Western Balkans.

#### ***Beneficiaries***

Albania, Bosnia and Herzegovina, Croatia, Kosovo, the former Yugoslav Republic of Macedonia, Montenegro and Serbia.

#### ***Sector Priorities***

Investment projects should support any sector that contributes to the economic, social and environmental development of the Western Balkans. Eligible sectors include infrastructure development within the environment, energy, transport and social sectors and also private sector development. Priority projects are defined and proposed by the beneficiaries through their National IPA Coordinator (NIPAC Office) and must receive support of at least one IFI. In 2011, the WBIF Steering Committee agreed that WBIF grant resources could also be used to finance sector related studies to guide the WBIF stakeholders in their deliberations on strategic investments.

#### ***Financing***

In general, the WBIF provides grant resources to projects likely to be supported by loans from the partner IFIs and other financing partners. Grants have the objective of preparing projects, accelerating existing loans or enabling projects by bridging a funding gap. The WBIF offers beneficiaries an integrated financial package for investment projects in priority infrastructure and for private sector development. These grant resources originate from: EC Instrument for Pre-Accession (IPA); grant contributions from the CEB, the EBRD and the EIB; and bilateral grant contributions from bilateral donors including Austria through the European Western Balkans Joint Fund (EWBJF).

#### ***Participating Financial Institutions and Donors***

- Multilateral International Financial Institutions: the Council of Europe Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank and the World Bank Group<sup>3</sup>;
- Bilateral development finance institutions: Czech Export Bank, Hungarian Development Bank, KfW Entwicklungsbank (KfW), Slovenia SID Bank and Austrian Development Bank;

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<sup>3</sup> The World Bank is an associate member of the WBIF and hence cannot be a lead financier on any projects with the exception of investments in Kosovo.

- Donors: Austria, the Czech Republic, Denmark, Finland, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, The Netherlands, Norway, Poland, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

### ***Governance***

The Project Financiers' Group (PFG) is responsible for screening and assessing the requests for grant support submitted by the Beneficiaries in response to the bi-annual call for proposals. The Group is composed of representatives of the Commission (DG Enlargement coordinates the participation of all relevant Commission services), IFIs and bilateral donors. It is co-chaired by the Commission (permanent) and the partner IFIs (on a rotating basis every 6 months).

The Steering Committee takes all decisions related to the Joint Grant Facility including project approvals and provides strategic guidance for the WBIF. It is composed of representatives of the beneficiaries, the EC, partner IFIs and bilateral donors). It is co-chaired by the Commission (on a permanent basis) and one of the bilateral donors (on an annual rotating basis). Austria is the Co-Chair for 2012. The SC meets every six months and the next meeting will be held in Vienna on 14 and 15 June.

### ***Policy and Strategy coordination***

Given the overall objective of the WBIF to expedite investment projects that contribute to economic, social and environmental development in the Western Balkans, in line with EU Accession priorities, it is important that WBIF stakeholders have the opportunity to consider the relevant policy and strategic environment so as to better guide their investment decisions. A number of forums and structures are used for such discussions including the WBIF Steering Committee meetings, and meetings of the various regional sectoral organisations such as the Energy Community Secretariat, SEETO, Regional Cooperation Council (RCC), etc. These discussions are fed by the results of research and analysis conducted by WBIF stakeholders such as the EC and IFIs, the regional sectoral bodies and specifically commissioned research from the EC-financed IFI Coordination Office, which has particular responsibility for coordinating this strategic element of the WBIF.

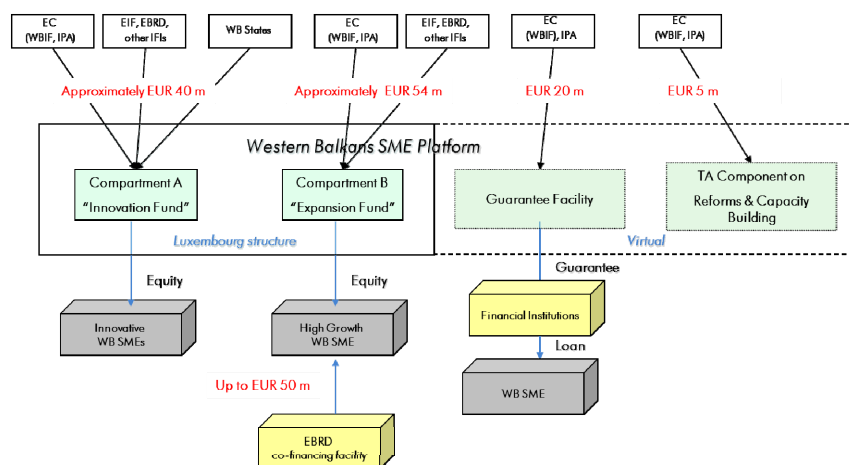
### ***Progress to date***

WBIF is supporting the preparation of 112 investments (through 123 grants totalling €220 million) representing a total potential investment value of approximately €10 billion. Under the Joint Lending Facility, WBIF aims to provide over €5.5 billion of co-financing for these projects.

In 2011, Private Sector Development was launched as a new sector under WBIF with a first grant of €34.2 million for a major regional initiative – the Enterprise Development and Innovation Facility (EDIF).

## Component 2: WB EDIF

All interventions will be developed under the common EDIF structure and coordinated by the EIF. Funds will take a Luxembourg legal structure alongside with a structure to accommodate the guarantee facility and the technical assistance, and thus provide for transparency and flexibility.



### Indicative financing plan

*(Including fees and expenses as approved by the WBIF SC. Amounts subject to approvals from relevant parties. Amounts do not include additional TA allocation to REPARIS).*

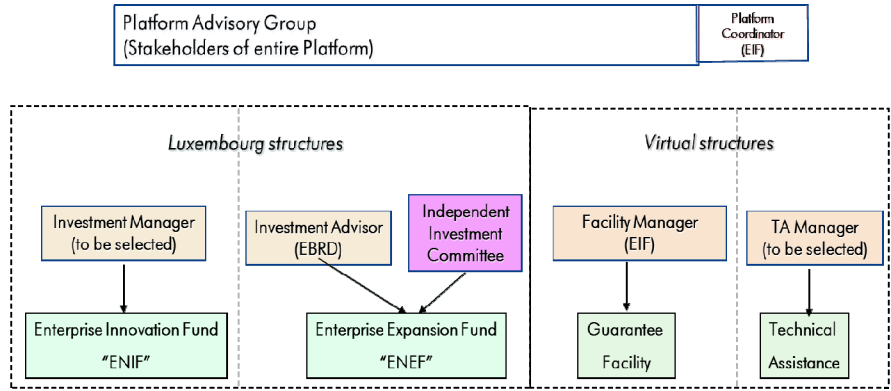
	2011-12	2013-2015	Total
EC/WBIF	36.2	34.8	71.0
EBRD	30.0	4.0	34.0
EIF	10.0	-	10.0
Other IFIs	10.0	-	10.0
Beneficiaries	5.0	-	5.0
Other/Bilaterals	-	11.2	11.2
Total	91.2	50.0	141.2

### Platform Corporate Governance and Structure:

A Platform Advisory Group comprising platform stakeholders (investors including EC, IFIs and beneficiaries) will supervise the whole platform.

ENIF and ENEF will be established as Luxembourg structures to be governed by General Shareholder Assemblies and the Boards of Directors. Investors (IFIs, EC and beneficiaries) will decide on overall strategy to be followed.

GF and TA will be established as virtual structures (not legal entities) through appropriate contractual arrangements. To be noted that also the EIF coordination and project architecture role will be governed under a contractual agreement.





#### **ANNEX 4: Details per EU funded contract where applicable:**

##### **Component 1**

Implementation of the 1<sup>st</sup> component of the project will be done through an award of a service contract following an international competitive tender.

##### **Component 2**

**Trusteeship agreement with EIF** to cover additional EUR 21.2 million EU contribution to replenish equity financing under EDIF. This will be a delegation agreement as used by the EC in the past. It will follow from the first EDIF trusteeship agreement to be signed from the IPA 2011 funds of EUR 10.4 million. The total size of ENIF, including the beneficiary, IFIs and bilateral donor contributions will be EUR 40 million and EUR 6.6 million of fees, and of ENEF, EUR 54 million and 9.8 million respectively. EIF is the EU specialised equity investor, thus best positioned to take up this role. The beneficiaries of this contract will be the innovative and high-growth SMEs in the Western Balkan region.

Addendum to the trusteeship agreement with EIF for ENEF (IPA 2011 EUR 10.4 as above) to cover the additional EUR 600 000 provision for the EIF fees as a trustee for the EU funds in ENEF for the extended implementation period.

**Contribution/fiduciary management agreement with EIF** to cover additional EUR 5.4 million EU contribution to replenish the Guarantee Facility. The agreement will stem from the first contribution agreement for the GF with EIF to be signed in 2012 building on earlier experiences of the EC and EIF in guarantee operations. The total EU contribution will be EUR 21.9 million, including EUR 20 million of capital and 1.9 million in fees. No other contributors to the GF are foreseen. The GF will provide portfolio guarantee operations with selected financial intermediaries in the region, thus improving possibility for small SMEs to access bank lending and potentially lowering the cost of borrowing for expansion stage.

**TA contribution agreements with EIB and the World Bank** for the additional EUR 7 million EU contribution to the TA component, to continue support to the beneficiary governments in implementation of regulatory reforms. It will complement the financing provided under IPA 2012 of EUR 2.0 million (covering the OECD inputs). TA Manger will be in charge of the delivery of TA, but specific activities will be delivered by specialised actors (donors, international organisations, IFIs) active in the relevant reform areas. This amount includes EUR 3.6 million to finance REPARIS as part of EDIF TA. Other activities may be brought together with the EDIF TA component for better coordination among donors and synergies among projects.

#### **ANNEX 5: Project visibility activities**

##### **Component 1**

The project will be implemented under the WBIF Communication Plan – a comprehensive and strategic document guiding the visibility and communication principles and activities of the WBIF.

## **Component 2**

Two communication phases can be distinguished: first - project development through the WBIF, whereas the WBIF consultation processes were implemented and communication ensured with all internal and external stakeholders (including private sector at the workshop in Skopje in 2011). Simultaneously, information about EDIF is being updated on the WBIF website and published in WBIF reports. In the second phase - upon the project launching, EDIF will have its own communication plan. This plan will take into account all target groups, both on the fundraising/financiers and final beneficiaries side in Europe and in the region. EIF as the overall project coordinator will be in charge of implementation, also to ensure that EDIF is properly networked.