



HELLENIC REPUBLIC
MINISTRY OF FOREIGN AFFAIRS



NINTH MEETING OF THE WBIF STEERING COMMITTEE

EBRD HEADQUARTERS, LONDON

4 DECEMBER 2013

CO-CHAIRS

MS NATALIA KARAGEORGOU, HEAD OF EU EXTERNAL RELATIONS DIRECTORATE, MINISTRY OF FOREIGN AFFAIRS, GREECE

MR GERHARD SCHUMANN-HITZLER, DIRECTOR, DG ENLARGEMENT, EUROPEAN COMMISSION

DRAFT MINUTES

OVERVIEW

The ninth meeting of the WBIF Steering Committee (SC) was kindly hosted by the EBRD. Vice President Andras Simor welcomed the SC to the EBRD's London Headquarters and reiterated the EBRD's strong support for the WBIF. Through its pipeline of investment projects and the development of financing mechanisms such as the Enterprise Development and Innovation Facility (EDI) and the Regional Energy Efficiency Programme (REEP) the WBIF demonstrates the benefits of improved cooperation and joint strategic thinking.

The Co-Chairs, Ms Karageorgou, Greece and Mr Schumann-Hitzler, DG Enlargement also emphasised the unique, inclusive nature of the WBIF and the important role it can play particularly with regard to promoting competitiveness and connectivity throughout the Western Balkans and with the EU.

The meeting considered in particular the following points:

- Important **political, economic and social changes and trends** affecting the socio-economic development of the Western Balkans and their accession path.
- The **interim report of the Task Force** established following the Athens SC meeting that has examined the status of the current pipeline of investment projects supported by the WBIF; the potential for the WBIF to increase the use of public private partnerships (PPPs) to realise investments in the Western Balkans; and issues arising with WBIF structures and procedures.
- **Approval of 9 grants** with a total value of € 6.18 million to support the development of strategic investments in energy, environment, transport and social sectors in the Western Balkans. It also **cancelled 3 grants** leading to [€1.69](#) million to be returned to WBIF grant resources.
- The wide-ranging activities undertaken by the WBIF in 2013 and the current plans for 2014 including the **launch of the 11th call for proposals**; the next phase of the Task Force, in particular the more detailed analysis of the current WBIF pipeline and the preparation of recommendations for the SC to consider at its June meeting; further integration of the "climate change window" and enhanced communication activities; and
- The culmination of the **Greek Co-Chairmanship of the WBIF SC** and **the acceptance of Germany's offer to assume this role for 2014**, including hosting the 10th WBIF SC meeting in Berlin.

The main conclusions from the meeting were:

1. KEY POLICY DEVELOPMENTS AND THE ECONOMIC ENVIRONMENT

The EC Co-Chair outlined the recent developments in the enlargement process including Croatia's accession to the EU on 1 July 2013, the on-going negotiations with Montenegro and the preparations for negotiations with Serbia. Decisions by the EU Member States (MS) are expected shortly on recommendations made by the EC, as part of its annual Enlargement Strategy, on next steps in the accession process in the different countries. The meeting noted with regret that the accession process in Bosnia and Herzegovina (BiH) is currently at a standstill and that this impacts on a number of processes including the WBIF.

The increased emphasis placed by the EC on "fundamentals first" in its enlargement strategy was highlighted. This includes rule of law, respect for human rights, freedom of expression and sound economic governance. This latter point is seen as crucial for ensuring that the region returns to sustainable growth and it is an area where the WBIF can play an important role, particularly given its capacity for coordination of strategic investment decisions.

As detailed by the Secretary General of the Regional Cooperation Council (RCC), the recent adoption of the SEE 2020 Strategy by the six Western Balkan countries sends a very positive signal regarding the intention of the governments to use regional cooperation to reinforce their national efforts to undertake the reforms necessary to expedite growth and competitiveness. The Greek Co-Chair stressed the importance of developing synergies between SEE 2020 and the WBIF to ensure they both impact on the lives of the citizens. The RCC-led efforts to implement SEE 2020 and WBIF efforts to identify and realise strategic investments should mutually reinforce each other.

The SC discussed several of the lessons drawn from the recent Transition Report presented by the EBRD's Office of the Chief Economist including the fact that long-term convergence with the EU is at risk, the linkages between democratic processes and progress with reforms, the role of good institutions in developing much needed investment and trade integration and the challenges presented by the weaknesses in education systems and equality of opportunity. The impact of high rates of unemployment, fiscal constraints, state arrears and the increase in non-performing loans in the region on the investment climate should be taken into account by the WBIF when making its decisions.

2. EVOLUTION OF THE WBIF

The SC reviewed the preliminary findings of the inclusive Task Force on the evolution of the WBIF as summarised in the draft interim report circulated to all. The content and pace of the Task Force's work to date has been influenced by other on-going external processes including the IPA II programming, the new Financial Regulation and the deliberations under the EU Platform on Blending Mechanisms in External Cooperation (EUBEC). The SC agreed that the role of the Task Force was important given the shifting operating environment and that its activities were timely.

j) Detailed Review of the Pipeline of WBIF supported Investment Projects

The main focus to date is the detailed review of the pipeline of investment projects being prepared and constructed with WBIF grant support. The aims of the review are to: better target WBIF grant support by benefiting from the lessons learnt to date; determine how best to mobilise and implement TA support; and to assess how realistic this pipeline is - in particular the question whether we have the necessary financial capacity to transform all the preparatory work into actual construction given the fiscal constraints that have arisen in recent years or do we need to refine the pipeline.

The SC agreed that in future the development of single ~~sectoral~~ pipelines of prioritised projects per sector for support, as envisaged by the EC under IPA II and endorsed in the Joint Conclusions of the recent High Level Meeting between Commissioner Füle and senior management of the WBIF IFIs (held on November 5th), would strengthen the WBIF's capacity to ensure that WBIF support is targeted at those projects that are central to the implementation of national and sectoral strategies. This should help to avoid situations where changes of government or ministers result in projects being delayed or cancelled. Efforts being made to improve the process of prioritising investment projects and secure greater involvement of ministries of finance were noted and authorities in Serbia and the former Yugoslav Republic of Macedonia were asked to kindly share the methodologies they had developed.

SC members were urged not to over interpret the relatively slow conversion rate from preparatory work to financed investments as the countries are extremely stretched due to the impact of the economic crisis and therefore a slower pace is to be expected. It was stressed that all loan portfolios are lagging behind due to the new financial constraints both in terms of signature of new loans and disbursement of existing loans as governments seek to meet fiscal targets. Greater involvement of ministries of finance in the selection of projects nominated for WBIF support was seen as a useful way to ensure eventual financing of investments deemed feasible and bankable.

The WBIF should be a platform to develop consensus on the timing and prioritisation of key regional investments particularly in energy and transport. While the WBIF has supported preparatory work on several regional projects these have been very slow to secure financing, particularly in the energy sector. Such projects are more complex and the WBIF could help to expedite development and implementation by encouraging greater dialogue between the relevant countries and the IFIs. Regional organisations such as the Energy Community Secretariat have an important role to play in such discussions including the deliberations on financial instruments to facilitate financing of agreed priority projects.

Further research and analysis on the current pipeline will be undertaken in the first quarter of 2014 including in-depth consultations with beneficiaries and IFIs. This will provide the Task Force with more detail on the status of the individual projects including the likelihood that the investments under preparation will secure the necessary financing. A second report will be available in March.

ii) Structures and Procedures

The WBIF is intended to create mechanisms to empower local capacity to manage the identification and implementation of projects but this must be done more systematically and the issues need to be stressed in the application process. Where possible, the IFIs should reinforce the principal of mutual reliance to avoid duplicating work.

To date the Task Force has focused on minor adaptations to current structures and procedures (revision of the Practical Guidelines for next call for proposals) as it is anticipated that the outcome of the IPA II programming and the EUBEC deliberations will require the Task Force to consider more fundamental changes. This would include potential changes to the founding documents of the WBIF, namely the Term of Reference (ToR) for the European Western Balkan Joint Fund (EWBJF). Given the number of parties involved and the varying mandates and procedures in the different institutions this will be a complex task and the Task Force was urged to focus on those changes absolutely required for the better functioning of the WBIF.

iii) Potential of the WBIF to Increase the Use of Public Private Partnerships (PPPs)

The SC welcomed the preliminary report on the potential to increase the use of PPPs in the region, particularly given the need to attract more investment and the desire to use grants to leverage additional capital. It was stressed that PPPs are only suitable for specific types of projects and sectors/sub-sectors and may take longer to prepare and implement than purely publicly financed

projects. Given the small size of the markets and the institutional constraints, it may be useful to consider a regional approach to the development of a pipeline of projects suitable for PPPs.

The Task Force will now build on its preliminary analysis of the environment for PPPs in the Western Balkans. This analysis will benefit from the forthcoming publication of the WBIF financed EPEC reviews of the institutional and regulatory environment for PPPs in several of the Western Balkan countries as well as the outcome of the EUBEC deliberations on type of financial instruments that can be supported by EU grant funding. In-depth consultations with IFIs and the beneficiaries will look at practical recommendations for how WBIF can facilitate greater use of PPPs for the relevant sectors/sub-sectors.

In order to be as practical and relevant as possible, the beneficiaries and IFIs are invited to nominate some projects currently in the WBIF pipeline but which have not yet advanced to be used as “pilot projects” to investigate what actions could be taken to prepare these projects so that they are attractive for PPPs.

iv.) Conclusion

The high level Western Balkans investment conference to be hosted by the EBRD on 24 February 2014 was deemed by the SC to be an excellent opportunity to ensure greater attention for investments of a regional nature and to promote more private sector involvement in financing and implementing strategic socio-economic investments.

The SC looks forward to the next report from the Task Force that will contain specific recommendations on how the WBIF should adapt its structures and procedures to better meet the requirements of its changed operating environment. The SC will consider this report at their next meeting in June 2014.

3. APPROVAL OF GRANT REQUESTS UNDER THE WBIF’S 10TH CALL FOR PROPOSALS

The WBIF Project Financiers’ Group (PFG) considered the 22 applications received under the 10th call for proposals and recommended 13 requests for approval by the SC. The approval of the grants recommended for BiH has been suspended and these were not presented to the meeting.

The SC approved 9 WBIF grants for a total of approx. €6.18 million (grants to the value of €4.33 million will be implemented by the EC-financed IPF contracts and the balance of € 1.85 will be implemented directly by the relevant IFIs under the Joint Grant Facility). All of the applications approved are for technical assistance grants. In several cases the SC accepted the PFG’s recommendation to reduce the original scale and scope of the grant requested such that grants are approved for the necessary preparatory work. If this is successful, a new application can be made for the next stage. This should avoid tying up scarce grant resources for long periods of time and ensure that grants are triggered on a needs basis.

The approved grants, summarised in the first table in Annex 1, are expected to contribute to realising loans to a value of approximately €470 million and a total investment of approximately €515 million. One single major investment, the construction of the Medare to Doljevac component of highway E-80 in Serbia accounts for approx. 62% of this estimated investment.

In line with the procedure agreed in December 2011, the SC endorsed the PFG recommendation that three 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 in Annex 1.

WBIF WORK PROGRAMME 2013 AND 2014

Work Programme 2013

The WBIF followed an intensive work programme in 2013 including 2 calls for proposals, the introduction of a climate change window into the framework, the launch of the Task Force on the evolution of the WBIF, a series of policy and strategy workshops and seminars supported by different reports and analysis and various communications activities. In general the introduction of the CC window proceeded smoothly but further capacity building with beneficiary administrations will be required. IFIs are requested to provide greater CC related information in future assessments. SC members are requested to provide comments on the draft annual report to the WBIF Secretariat by mid January.

Work Programme 2014

The SC took note of the indicative work programme planned for 2014, the key feature of which is the recommendations on the future evolution of the WBIF that will be submitted by the Task Force and debated by the SC at its meeting in June. A limited call for proposals (round 11) will be launched early next year, with priority given to existing projects in the pipeline where a new contribution could make a substantial contribution to realising the investment. However, new projects will also be eligible. It is intended that the screening and assessment phase of the review of applications will be able to take the results of the detailed review of the pipeline into consideration, which is to be presented in March. More details on Round 11 will be provided to all shortly and, in line with normal practice, all EU Delegations, DG Enlargement geographic desks and line DGs will be informed and involved.

Replenishment of funds

The SC warmly welcomed the pledges for additional grant funding from Germany (€446,000), Norway (€1,330,000) and Sweden (€500,000). It was noted that the additional EC-financed grant funding would come on stream in mid 2014 through the mobilisation of IPF4. Additional financing is anticipated from the EC under IPA II by the end of the year.

The EC Co-Chair informed the meeting that Taiwan had written to express their interest in contributing to the Joint Fund of the WBIF – they are a current donor to the EBRD. Given that there may be particular issues surrounding acceptance of funding from Taiwan, the EC requested that any SC member who believes it better to turn down this offer inform the EC in the coming weeks and by latest end of the year. The EIB remarked that its understanding is that only EIB and EBRD board members can contribute to the Joint Fund. The EC will consult further on this issue and inform the SC.

The issue of future replenishment of funds by all WBIF stakeholders including IFIs and bilateral donors should be considered in 2014.

WBIF Financial Facilities – EDIF and REEP

Progress to date in establishing EDIF was welcomed by the SC which looks forward to the signing of the first guarantees and implementation of the first investments under the Enterprise Innovation Fund and Enterprise Expansion Fund in the first quarter of 2014. The need for improved communication on the EDIF modalities and activities was highlighted, including a greater involvement of the beneficiary countries. The SC was reminded of the financing structure of EDIF and the drawdown of fees was noted.

The SC also welcomed the activity report on REEP which was launched in mid 2013. All 3 “windows” including the new policy dialogue window are active. The 2 financing windows (credit lines and direct financing) build on previous programmes and are proving popular with EBRD intending to provide additional financing to cater to demand. The policy dialogue window is also underway and

progress in this area should influence the activities in the 2 financing windows. The ECS highlighted the pro-active partnership between EBRD, the ECS and the beneficiary countries on this novel facility.

CHAIRMANSHIP OF THE WBIF STEERING COMMITTEE

The SC thanked Greece for its active co-chairmanship of the SC in 2013 and looks forward to Greece's on-going support to the WBIF and the Western Balkans, most immediately in the context of Greece's upcoming Presidency of the Council of the EU.

The SC welcomed Germany as its in-coming Co-Chair for 2014 and noted its focus on targeting WBIF's assistance to enhance competitiveness. The next SC meeting will take place in Berlin in June.

Finally the SC noted its appreciation of the warm hospitality provided by the EBRD.

Annex 1 Summary of WBIF Grants Approved and Cancelled by SC

WBIF Grants Approved

Operation/Project's Description				Investment		Proposed WBIF support	
	Project title	Country(ies)	Eligible Sector	Lead IFs	Total Estimated Investment	IPA - IPF	EWBJF Grant
WB10-KOS-ENE-01	Rehabilitation for DH in Gjakova	KOS	ENE	KfW	600 000	600 000	
WB10-MNE-ENE-01	Gas development masterplan	MNE	ENE	EBRD	550 000	550 000	
WB10-SER-ENE-01	Biomass fired cogeneration plant Subotica	SER	ENE	KfW	24 800 000		600 000
WB10-ALB-ENV-01	Water supply in rural areas	ALB	ENV	KfW	42 800 000		750 000
WB10-MKD-ENV-01	Water and Sewerage Programme	MKD	ENV	KfW	13 099 143	400 000	
WB10-MNE-TRA-01	Bar-Vrbnica Railway Line Upgrade	MNE	TRA	EIB	47 300 000	1 000 000	
WB10-MNE-TRA-02	Priority bypass on Montenegrin coast	MNE	TRA	KfW	51 500 000		500 000
WB10-SER-TRA-02	Construction of Highway E-80 (Merdare to Doljevac)	SER	TRA	EIB	321 100 000	900 000	
WB10-SER-SOC-01	Post-earthquake housing reconstruction in Kraljevo	SER	SOC	CEB	14 200 000	880 000	
Total					515 949 143	4 330 000	1 850 000
						6 180 000	

WBIF Grants Cancelled

	Project title	Country(ies)	Eligible Sector	Lead IFs	IPA - IPF	EWBJF Grant
WB6-BIH-ENE-08	Hydro-electric power plant - Caplje	BIH	ENE	EIB	450 000	
WB6-REG-ENE-07	Gas Interconnection Brod (BiH) - Slavonski (Croatia)	REG	ENE	EBRD	1 000 000	
WB1-SER-TRA-03	Sava Bridge Loan Extension: Performance-Based Maintenance and Management ("PMMR") of Roads and Bridges	SER	TRA	EIB		240 000
Total					1 450 000	240 000
						1 690 000