



HELLENIC REPUBLIC
MINISTRY OF FOREIGN AFFAIRS



EIGHTH MEETING OF THE WBIF STEERING COMMITTEE

THE ZAPPEION EXHIBITION HALL, ATHENS

13 JUNE, 2013

CO-CHAIRS

MS ALEXANDRA PAPADOPOULOU, DIRECTOR GENERAL FOR EUROPEAN AFFAIRS, MINISTRY OF FOREIGN AFFAIRS, GREECE

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FINAL MINUTES

OVERVIEW

The 8th SC Meeting of the WBIF Steering Committee (SC) was kindly hosted by the Ministry of Foreign Affairs of Greece, the current SC co-chair in the historic surroundings of the Zappeion Hall. Participants were welcomed by the Deputy Minister for Foreign Affairs, Mr Kourkoulas who reiterated Greece's strong support for the EU perspective of the Western Balkans and emphasised its extensive economic ties with the region and the value of WBIF.

The meeting followed an intensive agenda that considered in particular:

- the continuing difficult socio-economic environment in the Western Balkans;
- some proposals for how WBIF could evolve, particularly in view of the imminent introduction of IPA II, to meet the challenges of realising socio-economic investments in the region while taking into account the limited fiscal space;
- the approval of fifteen grants for a value of €15.91 million to support the preparation of investments in energy, transport, environment and the social sector and the cancellation of seven previously approved grants due to lack of progress;
- monitoring of progress to date in the implementation of the WBIF pipeline of 134 investment projects, of which 39 are at tendering or construction stage ; and
- key issues arising under the WBIF work programme for 2013 particularly the 10th call for proposals for WBIF support; the introduction of a "climate change window"; future consultancy support for the WBIF structures; the discussions on the possible evolution of WBIF; the participation of Croatia following its accession to the EU on 1 July 2013; the handover of the co-chair of the Project Financiers' Group (PFG) from the EIB to the EBRD; and the next SC meeting to take place on 4 December 2013.

The main conclusions from the meeting were:

1. SOCIO-ECONOMIC ENVIRONMENT IN THE WESTERN BALKANS

The World Bank provided the meeting with a comprehensive overview of the current macro-economic outlook for the region based on their forthcoming economic report. The main findings noted by the SC include:

- Economic conditions in the region continue to be very difficult, growth forecasts are regularly being revised downwards;
- A fragile recovery seems to be underway in the region but growth is heavily influenced by developments in the EU;
- Fiscal space remains limited in several countries, particularly Albania, Montenegro and Serbia and the WBIF has to be conscious of this when making decisions on supporting investments;
- While there is a small improvement in growth rates, it is not enough to have a substantial impact on unemployment rates which are extremely high, with youth unemployment being a major cause for concern in most countries;
- Governments could boost growth and employment opportunities by enacting structural reforms that would enhance the long-term competitiveness of the different economies and create more fiscal space.

2. FUTURE EVOLUTION OF THE WBIF

Based on the discussion paper prepared by the IFI Coordination Office, the SC launched a debate on how WBIF could evolve to adequately address the various challenges posed by the dynamic political, economic and institutional environment in which it operates and to ensure that its success to date can be built upon. Amongst other things, the WBIF needs to make sure that it can respond to the adaptations to the EU's IPA programme as outlined DG Enlargement including:

- IPA II's focus on mobilising additional financing (rather than co-financing of projects) and to address market deficiencies in realising investments;
- The intention to create one single pipeline of priority investments to be supported by IPA (national and multi-beneficiary programme) – in this respect it is important that priority sectors for investment support are clearly set out in the forthcoming Country Strategy Papers being prepared by the national authorities and the EC;
- The need to create better linkages between progress with reforms and access to finance.

The SC discussed the WBIF's effectiveness under three headings (i) enhancing macro-economic and strategic considerations, (ii) strengthening and/or amending current WBIF structures and procedures and (iii) expanding the range of financial instruments available.

The SC endorsed the recommendation to review the existing project pipeline to determine the reasons for any delays. SC members including the EIB, CEB, EBRD, Serbia and Italy emphasised the importance of such a review to provide much needed information as to where adaptations or changes are required.

While the Western Balkan countries currently have the possibility to access a range of additional EU-financed programmes to assist with the preparation of investments and/or improve the investment climate, several beneficiaries including Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia and Serbia, as well as the World Bank, supported the IFI CO conclusion that accessing these was often very difficult and that it may be better to ensure that there are relevant and specifically tailored facilities for the WBIF using IPA funds.

As highlighted by several participants including EBRD, EIB and the World Bank, the environment for PPPs is difficult and greater attention is needed to develop good projects, to phase proposed investments and to improve long-term investment decision making. The possible expansion of financial instruments under the WBIF needs to be considered carefully to ensure that the focus on expediting priority investments is not lost and the constraints in the business environment in the region are recognised. The limited technical and administrative capacity in the region must also be

taken into account. In this respect, the need for simplified procedures was stressed by several beneficiaries.

As highlighted by Kosovo*¹, ensuring that the WBIF operates in harmony with IPA II is a key issue for all WBIF stakeholders and this should encourage greater policy coherence given the sectoral focus of the new IPA programme. Support for capacity building and technical assistance will continue to be important elements of the WBIF to ensure that the proposed pipeline of investments can be effectively implemented and that the regulatory environment is improved.

As stressed by the EC, EBRD and the World Bank, the unique composition of the WBIF with the active and central role of the beneficiaries – especially when compared to other EU supported blending mechanisms – is a particular strength of the Framework. Montenegro reiterated the request from the NIPAC offices for their greater involvement in the Project Financiers Group.

The SC agreed upon the establishment of a Task Force, representing all WBIF stakeholders, to explore further the options for the evolution of the WBIF. The Task Force should make an initial report to the next SC meeting in December 2013. The Task Force will take into consideration the parallel deliberations under the EU Platform for Blending Mechanisms in External Cooperation (EUBEC) where relevant. The Task Force will be led by the WBIF Secretariat who will prepare and undertake activities in close consultation with its members. SC meeting participants who wish to be involved were asked to inform the Secretariat by the end of June.

3. APPROVAL OF PROJECT SUBMISSIONS FROM THE 9TH CALL FOR PROPOSALS

Of the 25 applications received under the 9th call for proposals, 15 were recommended by the PFG following the screening and assessment process. The SC approved all 15 WBIF grants requested for a total of approx. €15.91 million (grants to the value of €12.46 million will be implemented directly by the relevant IFIs under the Joint Grant Facility). Fourteen of the applications approved are for technical assistance grants with one being an investment grant. These grants, summarised in the table below, are expected to result in loans to a value of approximately €190 million and a total investment of approximately €730 million.

In line with the procedure agreed in December 2011, the SC endorsed the PFG recommendation that seven grants given to projects that recorded no progress for more than one year since approval were cancelled and the residual funds from the grants returned to the WBIF resources as outlined in the second table below.

¹ * This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and ICJ Advisory opinion on the Kosovo declaration of independence.

WBIF Grants Approved

Sector	Project Code	Project Title	Country	Lead IFI	Grant approved by SC	Funding (€)	
						IPA IPF	EWBJF
Energy	WB9-BIH-ENE-01	HHP Babino selo	Bosnia and Herzegovina	EBRD	750.000		750.000
Energy	WB9-BIH-ENE-02	HPP Vinac	Bosnia and Herzegovina	EBRD	750.000		750.000
Energy	WB9-BIH-ENE-03	Pale district heating	Bosnia and Herzegovina	EBRD	1.500.000		1.500.000
Energy	WB9-HR-ENE-01	JANAF oil pipeline upgrading	Croatia	EBRD	1.600.000		1.600.000
Energy	WB9-MKD-ENE-01	400kV interconnection a part of the Bitola - Elbasan line & substation	former Yugoslav Republic of Macedonia	EBRD	900.000		900.000
Energy	WB9-SER-ENE-01	400kV OHL from sub-stations Bajina Basta to Kraljevo	Serbia	KfW	800.000		800.000
Energy	WB9-REG-ENE-SDP-01	Biomass heating in Western Balkans sector study	Regional	WB	875.000		875.000
Environment	WB9-BIH-ENV-03	Water supply & sanitation in FBiH	Bosnia and Herzegovina	EIB	1.250.000	1.250.000	
Environment	WB9-REG-ENV-SDP-01	Klokot water source (Bihac) protection zone study	Regional	WB	750.000		750.000
Transport	WB-KOS-TRA-01	Railway Route 10 rehabilitation	Kosovo*	EBRD	1.840.000		1.840.000
Transport	WB9-MKD-TRA-01	Motorway A4 Skopje - Blace, section Stenkovec interchange Blace	former Yugoslav Republic of Macedonia	EBRD	1.000.000	1.000.000	
Social	WB9-HR-SOC-01	Health institutions reconstruction & construction of depts & centres	Croatia	CEB	1.500.000		1.500.000
Social	WB9-HR-SOC-02	Zadar Univ: new campus & Learning Resource Centre	Croatia	EIB	1.200.000	1.200.000	
Social	WB9-SER-SOC-01	Judiciary Facility	Serbia	EIB	800.000		800.000
Social	WB9-REG-SOC-SDP-01	Higher and Professional Education Finance in Southeast Europe - pilot project	Regional	KfW	400.000		400.000
					15.915.000	3.450.000	12.465.000

WBIF Grants Cancelled

Sector	Project Code	Project Title	Country	Lead IFI	Residual grant cancelled	Funding (€)			
						IPA IPF	EWBJF	CEB	EBRD
Environment	TA3-ALB-ENV-02	Detailed Design for water supply and sewerage systems for Elbasan city	Albania	KfW	480.000	480.000			
Environment	WB4-ALB-ENV-05	FS & DD Regional landfill	Albania	CEB/KfW	1.072.000		522.000	550.000	
Energy	WB5-HR-ENE-03	Wind and solar projects in Splitsko-dalmatinska County	Croatia	KfW	500.000		500.000		
Energy	WB5-HR-ENE-04	Small hydro-electric power plant Ozalj	Croatia	KfW	500.000		500.000		
Energy	WB5-MNE-ENE-04	Pljevlja renewable energy heating	Montenegro	EBRD	2.500.000		1.250.000		1.250.000
Social	TA3-HR-SOC-01	Construction of a penitentiary/prison complex in Sibenik	Croatia	CEB/KfW	480.000	480.000			
Transport	WB1-SER-TRA-02	Belgrade Rail Modernisation Project - Procurement, Implementation Support and Contract Supervision & and Urban Transport Public Service Contracting and Route Structuring Preparation	Serbia	EBRD	750.000		375.000		375.000
					6.282.000	960.000	3.147.000	550.000	1.625.000

4. IMPLEMENTATION OF THE WBIF PIPELINE OF INVESTMENT PROJECTS

The SC took note of the progress achieved to date under the WBIF pipeline and recorded its satisfaction that 39 out of 134 projects are now at tendering or construction phase. As outlined in the Monitoring Report prepared by the Infrastructure Project Facility (IPF) team, the pace of growth in the pipeline is slowing down and many projects are progressing well. However, a number of projects have been delayed for a variety of reasons including institutional changes, changes in

government strategy, bankruptcy of a project partner and or where a government is unable to finance their component of the planned investment as foreseen.

The Energy Community Secretariat (ECS) noted that thanks to the WBIF a wealth of feasibility studies have been completed in the energy sector but, unless the Facility evolves and expands the instruments available, it will encounter difficulties to move from the feasibility stage to actual physical construction and these further delays may render these studies redundant.

The need for enhanced communication on project implementation between lead IFIs and beneficiaries and within the beneficiary administrations was stressed. As part of this, the SC asked the WBIF Secretariat to amend the WBIF Guidelines with respect to expected communication and coordination for grant implementation.

The SC welcomed the draft compendium prepared by IPF that summarises each grant approved to date under the WBIF and provides a summary of the benefits for completed projects. This is seen as a valuable tool for providing visibility of the status of the projects in the pipeline. SC participants were invited to send their comments on this first draft to IPF1 by 12 July.

In view of the discussion under the previous session, the SC mandated the WBIF Secretariat to review the pipeline to identify possible obstacles and ways to overcome these. The monitoring report and compendium provide a good basis to initiate this review.

The presentations by the NIPAC offices from Croatia and Kosovo on their experience of implementing investment projects supported by WBIF grants were well received by the SC. The added value of WBIF financed grant support in terms of expediting investments and contributing to institutional strengthening were emphasised.

5. UPDATE ON THE WBIF WORK PROGRAMME

The SC noted the progress made to date in implementing the WBIF's work programme for 2013 as outlined by the Head of the WBIF Secretariat. The intensive schedule of activities will continue into the second half of the year with the 10th call for proposals for WBIF support; the introduction of a climate change window (CCW) into the WBIF in line with EU priorities and the new Multi-Annual Financial Framework; the task force on the evolution of WBIF; and the regular WBIF related meetings - PFG, NIPAC workshop and SC meeting. In addition, following their request, a mission for bilateral donors to visit WBIF projects will be undertaken.

At the request of WBIF beneficiaries, the WBIF Secretariat agreed to review the deadline for the 10th call for proposals (a deadline of 19 September was subsequently agreed). Concern was expressed by some beneficiaries regarding the extent of additional work that may be required by the CCW. It was noted that the 10th call for proposals would act as a "test run" for the CCW and that the need to minimise additional work while meeting EU requirements had been taken into consideration in the design of the CCW. These issues will be further discussed at the forthcoming CCW workshop on 9 July.

Participants were also informed on the status of the tender dossier for a new IFI CO contract to maintain and expand the services provided to WBIF structures. The tender dossier for a new IPF contract – IPF4 - is being finalised by the EIB following approval by the PFG. EIB informed the SC that the Bank would proceed with the launch of the tender for this contract shortly after the SC meeting (the forecast notice will be published in the Official Journal of 07/08/2013. Montenegro highlighted the challenges posed by the often varying requirements of local legislation, IFI procedures and the EC for different studies. The need for greater coordination with beneficiaries and the WBIF for upstream project development and subsequently between beneficiaries, lead IFI and EIB (as IPF manager) for the approved studies/technical assistance was stressed.

The SC noted the information provided by the IFIs regarding the application of fees to the WBIF. The report prepared by EIB on behalf of the IFIs was provided in line with the agreement in December 2011 on the introduction of new fee rates in the WBIF.

Croatia's constructive proposal to remain involved with the WBIF was welcomed by the SC which congratulated Croatia on its forthcoming accession to the EU on 1 July 2013.

The next SC meeting will take place on 4 December and will be kindly hosted in London by the EBRD who will take over the co-chairmanship of the PFG from EIB. The next PFG and NIPAC workshop will be held in Tirana in November.

The SC thanked the EIB for its work as PFG Co-Chair over the past 6 months. Participants also thanked Christos Gofas of DG Enlargement for his contribution to the WBIF since its inception and wished him well in his new assignment.

Finally the SC noted its appreciation of the warm hospitality provided by the Ministry of Foreign Affairs of Greece.