

WBIF PROJECT FINANCIERS' GROUP 15

Wednesday 13 November 2013
Tirana International Hotel, Tirana

Minutes of Meeting

These minutes are mainly focussed on the key results and actions determined by the PFG. More elaborate content can be found in documents of the meeting.

The meeting took place in Tirana following a mission by bilateral donors and IFIs to review WBIF financed projects in Kosovo and back-to-back with the 4th annual NIPAC Workshop. A list of participants is presented in Annex 1. The meeting was co- chaired by the EU Commission and by the EBRD and was divided in two parts. The first session was devoted to the screening and assessment of Round 10 applications. This resulted in the recommendation to submit a total of 13 out of 22 applications for approval to the Steering Committee. The second session was focussed on policy and strategy issues and representatives of each of the NIPAC offices were also invited to attend this session. The items covered included a discussion on the work of the WBIF Task Force, and in particular the first draft of the Detailed Review of the WBIF Pipeline, a presentation of the Monitoring Report and the draft 2013 Annual Report, and a review of the activities in the PFG Work Programme for 2013 and outlook for the Work Programme for 2014.*

The meeting was co-chaired by Nicola Bertolini (Acting Head of Section, ELARG D3) and George Holroyd (Senior Manager, Donor Co-Financing EBRD). Nicola Bertolini welcomed participants and opened the meeting.

Session 1

Introduction

The minutes of the PFG14 were approved and the forthcoming Steering Committee (SC9) meeting in London was discussed. Greece informed the meeting that they had held discussions with regard to the future co-chair of the SC and that they proposed Germany. Germany confirmed their willingness to assume this role. The Co-Chair thanked Germany for this kind offer and it was agreed to announce their proposed candidature at the SC9 meeting.

Cancellation of projects

A list of grants not having progressed for more than one year since approval was presented in the Monitoring report. The situation on each project was summarised to the meeting by the lead IFI and the decisions agreed are recorded in the table below.

* 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

Code	Title	Lead IFI (original grant value)	Outcome of discussion
WB1-SER-TRA-03	Sava Bridge Loan Extension: Performance-Based Maintenance and Management ("PMMR") of Roads and Bridges	EIB (€240,000)	Cancelled. Initially delayed due to negotiations over ToR institutional problems in the organisation of the project remained unsolved after four years.
WB6-ALB-SOC-14	Master plan & feasibility study for communal infrastructure works in Albanian Alps area	CEB (€1000,000 TA) (€2,000,000 IRS)	Maintained. Draft ToR under discussion under discussion but Ministry of Finance has yet to support the project and confirmation needed prior to SC. CEB to report.
WB6-BiH-ENE-08	Hydro-electric power plant - Caplje	EIB (800,000)	Cancelled. Permit for access for geotechnical investigations not approved by local municipalities.
WB6-MNE-ENE-06	Electricity network expansion for the development of RES	EBRD (600,000)	Maintained. ToR are ready and project is in 10 year development plan.
WB6-REG-ENE-07	Gas Interconnection Brod (BiH) - Slavonski (Croatia) (Licka Jesenica-Rakovica-Trzac-Bosanska Krupa & branches to Bihac & Velika Kladusa)	EBRD (1,000,000)	Cancelled. The RS entity has changed its viewpoint on the project and is no longer supporting it.

The remaining value of the grants to be returned from these cancellations is as follows:

Code	Title	WBIF funding source	Savings (Euros)
WB1-SER-TRA-03	Sava Bridge Loan Extension: "PMMR" of Roads and Bridges	EWBJF/EIB	120,000
WB6-BiH-ENE-08	Hydro-electric power plant - Caplje	IPF	450,000
WB6-REG-ENE-07	Gas Interconnection Brod (BiH) - Slavonski (Croatia)	IPF	1,000,000
Estimated Balance of Funds to be returned to WBIF Resources			1,690,000

Update on available resources

EBRD informed the meeting that there is currently €0.924 million remaining in the EWBJF. Sweden confirmed that they intended to provide €0.5 million by the end of 2013. The EC informed the meeting that additional IPF funds would be available when a €10 million extension for IPF 3 is signed later in November but that there were existing commitments already against this. The EIB stated that the process for awarding the IPF 4 contract (€15 million) had been launched and that it was planned to mobilise this by April/May 2014. They also proposed that the funding of the grant WB9-SER-SOC-01 Palace of Justice (€0.8 million) approved for the EWBJF be transferred to IPF. This was endorsed.

Taking into account all the different factors raised during the meeting (savings from cancelled projects, agreement to the transfer of Palace of Justice grant to IPF and IPF 3 extension and excluding the planned contribution from Sweden), the funds available for financing the grants of Round 10 are:

EWBJF:	€1.844 million
<u>IPF:</u>	<u>€5.048million</u>
Total:	€6.892 million

IPF 4 (2014) €15.00 million

The Head of the WBIF Secretariat highlighted that the EC is firmly committed to supporting the WBIF in the future as recently evidenced by the Joint Conclusions of the High Level Meeting between the Commissioner for Enlargement and senior management of all WBIF IFIs in Brussels on 5 November. He highlighted however that future pooling of EC funds with those in the EWBJF may be complicated by the new financial regulations, and that there would be a need to adapt to the changes wrought by the new IPA II. The EC Co-Chair confirmed the future support from the EC but also underlined that he believed that WBIF would benefit from a pause/slow down in activities during which key issues could be reviewed. He questioned the wisdom of adding further new projects given the limited capacity of the countries to assume further loans and when so many approved projects did not have completed Terms of Reference after two years and he recommended looking in detail at those projects not progressing.

There was discussion on possible improvements that could be made to WBIF. These included ideas such as: reducing calls for proposals to one per year, approving one project development stage at a time in order not to tie up resources longer than necessary; verifying that all relevant permits were in place prior to PGAF submission; requesting that outline draft terms of reference to accompany PGAFs; the merits of having a single pipeline and what this would mean in practice. The Head of the WBIF Secretariat emphasised that the Task Force on the Evolution of the WBIF, comprising representatives of all WBIF stakeholders, provides the ideal platform to consider the pros and cons of such ideas as part of its mandate to prepare recommendations for the SC meeting in June.

Screening and assessment of the grant applications for Round 10

22 project grant applications were received in response to the Round 10 call which did not include any regional projects. This represented an overall demand of €26 million for grant assistance with a total estimated investment of €1.4 billion.

The applications were reviewed by sector with the EC presenting a summary of comments received on each PGAF and the outcome of the EC screening process. For those applications which were screened positively the lead IFI presented the results of their assessment and this was followed by an open discussion. The attached tables summarise the conclusion of the screening and the assessment for each grant request together with any recommended reductions in the budgets. A total of 13 applications were recommended for submission to SC9. The EC noted that the EC's positive screening of BiH applications was conditional on the successful outcome of the current discussions between the EC and the BiH authorities regarding the IPA process. Should this process be suspended the EC would also suspend its approval of the WBIF grant applications under Round 10.

The distribution of the project allocations by beneficiary and by sector is as follows:

- Beneficiary: Albania 1; Bosnia and Herzegovina 4; the former Yugoslav Republic of Macedonia 1; Kosovo 1; Montenegro 3; and Serbia 3
- Sector: Energy 4; Environment 4; Social 2; Transport 3

The total funding required for the grants approved is €10.08 million. This exceeds the funds immediately available but additional funds would be available from IPF 4 towards the middle of 2014. Given that it takes of the order of six months to prepare terms of reference (ToR) it was agreed that ToR would be prepared for all projects to be approved at the SC with those that are least urgent being allocated to IPF 4. KfW requested that if the SC approved two projects (WB10-SER-ENE-01 & WB10-ALB-ENV-01) for a total amount of €1.35 million, these would be funded by the EWBJF and this was agreed.

The Secretariat highlighted the fact that the Climate Change window had been introduced into the WBIF during this round as a test case before the formal introduction in 2014 in line with EU policies. The IFIs play an important role in tracking the CC related expenditure during the assessment process. The Secretariat noted that only 6 out of the 13 approved applications had contained the necessary climate change information from IFIs and asked that the information on the remaining 7 be forwarded to the Secretariat as soon as possible.

Round 11

The Co-Chair, Nicola Bertolini, advocated that the next call for proposals under the WBIF - Round 11 - be delayed somewhat and that it target existing projects in the pipeline where additional grant assistance would expedite their implementation. The EC believes that such a pause could be timely for a variety of reasons including the current scarcity of available grant resources; concerns regarding the fiscal space available and in particular the need to have more thorough assessment of the status of the individual projects than that contained in the preliminary report on the Detailed Review to determine the feasibility of the current pipeline. He also noted that the Country Strategy papers for IPA II will probably be approved before the summer of 2014 and therefore new EC funding under IPA II would only flow towards the end of 2014 at the earliest. He advocated that 2014 be used for reflection (the WBIF Task Force) and to expedite existing projects. Most PFG participants were broadly supportive of a focus on existing projects and a small pause but would like further clarity on the situation with respect to the availability of IPA funds. However, EIB expressed the view that funds for IPF 4 are available and that it would be possible to go forward with Round 11 according to the normal schedule using part of the IPF4 commitment.

Taiwan

The WBIF Secretariat informed the meeting that the Taipei Representative Office in Brussels had written to inform the EC of their interest in contributing to the Joint Fund of the WBIF – they are a current donor to the EBRD. DG Enlargement is discussing this request with other relevant services in the Commission and the Secretariat requested the PFG members to consult with their capitals/headquarters and to advise the Secretariat of their views on this potential contribution.

Session 2

In line with the SC's commitment to enhance communication with the beneficiary countries, representatives of NIPAC offices were invited to join the PFG meeting for the strategy and policy session. This focused on the work to date under the Task Force on the Evolution of the WBIF established by the WBIF SC following its meeting in Athens. As most of the members of the Task Force were represented, the meeting was considered an ad hoc Task Force meeting.

The Head of the WBIF Secretariat, stressed that given the expected impact of current external processes such as the IPA II programming, the discussions under the Platform on EU Blending Mechanisms in External Cooperation (EUBEC) and the deliberations regarding the implementation of the Financial Regulation, the work of the Task Force in the period September to December focused on the detailed review of the current pipeline of WBIF supported projects and preliminary work on amendments to WBIF structures and procedures and on the potential to increase use of PPPs.

The IPF 1 Consultant presented the key findings from the recent monitoring report and the preliminary report on the Detailed Review of the pipeline. Summary information was provided on the status of the different types of grants financed under the WBIF – namely investment grants, technical assistance grants, sectoral studies and interest rate subsidies. The majority of grants approved to date are (by number) for TA. While many projects were progressing the rate of progress in general was deemed slow. There was a general finding that for TA grants the time required to prepare and agree on Terms of Reference and to mobilise TA was unduly long, albeit that the time required had reduced somewhat recently. Changes in government priorities and lack of capacity to assume the loan envisaged were also highlighted as reasons for lack of progress/cancellation of grants.

Points that were stressed during the lively discussions included;

- The length of time required to prepare, mobilise and complete some of the grants was deemed as too long and possibility indicated that projects were not national priorities or were not mature enough to be able to benefit from the grant;
- Attention was called to the sectoral prioritisation process implemented in Serbia;
- Cumbersome procedures such as the need to have agreements with IFIs ratified by parliaments create long delays;
- All stakeholders need to be realistic regarding the timeframe for the implementation of projects;
- Regional projects will be slower than national projects given the complexities both political and technical of securing agreement and sequencing and coordinating the necessary investment – this is particularly true for large energy projects;
- Availability of well resourced, qualified, dedicated local counterparts for example in PIUs is a key indicator of success;
- A key issue is the availability of the necessary permits relevant for the particular stage of project preparation/implementation that is being supported;

- The reducing fiscal space is having a significant impact on the rate of progress. The Former Yugoslav Republic of Macedonia noted that in addition to slowing the rate of agreeing to new loans, countries were slowing the rate at which they are drawing down on existing loans;
- CEB noted that the narrowing fiscal space is impacting the social infrastructure sector in particular, and proposed to re-introduce the IPF/municipal-window-like mechanism into the WBIF to encourage national authorities to support investments in the sector. WBIF Secretariat referred the issue for discussion in the Task Force.
- Provision of information on construction and disbursement is very important
- The estimated total investment value of the pipeline -€13 billion is beyond the capacity of the countries at present, therefore the pipeline should be refined and prioritised

Moving forward:

- There should be a more synchronised approach between national development plans, IPA programmes and assistance under the WBIF;
- The EC proposal to have a single pipeline of prioritised investments regardless of funding source is an important step in this direction;
- Ministries of finance should have a greater role in the WBIF particularly with regard to submission of applications;

It was agreed that that more detailed analysis of the individual projects was required to allow the WBIF Task Force to get a full picture of the feasibility of the current projects and the main issues that should be addressed to improve the effectiveness of the WBIF as a mechanism to advance the implementation of priority investments.

The consultants were urged to enter into detailed consultations with the IFIs and beneficiaries regarding the individual projects. The EC will discuss the assignment further with the consultants and revert to the Task Force regarding the next steps.

IFI CO briefed the meeting on the two other documents being prepared by the Task Force.

A revised version of the **Practical Guidelines for the WBIF Application and Assessment** process has been agreed and will be finalised once the specificities of the 11th call for proposals are agreed. This revision is a relatively minor one as the Task Force anticipates that the results of the IPA II programming process, the EUBEC policy recommendations for blending mechanisms and the final details of the implementation requirements for the Financial Regulation as well as the outcome of the Detailed Review of the Pipeline will all necessitate amendments to WBIF structures and procedures. Therefore substantive work on this – including possible revisions to the founding documents - will take place in the second phase -January to June 2014.

The first output with respect to looking at new financing mechanisms is a preliminary report on the **potential to increase the use of Public Private Partnerships (PPPs) under the WBIF**. The draft report prepared by IFI CO summarising desk research and the initial views of IFIs on this topic had been circulated to all Task Force members and a revised version will be submitted to the SC. The IFI CO noted that PPPs remain a challenge for the region particularly given the regulatory /investment climate. Further consultations are planned in early 2014 with the IFIs, beneficiaries and experts to determine if the WBIF could be a useful vehicle to support an increased use of PPPs in the region. The IFI CO clarified that the listing of WBIF projects in the paper was intended as an illustration of the types of project that could be suitable for PPPs and it is not a recommendation that these specific projects should use PPPs as delivery mode.

A first draft of the WBIF Annual Report for 2013 was circulated to the PFG. The focus in this edition is on the social sector and PFG members were invited to provide the consultants, IPF1 with comments /suggestions. The draft report will also be circulated to the SC meeting and the intention is to finalise the content by end January to allow for publication and dissemination in March 2014.

The meeting briefly reviewed the work programme followed by the WBIF structures in 2013. It was agreed that the 2014 work programme would be dominated, particularly in the first six months by the work of the Task Force with considerable attention to the detailed review of the pipeline

Conclusions of the meeting

- 13 of the 22 applications received under the 10th call for proposals will be recommended to the WBIF SC for approval.
- The approval of the grants for BiH will be dependent on the status of the EC negotiations with BiH on IPA II.
- 3 grants in the current pipeline are to be cancelled due to lack of progress and the balance of funds returned to WBIF resources €1,690,000
- Current resources available to the WBIF comprise the balance of funds available under IPF3 following the extension to the contract and the balance of funds remaining in the EWBIF. Sweden announced a replenishment of approx. €0.5 million to be received by the end of 2013.
- The EIB-managed IPF 4 is expected to be ready to commence operation in April/May 2014.
- The EC has requested that the 11th call for proposals under the WBIF be targeted at expediting existing projects in the WBIF pipeline and that given the need for more detailed information on the status of individual projects the call should take place a little later in Spring when these results are available.
- The work under the Task Force on the Evolution of the WBIF will move in early 2014 from its current preparatory phase to more detailed examination of the WBIF structures and procedures and exploration of potential financing instruments as well as a detailed assessment of the pipeline of projects. It will take account of the outcomes available from the IPA II programming and the EUBEC discussions in its work.
- A more thorough assessment of each project in the WBIF pipeline will be undertaken in the coming months. This will require in-depth consultations with all IFIs and beneficiaries.