

## 18<sup>th</sup> WBIF Steering Committee Meeting

18 – 19 June 2018, Paris, France

### Minutes of Meeting

#### Day 1: Project oriented session

[Change to the agenda, the Guarantee Mechanism was moved to Day 2, under presentation “Key EU Policy Objectives in the WB Region”.]

#### Welcoming by WBIF Co-chairs

The **WBIF SC Co-chairs Mr. Julien Buissart, Ministry for Economy and Finance (France) and Mr. Colin Wolfe, Head of Unit, Regional Cooperation and Programs, DG NEAR, European Commission**, welcomed participants to the 18th WBIF SC meeting by highlighting recent developments, such as the publication of the COM’s enlargement strategy, the subsequent enlargement package for the Western Balkans (WBs) and the declaration of the Sofia summit, where the connectivity relevant projects were endorsed. Together with the new, upcoming IPA package, the support available to the WB beneficiaries, also through the new Western Balkan guarantee mechanism, are expected to significantly contribute to the economic development and better regional integration and cooperation. The “IFI days” took place in Brussels, where all the IFIs together with DG NEAR and EU Delegations discussed their strategic orientations, and how they can increase their collective impact, visibility and work going forward. Another positive development concerns the solution of the name dispute between the Former Yugoslav Republic of Macedonia and Greece, settling eventually for “Republic of North Macedonia”.

#### WBIF Secretariat Updates

The **WBIF Secretariat** (Mrs. Stine Andresen) updated participants about latest developments, and mentioned:

- The WBIF Communication and Visibility (C&V) Plan & Guidelines, for which comments were invited until 29th June. Following this deadline, the C&V plan will be implemented.
- The WBIF 2017 Annual Report has been published, new fact sheets per sector and beneficiary are being produced, the website and MIS have been improved.
- The WBIF Rules of Procedure were updated, reflecting the recent changes to the WBIF structures (KfW Partner Organisation, 6 to 12 months PFG rotation, some technical updates) and the updated version is available in the MIS library.
- The Vademecum was updated and a sanitised version of the Vademecum, “Guide to WBIF”, will be circulated.
- The Youth Education Sector Study (YESS) study has been largely completed, data from one beneficiary are still missing.

- The NIC reports are also finalised, the agreed action plans will be implemented. The funding needs analysis is underway, with the first phase, stakeholder consultation ongoing (IPFs) and the IFIs.
- The ex-ante market assessment for the guarantee mechanism is work in progress, with the IFI consultations taking place.

The outcomes of these ongoing assignments will be presented to the next PFG in autumn in Brussels.

The 18<sup>th</sup> WBIF SC meeting also took note of the relevant written procedures issued, namely:

No.	Title	Topic
1	WBIFWP: 017_15/05/18	Update of WBIF Rules of Procedure
2	WBIFWP: 016_05/03/18	Increase of budget: WB12-MNE-TRA-01 “Detailed Design and Tender Document for the Reconstruction of the Road Scepan Polje-Pluzine”
3	WBIFWP:015_11/01/18	Change of scope: WB15-MKD-TRA-01 “Preparation of Detailed Design for construction of motorway section A2 Gostivar - Kichevo, Phase 2 (Sub-Section: Gostivar – Gorna Gjonovica)”

**Norway** (Mr. Olaf Reinertsen) welcomed the C&V related activities and enquired if the Bilateral Donors (BDs) will be involved in the funding needs analysis. **Austria** (Mr. Leander Treppel) enquired if information on TA that leads to investments could be presented.

**WBIF Secretariat** (Mrs. Stine Andresen) confirmed that the funding needs analysis will be presented to and discussed at the PFG in November and the ratio TA to investments is already part of the WBIF Monitoring Report.

### WBIF Mid-term review

**DG NEAR** (Mr. Wolfgang Schläger) reminded participants about the discussion on the adoption of the “new methodology” at the 13<sup>th</sup> WBIF SC meeting in Paris (16 December 2015), where DG NEAR’s DDG Mrs. Katharina Mathernová confirmed that, following the adoption of the new methodology, a mid-term review will be carried out by the COM. This mid-term review is proposed as a self-assessment, also because of the extensive experience among the WBIF stakeholders. Representatives of the various WBIF stakeholder groups will be involved, including the Energy Community Secretariat (ECS) and others, with possibly an independent oversight. DG NEAR is finalising a methodology that will be shared with the WBIF before the summer break; the review as such will address 3 main areas: (1) current functioning, (2) areas for improvement, and (3) WBIF’s future orientation including the aspects of the next financial framework (2021 – 2027). The review is to commence in September and be presented for discussion to the next PFG in November.

**Germany** (Mrs. Sabrina Brabetz) enquired how this mid-term review relates to the IPF review. **Italy** (Mrs. Raffaella Di Emidio) requested details on the methodology. **Kosovo\*** (Mr. Lum Mita) enquired if the Connecting Europe Facility (CEF) would be under WBIF. **EIB** (Mr. Matteo Rivellini) recommended involving also end-beneficiaries into the mid-term review.

\* This designation is without prejudice to positions on status, and is in line with UNSC 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

**DG NEAR** (Mr. Wolfgang Schläger) clarified that the IPF review is an external review and independent from the WBIF mid-term review. The methodology will be presented to the WBIF stakeholders, Line Ministries, NIPACs and NICs will be involved. There were suggestions that CEF window might come under WBIF, however this did not materialise.

## 1<sup>st</sup> Project oriented session

### General Overview & WBIF Monitoring Report

The **WBIF Secretariat** (Mrs. Stine Andresen) presented the highlights of the Monitoring Report (May 2018). Overall 18 Rounds of TA and 3 Rounds of investment Grants were implemented or are under implementation, 156 Projects supported in total, signed loans amount to € 5.2 billion and the total estimated loans in the meantime amount to € 10.5 billion, with an estimated overall investment volume of € 16.2 billion. 256 Grants were approved, for a value of € 772 million, 24 grants were cancelled (for a value of € 22.9 million). Following the requests of the Bilateral Donors, an analysis of estimated results for the WBIF portfolio was introduced; this analysis follows the methodology used for GAFs, additional information for sets of result oriented indicators per sector needs to be collected for older projects. A more in-depth analysis will be provided in the next report.

Following a reiteration of the cancellation criteria (ToR not started 1 year from approval, implementation not started 2 years following approval, and action not implemented within 4 years of approval), two projects were discussed for cancellation:

- (1) Round 9 project from Croatia: Zadar University: New Campus and Learning Resource Centre, with grant amount of € 1.2 million; and
- (2) Round 15 project from Serbia: High Education Infrastructure, with a grant amount of € 880,000.

**EIB** (Mr. Giorgio Watschinger) confirmed that for the Croatia project, component 1 is now ready to be implemented and EIB started the procurement, and component 2 will follow soon. Regarding the project in Serbia, there were some formal blockages (restructuring of administration, project passport) but this is now being solved, a meeting with the beneficiary is planned in the coming days. **Serbia** (Mrs. Una Kecman) confirmed the importance of this project and requested that the cancellation is postponed, an official letter will be sent.

**DG NEAR** (Wolfgang Schläger) stated that progress of these two projects will be reviewed at the next PFG.

### Annual Summary Implementation Report

**EIB** (Mr. Massimo Cingolani and Mr. Pavlos Roidis) presented the EWBIF 2017 Summary Implementation Report (SIR). The main objectives of the SIR are (1) provision of summary of the information provided by the Lead IFI; (2) monitoring and assessment of the performance of the EWBIF actions, and (3) provision of an overview of aggregate EWBIF financial data. There was a slight delay in the production of this year's SIR, due to the restructuring of the MIS, allowing now for digital online reporting. The annual implementation reports (AIRs) are now integrated into the MIS, with access limitations and other data safeguards in place. The SIR is under finalisation and will be

submitted to the Assembly of Contributors soon. Overall, at the end of 2017, 76 grant actions were implemented (completed, active or on hold), 12 grants were cancelled and 12 new grants were added. The EWBJF grant value currently stands at € 521.2 million, up by € 136.7 million from 2016. The main conclusions and recommendations, summed up, show a significant number of investment, good coordination and communication among stakeholders, a high implementation rate of INV projects, while efforts need to be made to minimise delays (5 – 10 years implementation period) and the need for capacity building at NIPAC and NIC level for grant preparation. The latter would also support timely delivery of the actions.

**Austria** (Mr. Leander Treppel) requested also qualitative data aside from the provided quantitative data; benchmarks should be introduced allowing for concrete improvements if these are not met. **Norway** (Mr. Olav Reinertsen) raised concerns about delays and enquired about the difference of EWBJF and IPF implemented projects and seconded Austria's request for benchmarks. **Kosovo** (Mr. Lum Mita) stated that the changes made to the GAFs during the screening and assessment process was also a reason for poor quality GAFs and beneficiaries should be involved also following or during screening and assessment.

**EIB** (Mr. Pavlos Roidis and Mr. Massimo Cingolani) confirmed that the SIR is, by nature, quantitative heavy, these data have to be provided; qualitative data and analysis could be considered for the future and clarified that the average implementation period for EWBJF projects is 5.2 years. Delays in the implementation are also linked to the (delay in the) operation of respective loans.

**DG NEAR** (Mr. Colin Wolfe and Mr. Wolfgang Schläger) confirmed that WBIF is already discussing the WBIF project portfolio with each IFI during the "IFI visits" in the first quarter of each year. The Monitoring Report already shows a comparison of implementation periods and delays; currently for IPF-implemented action grants, ToR are prepared within six months (down from nine) and for EWBJF action grants, within one year (down from 1.2 years), which is a significant improvement. Beneficiaries are now also able to access and edit GAFs in the assessment period.

### Joint Fund Statement

**EBRD** (Mrs. Caroline Clarkson) presented the audited EWBJF statement, showing an overall balance of € 48 million, of which approximately € 7 million are unallocated contributions from Bilateral Donors.

### 2nd Project oriented session - WBIF Project Approval Session (Round 19)

#### Availability of Funds for Round 19

**DG NEAR** (Mr. Wolfgang Schläger) presented the currently available funds. Under the IPF instrument, around € 48 million is or will be available, and under the EWBJF, € 7 million are unallocated funds from the BD community, out of which € 1.8 million will be used for the project rolled over from the previous TA round WB18-ALB-ENV-02 (Now: WB19-ALB-ENV-02).

#### Round 19 TA GAFs

**DG NEAR** (Mr. Wolfgang Schläger) reiterated the eligibility criteria for TA Round 19, these were: restricted to the existing WBIF pipeline (no new projects), with the proviso that the Albanian pilot

project for digital infrastructure discussed in Round 18 was exempted, ENE and TRA sector applications need to have a clear regional dimension or unblock an existing project, in addition, TRA sector projects must relate to the Core Network. In total, 14 applications were received in Round 19 for a total Grant amount request of €25.2 million; in addition: 1 Grant rolled over from Round 18 (WB18-ALB-ENV-02) for € 1.8 million. A total of 10 GAFs from this Round and the one rolled over from the last Round were screened and assessed positive, for a total Grant amount (fees included) of € 22.3 million.

**The PFG Co-chairs DG NEAR and EIB** (Mr. Wolfgang Schläger and Mr. Massimo Cingolani) invited beneficiaries to present their GAFs *en-bloc*, followed IFI comments. The following GAFs were presented:

#	Grant Code	Title	IFI	Original amount	Amount revised	TA impl. fee	Total TA grant	TA Agent
1	WB19-ALB-DII-01	Albania, Regional Broadband Infrastructure Development: Feasibility Study	EIB	520,000	520,000	2,600	522,600	IPF
2	WB19-ALB-ENV-01	Albania, Mati River Flood Protection Infrastructure: ESIA, Detailed Design, Tender Dossier	EIB	450,000	450,000	2,250	452,250	IPF
3	WB19-ALB-ENV-02	Albania, Water Supply and Sewerage Systems in Himara Municipality and its Coastal Villages: Detailed Design, Tender Dossier	KfW	1,800,000	1,800,000	72,000	1,872,000	JF
4	WB19-BIH-ENV-01	Bosnia and Herzegovina, Flood Risk Management Project: Preparation of Flood Hazard and Flood Risk Maps Phase II	EIB	1,785,000	1,785,000	8,925	1,793,925	IPF
5	WB19-BIH-ENV-03	Bosnia and Herzegovina, Flood Risk Management Project: Continuation of Procurement Assistance for the Flood Risk Management Project in Republika Srpska	EIB	1,000,000	750,000	3,750	753,750	IPF
6	WB19-BIH-TRA-01	Mediterranean Corridor, Bosnia and Herzegovina - Croatia Cvc Road Interconnection, Počitelj - Zvirovići Subsection: Supervision of Works	EIB	5,000,000	5,000,000	200,000	5,200,000	JF
7	WB19-KOS-TRA-01	Orient/East-Med Corridor, Kosovo - Serbia R7 Road Interconnection, Pristina - Merdare Section: Tender Dossier, Supervision of Works	EBRD	4,200,000	4,200,000	168,000	4,368,000	JF
8	WB19-MKD-ENV-01	The former Yugoslav Republic of Macedonia, Skopje Wastewater Treatment Plant: Project Implementation Consultant	EIB	350,000	350,000	1,750	351,750	IPF
9	WB19-MNE-TRA-01	Mediterranean Corridor, Montenegro - Croatia - Albania R1 Road Interconnection, Budva Bypass: Preliminary Design, ESIA	KfW	1,512,500	1,500,000	7,500	1,507,500	IPF
10	WB19-SRB-TRA-02	Orient/East-Med Corridor, Serbia - Bulgaria CXc Rail Interconnection, Niš Bypass: Design for Building Permit, Tender Dossier	EIB	2,000,000	2,000,000	10,000	2,010,000	IPF
11	WB19-SRB-TRA-03	Orient/East-Med Corridor, Serbia - the former Yugoslav Republic of Macedonia CX Rail Interconnection, Niš - Preševo - Border Between the Two States Section: Feasibility Study,	EIB	3,500,000	3,500,000	17,500	3,517,500	IPF

#	Grant Code	Title	IFI	Original amount	Amount revised	TA impl. fee	Total TA grant	TA Agent
		ESIA, Preliminary Design, Tender Dossier						
		<b>Total</b>			21,855,000	494,275	<b>22,349,275</b>	

Following these presentations, the IPF instrument will implement eight TAs, worth around € 10.9 million and under the EWBIF three GAFs worth around € 11.4 million, of which € 1.8 million will be covered by BDs contributions (for the ALB ENV project from Round 18) and DG NEAR will allocate funds to the EWBIF to cover the connectivity agenda relevant projects.

*The 18<sup>th</sup> WBIF SC took note of the overall availability of funds in the EWBIF of around € 48 Million (before approvals of Round 19), out of which € 7 million are unallocated Bilateral Donor contributions.*

*The WBIF Steering Committee took note of the 25<sup>th</sup> PFG recommendations regarding the projects and approves the above mentioned 11 Round 19 TA projects, for an overall grant allocation of € 22,349,275. The TA Round 19 IPA financed grants, with the exception of WB19-BIH-TRA-01 and WB19-KOS-TRA-01, are approved subject to the adoption of the IPA Multi-country Programme 2018 by the European Commission in July 2018. The grants WB19-BIH-TRA-01 and WB19-KOS-TRA-01 are approved subject to the adoption of the IPA Multi-country Programme Connectivity 2018-2019 in December 2018. The respective Grand Award Notifications will be sent out in the coming weeks.*

### 3rd Project oriented session – next round

#### Eligibility criteria for TA Round 20

**DG NEAR** (Mr. Wolfgang Schläger) took stock of the past Rounds and took note of the discussion at the 25<sup>th</sup> PFG on the absence of applications in the ENE sector. In addition, a background paper from the ECS was circulated ahead of the 18<sup>th</sup> WBIF SC meeting, requesting less stringent criteria for the ENE sector. The proposal for eligibility criteria for TA Round 20 and also for the ENE sector is as follows:

- TRA limited to regional dimension or unblocking of existing project (no new projects), TRA must relate to the Core Network (only Core airports, Core inland and maritime ports are eligible, as defined by the Indicative Extension of the TEN-T networks to the Western Balkans);
- DII, SOC and ENV: unrestricted, open for new projects;
- ENE: regional impact as sole criterion (PECI and / or PMI are no longer a requirement) with the exception of smart grids in transmission and distribution lines as well as smart meters [following the intervention of ECS below].

The **Energy Community Secretariat “ECS”** (Mrs. Violeta Kogalniceanu) presented their detailed view on the various components of the ENE sector, electricity, gas, renewables together with concrete proposals for sub-sectors to be eligible. Sub-sectors with the highest investment potential are enhanced support for renewable energy; renewable “Heat and Cool” production; smart grids, smart metering, integration of renewable energy and increase e-mobility.

**Austria** (Mr. Leander Treppel) stated that also awareness raising for the green energy agenda should be included and also solar district heating. **Germany** (Mrs. Sabrina Brabetz) raised concerns about the increase in the already considerable funding gap regarding started projects in other sectors and enquired about the progress of the Connectivity Reform Measures (CRMs). **Italy** (Mrs. Raffaella Di Emidio) enquired if renewables would be under the ENE sector and, if so, under the Connectivity Agenda and IPA eligible for co-financing. **Kosovo** (Mr. Lum Mita) enquired about the regional impact of smart grids. **KfW** (Mrs. Helke Wälde) welcomed the opening up of the ENE sector and the ECS background paper. **EBRD** (Mrs. Charlotte Ruhe) seconded KfW. **EIB** (Mr. Matteo Rivellini) emphasised the importance of the Gas sector and recommended also the Gas sector to be eligible.

**DG NEAR** (Mr. Colin Wolfe and Mr. Wolfgang Schläger) clarified that the CRMs are being monitored by ECS and SEETO and are conditionalities for INV grant co-financing. There is a strong commitment by the COM toward a (green) energy transition.

The **WBIF SC unanimously adopted the eligibility criteria for TA Round 20**. TRA projects must have a clear regional dimension or unblock an existing project and must relate to the Core Network; only Core airports, Core inland and maritime ports are eligible, as defined by the Indicative Extension of the TEN-T networks to the Western Balkans. DII, ENE, ENV and SOC projects are not restricted and new project applications are invited; ENE projects must demonstrate a regional impact, with the exception of smart grids in transmission and distribution lines as well as smart meters.

### **State of play Investment Round 3**

**DG NEAR** (Mr. Wolfgang Schläger) updated participants on the progress of INV Round 03. INV Round 03 was launched (following) the 16<sup>th</sup> WBIF SC meeting in Stockholm, submission deadline was end of November 2017, IFI endorsement at the end of January 2018, followed by screening and assessment. Also, at the 17<sup>th</sup> SC in Frankfurt there were four INV GAFs positively screened and assessed, which were rolled over to INV Round 03. In total, fourteen GAFs in TRA and ENV sectors were received, for an overall grant request of € 238.2 million. Of these, ten GAFs are screened positive: three ENV (€ 14.4 million) and seven TRA (€ 156.8 million). The TRA GAFs were presented at the WB summit in Sofia and, subject to further processing, will be approved under the COM “connectivity envelop”. The ENV GAFs will – if at all - only be financed through BD’s contributions. The ENV INV project from this round are:

- BiH, Gradacac Water Supply Project, EBRD, grant request around € 2.2 million;
- MNE, Boka Bay Water Supply & Wastewater Collection, KfW, grant request around € 9.1 million;
- MNE, Bijelo Polje Wastewater Treatment Plant, EIB, grant request around € 3.1 million;

The BD’s decision on ENV INV was postponed to the SC in Luxembourg.

### **Launch of INV Round 04**

**DG NEAR** (Mr. Colin Wolfe and Mr. Wolfgang Schläger) announced the launch of INV Round 4, a separate note will be sent out by DG NEAR. The eligibility criteria for INV Round 04 are proposed as follows:

- ENV & SOC: open,;
- ENE: must have a regional impact, except smart grids;

- TRA: must be part of the connectivity agenda and be on the Core Network.

For the avoidance of doubt, only core airports, core inland waterway ports and core maritime ports as defined under the Indicative Extension of the TEN-T Network to the Western Balkans are eligible for investment grants.

**Sweden** (Mr. Johan Willert) welcomed the opening up of the ENE sector. **Germany** (Mrs. Sabrina Brabetz) enquired if and when DG NEAR will consider co-financing of ENV and SOC projects. Bosnia and Herzegovina (Mrs. Sabina Dizdarevic) enquired if the Round 02 INV GAF WATSAN, needs to be re-submitted and split into more GAFs for the municipalities concerned.

**DG NEAR** (Mr. Colin Wolfe and Mr. Wolfgang Schläger) stated that, at this moment, the ENV and SOC sectors receive funding through national IPA, but also asked for patience as more time is needed in the Commission to reflect on the notion of COM co-financing of ENV and SOC projects through regional IPA. In addition, with the strategic expansion of WBIF, the national IPA envelope might also be channelled through the WBIF. The WATSAN programme in the Federation of Bosnia and Herzegovina was screened negatively as the basics elements to appraise the application were missing. The application would need to be resubmitted with individual GAFs for each municipality.

The **WBIF SC unanimously adopted the eligibility criteria for INV Round 04**. TRA projects must be part of the Core Network as defined under the Indicative Extension of the TEN-T Network to the Western Balkans. ENE, ENV and SOC projects are not restricted and new project applications are invited; ENE projects must demonstrate a regional impact, with the exception of smart grids in transmission and distribution lines as well as smart meters.

#### **Dates for TA Round 20 and IG Round 04**

##### **TA Round 20**

- |                            |                                   |
|----------------------------|-----------------------------------|
| - Launch                   | 18 WBIF SC, 19 <sup>th</sup> June |
| - Pre-notification         | 17 August                         |
| - Submission d/l           | 07 September                      |
| - IFI endorsement          | 14 September                      |
| - Screening                | 03 October                        |
| - 1 <sup>st</sup> PG       | 11 October (Brussels)             |
| - Assessment               | 01 November                       |
| - 2 <sup>nd</sup> PG & PFG | 06 – 07 November (Brussels)       |
| - 19th WBIF SC             | 05 – 06 December (Luxembourg)     |

##### **IG Round 04**

- |                          |  |
|--------------------------|--|
| - Pre-notification       | 02 November  |
| - Submission d/l         | 30 November  |
| - IFI endorsement        | 31 January 2019  |
| - Screening & Assessment | until 27 <sup>th</sup> PFG in Tirana, April / May 2019 |

### Welcoming by Co-Chairs

The **WBIF SC Co-chairs Mrs. Katarína Matheriová, Deputy Director General DG NEAR and Mr. Joffrey Célestin-Urbain, Ministry for the Economy and Finance, France** welcomed participants to the Policy and Strategy session.

### "Western Balkans EU Perspective - Shifting Gear"

**DG NEAR**, (Mrs. Katarína Matheriová) presented to participants the accelerated EU engagement with the WB beneficiaries. The Western Balkan Strategy was published in February 2018, the enlargement package presented in April, proposing to open negotiations with Albania and the Former Yugoslav Republic of Macedonia<sup>†</sup>. At the WB summit in Sofia, in May, the 2018 connectivity package and investment projects were endorsed. The WB6 Strategy saw the introduction of 6 flagship initiatives and an action plan with 57 dedicated actions. The Commission's proposal for the upcoming Multiannual Financial Framework (MFF) from 2021 to 2027 foresees a substantial increase in IPA support. The draft MFF sees a streamlining of current external action instruments under a new Neighbourhood, Development and International Cooperation Instrument (NDICI), with IPA remaining as single instrument outside all other external aid instruments. IPA III is recommended to be increased by 20% to € 14.5 billion. There will be an increased focus on investments, and programming is recommended to be through priorities, thereby providing an incentive for good performance and focus on key priorities. For the implementation, enhanced cooperation with the IFIs and the EU will be required and the beneficiaries need to increase their efforts in implementing the Economic Reform Programs (ERPs), the Regional Economic Area (REA) and the Connectivity Reform Measures. The WBIF will need some fine-tuning until 2020 in better streamlining the other existing IFI platforms under the WBIF umbrella. Concretely this would for example entail that all project proposals, also from other platforms, will be submitted via one GAF and subjected to one screening and assessment process. Also WBIF will integrate more prominently policy reform aspects (ERPs, CRMs) and see a strengthening of the ownership principle (NIC, SPP) and additional efforts will be deployed to increase visibility. The self-assessment will be helpful in this regard.

**Kosovo** (Mr. Demush Shasha) enquired how the process of country envelops to priorities is planned and if the six flagship initiatives are covered by the MFF. **EIB** (Mr. Massimo Cingolani) recommended that common objectives for the WBs are established, together with parameters allowing measuring of the compliance with these objectives. **Montenegro** (Mrs. Ivana Glisevic-Durovic) enquired about the criteria for IPA III. **EBRD** (Mrs. Charlotte Ruhe) stated that policy reform in the country envelops are important, TA should be easily accessible, and if WBIF undertook any efforts in attracting more BDs, or to reactivate passive BDs, such as the UK. According to **Germany** (Mrs. Sabrina Brabetz) streamlining investments is a good thing in general but the balance must be preserved. At the beginning the WBIF was a small, transparent, flexible and quick instrument. Apart from being small, all the other characteristics should remain. Moreover, she seconded EBRD concerning new BDs. **Austria** (Mr. Leander Treppel) enquired if a mid-term review was foreseen for IPA III, allowing for a change in direction if needed.

---

<sup>†</sup> Until full and formal resolution of the name issue, the official name remains Former Yugoslav Republic of Macedonia.

**DG NEAR** (Mrs. Katarína Mathernová) confirmed that assistance will also be provided for policy reform, moreover, progress in the implementation of policy reform are conditionalities for investment grants. The implementation of IPA III will not only be a challenge for the beneficiaries, but also for the COM. A mid-term review of IPA III would certainly help to further streamline IPA III implementation; criteria and other details for IPA III will be developed and communicated once ready. Efforts are also employed by WBIF to re-activate passive BDs and to attract additional countries. The critical interventions regarding streamlining the WBIF will be taken seriously.

### Key EU Policy Objectives in the Western Balkans Region

**DG NEAR** (Mrs. Barbara Banki) reiterated the EU's policy objectives, the enhanced engagement with the beneficiaries in the WBs and the challenges for all concerned. Concretely, the implementation and progress of ERPs will require additional action, for example tackling of the identified bottlenecks for regional cooperation and economic progress by the beneficiaries themselves. In the ERP exercise, structural reforms are assessed by the COM together with the beneficiary governments, prioritised and updated on a yearly basis. The 2018 diagnosis of the ERPs identified four common challenges across the WBs, these are: the size of the "informal" sector, improvement of the business environment and support for SMEs, large and inefficient public sectors and public administration, and the skills gap, in particular the educational system for youth. At the Trieste summit, developing a Regional Economic Area was agreed but so far integration on the ground is moving too slowly. The multi-annual action plan (MAP) for the Regional Economic Area identified 4 pillars:

- i. trade pillar, mainly liberalisation of trade and elimination of trade barriers;
- ii. investment pillar, addressing regional harmonisation of investment policies and the removal of barriers for regional investments;
- iii. mobility pillar, addressing mutual recognition of certificates, qualifications and standards; and
- iv. digital integration into the pan EU digital market.

The WB Strategy identified six Flagship Initiatives, with Flagship three (socio-economic development), Flagship four (connectivity) and Flagship five (digital agenda) particularly relevant to the WBIF framework, with dedicated actions and funds available through IPA. Concretely, Flagship three identified measures, including the CIF (Chamber Investment Forum) regional platform that will facilitate closer cooperation among business communities in the region in order to promote economic development and regional cooperation. Flagship 3 also foresees an expansion of WBIF to include additional donors, Financial Institutions (e.g. AFD) and funding for additional sectors. Different instruments and sectors, including private sector development, will be closer integrated under WBIF. Additional instruments will be made available (e.g. the new guarantee mechanism).

In the context of considerable investment needs and constrained fiscal space, the new guarantee instrument will be set up as an integral part of the WBIF umbrella. Its purpose is to enable scaling-up of investments in areas that directly contribute to sustainable socio-economic development and regional integration, in particular using innovative approaches to tackle the region's challenges such as those identified in the ERPs (above). The guarantee could potentially contribute to the main thematic areas under the WBIF umbrella and others, including:

- Energy efficiency & renewables;
- Attracting private investment for infrastructure development;

- Private sector development targeting SMEs;
- Start-ups and incubators; etc.

In line with the Financial Regulations, DG NEAR is carrying out an ex-ante evaluation to ensure the new instrument's complementarity, targeting it to market gaps and investor needs while crowding-in private sector investment where possible. The first part of that evaluation, the market assessment, is currently under way, the outcome is expected early in autumn this year. The market assessment will identify the areas where the guarantee mechanism will have its highest impact. Following the market assessment, the second part of the ex-ante evaluation will see the investment strategy for the identified sector/s. In 2019-2020 DG NEAR is planning to commit up to € 150 million for the guarantee and technical assistance. It is foreseen that around four to five contracts will be signed with IFIs under this guarantee. The guarantee will be implemented with the pillar assessed IFIs and through consulting the bodies of WBIF. The final decision on the guarantee mechanism projects is with DG NEAR.

**Austria** (Mr. Leander Treppel) informed that IFC is analysing investment gaps and recommended this be taken into account for the guarantee and enquired if climate change would be addressed too. **KfW** (Mr. Christoph Tiskens) informed that KfW established a business "Start-up Facility" in Serbia and of a "ChallengeFund" in Kosovo addressing the poor level of Vocational Education and Training (VET). **Bosnia and Herzegovina** (Mrs. Ajla Cosic) welcomed the anticipated support for start-ups and incubators. **Italy** (Mrs. Raffaella Di Emidio) enquired if BDs will be involved in the development of the guarantee mechanism and which role was anticipated for the SC. The **former Yugoslav Republic of Macedonia** (Mrs. Orhideja Kaljosevska) enquired if processes could be simplified and made easier for beneficiaries. **Kosovo** (Mr. Demush Shasha) enquired if the impact of the guarantee can be measured. **Serbia** (Mr. Dejan Gojkovic) stated that most beneficiaries have insufficient capacities to absorb and implement all these new measures and instruments and enquired if any capacity building components were foreseen.

**DG NEAR** (Mrs. Barbara Banki) clarified that climate change will be addressed elsewhere, DG ENV is, however, closely involved (e.g. screening of ENV projects). BDs will be involved at PFG and SC level, since the COM will be using the WBIF structures for the guarantee. Streamlining of processes will also help to alleviate the shortage of local capacities.

## SME development under the WBIF Umbrella

### Economic outlook - Doing Business in the Western Balkans

**IFC** (Mr. Thomas Lubeck) presented IFC's latest "Doing Business" analysis; the private sector is expected to create 90% of all new jobs in emerging economies, hence the importance to remove barriers for the private sector. IFC has determined *doing business* indicators, focusing on the regulations relevant to the life cycle of SMEs and the formal sector, using standardised scenarios in the biggest cities. The 11 indicators analysed fall under 5 categories: (1) start up – i. starting a business, and ii. labour market regulations; (2) getting a location – i. construction permits, ii. getting electricity, iii. registering property; (3) getting finances – i. access to credit, ii. protecting minority investors; (4) daily operations – i. paying taxes, ii. Trading across borders; (5) failure scenario – i. enforcing contracts, ii. Resolving insolvency. Concretely, Serbia ranks 43<sup>rd</sup> on the index a slight improvement, start-up business, property registration and contract enforcement have improved. Albania ranks 65<sup>th</sup> (slight

drop) access to credit has improved but labour market regulation is still burdensome (and others have improved); Bosnia and Herzegovina ranks 86<sup>th</sup>, also fell behind slightly, mainly due to the burdensome labour market regulations; Kosovo ranks 40<sup>th</sup>, with positive developments for business start-up, access to finance and resolving insolvency (NPLs are at a record low, around 8%); the former Yugoslav Republic of Macedonia is the best in class, ranking 11<sup>th</sup>, with a most favourable business environment, room for improvement is access to electricity; Montenegro ranks 42<sup>nd</sup>, showing an improvement in access to electricity. More information is available under: [www.doingbusiness.org](http://www.doingbusiness.org) and here: [www.doingbusiness.org/reports/thematic-reports/improving-access-to-finance-for-SMEs](http://www.doingbusiness.org/reports/thematic-reports/improving-access-to-finance-for-SMEs).

### **EDIF - Innovative SME financing**

**EIF** (Mr. Marco Marrone) updated participants on the history of EDIF, with a decision of the WBIF in 2011 to become active in private sector development and funding was made available to enable SMEs access to finance; a financing platform was established, supported by a TA facility and complemented in 2012 by a Platform Advisory Group (PAG). EDIF today comprises a variety of stakeholders, partners and contributors, including all 6 WB beneficiaries, Croatia, Italy as well as EIB, KfW, WBG, EBRD, OECD, OeOB, and EIF, coordinating EDIF. Today, € 275 million have been invested in the Platform, € 650 million of financing and support measures made available to SMEs in the WBs, over 500 projects were supported and about 4,600 SMEs either have or are planned to receive support through EDIF. Four financial instruments are available, two debt and two equity instruments, these are: on the equity side the Enterprise Innovation Fund and the Enterprise Expansion Fund, and on the debt side the Guarantee Facility and the Competitiveness Program (not yet active); complimentary advisory and support services are made available. EDIF also increased its visibility efforts and launched a new website ([www.wbedif.org](http://www.wbedif.org)), published a revamped Annual Report, booklets and clips on success stories and the first EDIF business form is taking place in Belgrade on 26<sup>th</sup> June 2018.

### **Human Capital Development**

**EBRD** (Mrs. Charlotte Ruhe) introduced EBRD's small business initiative, being one of four strategic initiatives of EBRD, promoting growth and competitiveness of SMEs. It is an integrated tool box for SMEs, providing financing through financial institutions, co-financing with financial institutions, direct finance, business advice and policy dialogue. Inclusive growth is stimulated by VET (skills & training), access to finance for women in business, provision of services and technologies, corporate standards and practices. EBRD's tailored training series for SMEs includes modules on Growing your Consulting Business, Energy Efficiency, Women in Business, Export Promotion, and many more. Since 2016, over 500 entrepreneurs have participated in these workshops and trainings. The Women in Business Program has two main pillars, (1) access to finance, and (2) access to know how and financial services for women in business. In the WBs, the Women in Business program has a value of € 50,4 million, seven partner banks provide credit lines dedicated to women SMEs and in 2017, nearly 2,000 sub-loans were disbursed and more than 1,000 women benefitted from seminars provided under this program. EBRD also provides an online platform: [www.ebrdwomeninbusiness.com](http://www.ebrdwomeninbusiness.com).

### **EIB Initiatives for Youth Employment**

**EIB** (Ms. Anna Canato) presented EIB's initiatives for youth employment, consisting of the EU Youth Employment Initiative (YEI) and the European Youth employment and Training initiative for the

Western Balkans (WB EYET). The EU's YEI consists of two complementary pillars, (1) investing in skill and (2) jobs for youth, both with a budget of € 3 billion each per annum. Under the first pillar, facilities (universities, schools, social housing, etc.), VET programs and student loans and mobility programs are addressed. Under the second pillar, micro-finance to young entrepreneurs and SME & Midcap<sup>‡</sup> loans are made available. Lessons learned in the EU EYI show that SMEs and mid-caps are the largest employers for young people across the EU; companies which benefitted from the program hired more young people compared to others; 26,000 new jobs created and the importance of complementary action and complementary investments to maintain the positive impact.

Following the WB6 Vienna summit (August 2015) the program was taken to the WB, under the WB EYET. In the WB the largest employer are SMEs and -mid-caps, further the WBs shows a large pool of unemployed youth, the need for upskilling and training of youth and an underdeveloped VET system. The program offers sub-loan agreements to SMEs who hire young people, or offer internships for young people at least 6 months. It is currently implemented in Bosnia and Herzegovina, Serbia and Montenegro. In addition, a dedicated guarantee facility for youth employment is provided, where EIF provides guarantees to financial intermediaries for Youth Education SMEs, covering 80% of the risks incurred by the (local) banks.

## Discussion

**DG NEAR** (Mrs. Katarína Matheriová) initiated the discussion by requesting from the presenters quick summary points and *takeaways*. **EIF** (Mr. Marco Marrone) stressed the importance to actually “listen” to SMEs, either directly or via the local chambers of commerce and to monitor the regulatory frameworks and financial intermediaries; predictability of finance is key. **IFC** (Mr. Thomas Lubeck) emphasised the need of cost contributions by the beneficiaries, this to foster the ownership principle and to encourage efficient participation in the courses. In addition, IFC would recommend proper reporting principle to be applied by SMEs and mid-caps, allowing Banks to lend against cash-flow and less against collaterals. **EBRD** (Mrs. Charlotte Ruhe) seconded the cost sharing principle and stated that all women participating in EBRD's programmes pay parts of the costs. **KfW** (Mrs. Helke Wälde) recommended a holistic approach, measures should address the demand and supply side of the market and informed that KfW is about to launch a dedicated holistic approach. **EIB** (Ms. Ana Canato) stressed the need for simplicity of the instruments. **Austria** (Mr. Leander Treppel) recommended conveying lessons learned to WBs, adjust relevant programmes, and accompanying these by capacity building measures.

## Chinese Investment in the WB

**WBIF SC Co-Chair France** (Mr. Joffrey Célestin-Urbain) presented to participants the main challenges with the increasing investments from China and their accompanying geopolitical ambitions. China pushes into South East Europe via two main initiatives: (1) *China Manufacturing 2025* and (2) *One Belt - One Road*. Chinese investments in France have been up by 45% per annum since 2010. While Chinese investments offer opportunities, such as the filling of investment gaps, availability only for open economies and the creation of job opportunities, there are also manifold challenges. These pertain to

---

<sup>‡</sup> SMEs are from 10 to 249 employees, midcaps from 250 to 3,000 employees, more information: [www.eib.org/projects/priorities/sme/index.htm#](http://www.eib.org/projects/priorities/sme/index.htm#)

(i) lack of attention to debt sustainability, (ii) the lack of open tenders; (iii) application of Chinese standards instead of EU ones; and perhaps most importantly, the lack of data sharing by China about these Chinese investments.

**EBRD** (Mrs. Charlotte Ruhe) informed that China has joined EBRD and the collaboration with China is quite good. **EIB** (Mr. Matteo Rivellini) stressed the importance that EU standards are applied when Chinese investments take place in the Western Balkans and enquired if Chinese investors follow such set of EU standards in their operations. **CEB** (Mr. Stephen Sellen) recommended that human right issues should be included into EU values. **DG CONNECT** (Mr. David Ringrose) informed about the Japanese interest into aspects of the EU digital agenda. **Bosnia and Herzegovina** (Mrs. Ajla Cosic) informed about visa free travel agreement with China. **The former Yugoslav Republic Macedonia** (Mrs. Suzanne Peneva) stated that there are no procurement rules with Eximbank and only Chinese companies are eligible to apply for works and services. **Serbia** (Mr. Dejan Gojkovic) informed that the selection of companies under China's Eximbank financed projects is done through a Memorandum of Understanding (MoU) between Serbia and China. **EIB** (Mrs. Dubravka Negre) confirmed that most IFIs have MoUs with China and that open competitive tendering should be introduced at the WBs.

#### **French Co-chair "Bilateral donor's perspective"**

**WBIF SC Co-Chair France** (Mr. Joffrey Célestin-Urbain) updated participants on the Bilateral Donors view and perspective. Without doubt, WBIF has become an important and effective instrument for regional development and cooperation. WBIF has shown flexibility and adapted over time in order to accommodate different needs. The BD community expressly welcome the Communication from the European Commission "A credible enlargement perspective for and enhanced EU engagement with the Western Balkans", in particular the enhanced role for WBIF, welcomed also the increased funding for all the WBIF sectors, especially for the social and environmental sectors. Yet, there are areas for improvement. The BD community considers the visibility of WBIF Joint Fund (EWBJF) projects on the ground insufficient and should demonstrate tangible results. The increase in funding should, at least partially, be used to close the financing gap in the WBIF project pipeline. Concretely, the BD community recommends WBIF to take action addressing the following five priority areas: (1) mobilisation of additional funds (new and reactivation of BDs); (2) enhance communication among WBIF stakeholders enabling BDs to brief relevant Ministries in a timely manner; (3) enhance visibility, both at traditional outlets and events on the ground; (4) increase ownership and capacity building with the beneficiaries; and (5) secure parts of IPA funding for the ENV and SOC sectors.

**Agence Française de Développement "AFD"** (Mr. Jeremy Pellet) introduced AFD's mandate and activities to participants. AFD is active in 108 countries worldwide; fields of action cover all WBIF sectors, including all aspects of digital economy, and private sector development (PSD). AFD also co-finances projects together with their partners, which include the EU, WBG, KfW, and others. Key for AFD is their integrated partnership approach, which includes civil societies, the private sector, universities, local governments and NGOs side to side with international donors and the EU. AFD provides loans and grants to State and non-state actors alike and expects commitments to reach € 12.7 billion by 2020. AFD is currently touring the WBs, negotiating bilateral agreements with a view of establishing local offices in 2019. AFD is already identifying a portfolio of potential projects.

AFD reiterated its desire to join WBIF as participating organisation in 2018, with a view of becoming a full partner organisation once the threshold of € 10 million in pledges has been reached.

**Italy** (Mrs. Raffaella Di Emidio) enquired on the terms of this participation and the process. **KfW** (Mr. Christoph Tiskens) welcomed the efforts of AFD to become a member of the WBIF and highlighted the good cooperation between AFD and KfW in the past.

**DG NEAR** (Mr. Wolfgang Schläger) confirmed that efforts are underway with AFD enabling AFD to join WBIF, in line with the General Conditions, as participating organisation at the next WBIF SC meeting in December 2018.

## Session on Digital Infrastructure

### Presentation of WB Digital Highway Study

**WBG** (Ms. Natalija Gelvanovska-Garcia) presented the results and next steps of the WBG conducted Digital Highway Study at the WBs. The Broadband (BB) market in the WB, on the face of it, sees a sufficient number of international and national operators; the latter being the ones who could expand broadband services into rural areas. Yet, the HHI<sup>§</sup> index is high and the national wholesale markets are not competitive, high tariffs for wholesale BB market stiffen competition and investments by small companies. There is also an absence of cross border interaction and regional connectivity. The Electricity Transmission Operators (TSO), who could also serve as BB service provider alternative, have plentiful unused capacity across the WBs, across the WBs and on average, 64% of the TSO's optical ground wires (OPGW) are unused. While there is sufficient regional capacity for dark fibre leasing, TSOs technologies are outdated and do not allow for modern telecom services, such as leasing of a certain amount of Gbps. Investments would be needed to update the deployed fibre-optic (FO) capacities, and the opening of the OPGW networks for telecom services could bring 3-5% of revenues. On the way forward, the TSOs across the region would need to invest into updating the technologies, interconnections and on the organisational side. Politically and technically, Governments should convince TSOs to lease out their unused capacities, energy regulators should encourage TSOs to increase the lease out capacities, and, legally, there are bottle necks in the energy legislations in some beneficiaries. Summing up, the infrastructure is largely in place, the initiative (to use the OPGW network) is feasible and the TSOs have shown interest. The steps to achieve this are provision of TA to the TSOs at local and regional levels, assistance to the regulators, and a dialogue and development of a regional MoU for revenue sharing.

**Bosnia and Herzegovina** (Mrs. Sabina Dizdarevic) enquired if the WBG could study the local and regional use of the OPGW further and come up with action plans, and if this could be considered as a sector study under WBIF. **WBG** (Ms. Natalija Gelvanovska-Garcia) replied that this would be possible, but the initiative would have to come from the beneficiaries.

### Update on latest developments DG CONNECT

**DG CONNECT** (Mr. David Ringrose) presented the five areas of the Digital Action Plan (DAP) to participants, being (i) lowering roaming costs, (ii) development of BB, (iii) development of e-services

---

<sup>§</sup> Herfindahl-Hirschman Index measures of the size of [firms](#) in relation to the [industry](#) and is an indicator of the level of competition.

and digital skills; (iv) capacity building in digital trust and security and digitalisation of the industry, and (v) transposition of the relevant acquis. BB development is thus a key element of the DAP. The need for better BB connectivity and services in the WBs is obvious, as these contribute to the digital transformation (e-government, e-procurement, industry development and competitiveness, etc); in addition, the development of BB infrastructure needs to be future-proof and address the most pressing needs, such as higher penetration rate, low BB speeds, etc. Further points of attention are to bridge the gap to the EU Gigabyte Society (download speed of at least 100 Mbps for all and 1 Gbps (gigabites per second) for schools, transport hubs, heavy industry, etc). A multi-stakeholder approach is needed as well as transposition of vital EU legislation, e.g. the Broadband Cost Reduction Directive.

For WBIF relevant could be the following:

- i. detailed mapping enabling a better cross-border understanding of the situation and needs;
- ii. review national strategies and EU support mechanisms (e.g. TIAEX);
- iii. preparation of development projects (similar to the project in ALB), addressing white zones and rural areas; and
- iv. infrastructure investments from 2020 onwards.

#### Call for Pledges & AOB

**DG NEAR** (Wolfgang Schläger) enquired if there were announcements, at this (early) stage, regarding pledges and if and to which extent BDs could indicate their pledges and if the BD community would consider co-financing of an ENV project. **France** (Mr. Joffrey Célestin-Urbain) indicated a forthcoming pledge by France on behalf of AFD. **Sweden** (Mr. Johan Willert) confirmed the BD's community's interest in co-financing ENV and SOC projects and in matching BDs contribution with contribution from the Commission side. BDs will consider what the Commission is going to do in this regard. Moreover, he requested additional time to select a suitable project a respective announcement will be made in the run up to the next WBIF SC meeting in December. Sweden will also announce a pledge later this year.

*End of MoM.*