

TWENTIETH MEETING OF THE WBIF PROJECT FINANCIERS' GROUP (PFG)

HOTEL RAMADA, PODGORICA, 10TH – 11TH NOVEMBER 2015

Draft Minutes of Meeting

Day 1: Welcoming / Introduction

The **PFG co-chairs** (CEB / Mr VM Raguz and DG NEAR / Mr W Schlaeger) welcomed the participants to the 20th PFG meeting by reiterating the various challenges that all WBIF stakeholders have faced and tackled over the past 2 years in the implementation of the required changes and amendments to the WBIF structures. The aim now should be to finalise the relevant documentation for the 13th WBIF SC meeting on 16th December in Paris. **CEB** mentioned that the WBIF revamp process is coming to preliminary closure, while keeping in mind that WBIF will need to change somewhat in terms of administration, but not policy-wise in any substantive way, with the exception of sector priorities among the donors on the issue of co-investment grants.

Road Map Implementation / General Conditions

DG NEAR (B Banki) informed the participants of the outcome of informal, yet promising internal COM discussions: there is a distinct possibility that vital parts of the anticipated Co-delegation Agreement (CA) could be incorporated into the General Conditions (GC) and that therefore the CA would no longer be required. Concretely, Article 40 of the Financial Regulations lists the “hard” requirements of the COM (*please see presentation, slide 3 and 4*). These fall into categories of:

- (a) Already sufficiently covered by the GC;
- (b) Covered by the GC, but not sufficiently;
- (c) Not covered but could be covered by the GC.

This potential option is currently under legal scrutiny in the COM and clarity to this end can be expected by the end of November. Since there is no guarantee that this (new) option is possible, the COM (and EBRD/EIB) continue to work in parallel on the finalisation of the CA.

EBRD (D Guetcheva - Cheytanova) elaborated on these issues and welcomed this (new) possibility as a “historical step forward” by the COM, and ensured that both options, the “with and without CA” are being pursued in parallel. Overall and following the 19th PFG, comments to the two documents were received and those have been reflected in the latest version of both the GCs and the Rules of Procedure (RoP, the anticipated new title for the existing ToR of the

EWBJF). These two (new) documents are undergoing substantial redrafting efforts, thereby streamlining the documents, striving to avoid duplication and using consistent terminology. In principle, the RoP will govern the WBIF procedure until the WBIF SC decision, and the GC will govern the implementation of the projects, following the WBIF SC decisions.

NOR enquired when a new set of documents would become available and questioned the approach should the “new – without CA” option not be possible. **EIB** appreciated this new option and mentioned that this be the preferred approach (without CA). However, EIB’s concerns are: WBIF should maintain its flexibility, the new documents should reflect WBIFs actual structure and the GC should therefore regulate the EWBJF, the order of preference of the two documents (RoP and GC) is still not entirely clear, the final beneficiary should be the owners of the actions, and as such be responsible for information provision and reporting (to an extent), the WBIF Secretariat (and IFICO) should also collect project related information, all donor contributions should be annexed to the GC (and kept updated) allowing to judge the voting mechanics of the double 2/3rd decision making process, clarity on the reporting is required and finally, the role of the contributors to the EWBJF should be recognised in the decision making process (on the use of the funds). **IPF4** raised the unsolved VAT issue in BiH, impeding their activities. **BiH** recommended that VAT related issues are to be dealt with at the highest contractual level possible.

DG NEAR clarified that actually 3 options are still possible, ranging from the individual bilateral agreements per project, the CA option and the latest “without” CA option. By the time of the 13th WBIF SC meeting in Paris, the preferred option will be presented for endorsement. In order to facilitate this, an informal meeting might be held towards the end of November, where further technical discussions can take place (details will be disseminated soon).

Road Map Implementation / Rules of Procedure

DG NEAR (E Vossou) updated the participants on the progress achieved with the RoP since the 19th PFG in Brussels (19 Oct 2015). The documents were shared, comments received and to the extent not controversial, were incorporated in the latest draft. All comments received and their status of incorporation will be summarised in a table. The latest drafting round flagged issues, such as the Criteria for funds, the status, order and legal nature of the RoP, eligible sectors and eligibility and also addresses issues such as reporting, visibility and VAT (*see presentation for more details*). The latest advancement of the legal architecture (the without CA option) is not yet reflected. The latest Grant Application Form (GAF) for co-financing of projects for 2016 was disseminated for comments. This GAF is to be used only for co-financing and not TA projects and a final version of the GAF is also required until the 13th WBIF SC meeting in Paris. The informal meeting at the end of November should also finalise the GAF.

BiH requested clarity if the GAF should be used only for co-financing and further requested clarity on the “public, mixed public private and private entities” eligible for applications. In addition, BiH mentioned that the draft GAF could benefit from simplification and some clearer guidelines, since it would appear quite complicated. **NOR** appreciated that parts of the RoP have been moved to the GC (Section 6) but would require clarification on the legal status of these documents. **SER** questioned the need of the accreditation related requirements of the GAF. The **former Yugoslav Republic of Macedonia** welcomed early involvement into this (GAF

development) process and required additional guidance on the GAF, in particular on the sections with the indicators. **CEB** noted that their understanding is that all WBIF sectors will be eligible for co-financing and that the COM may reverse its restrictive use of IPA 2 funds to TRA and ENE on co-investments starting in 2017. **ITA** requested that bilateral donors should be able to allocate their contributions to all sectors or earmark to particular ones (e.g. for SOC and ENV projects).

DG NEAR replied that the wording of the GAF related to the eligible entities is a “catch all” phrase deliberately kept simple and makes (moreover) reference to the public service provision; therefore structures such as PPPs or entirely private utility service providers should be eligible. Eventually, there will be 2 GAFs one for Investment Projects and another one for TA. **EBRD** clarified that there is little to no “legal” value to either one of the documents, since WBIF has, strictly legally speaking, no legal personality. Hence, the documentation of WBIF are binding policy-wise, but not legally). Only once the project related implementation agreements are signed would real legal obligations emerge. The two documents (RoP and GC) are documents “side by side” and in no competition with each other. The RoP cover the initial phases of a project (under WBIF) and the GC cover the funding phase of projects. In addition, some elements will be moved back from the GC to the RoP (those concerning procedural aspects) and vice-versa (Sections to be moved from GC to RoP: 1.02, 3.02, 6.03 and sections to be moved from the RoP to GC: 4.1 and 4.2, parts of 6, - 6.03 remains in the RoP, 9).

EIB mentioned that the IPF contracts are not in the scope of the CA and therefore EWBIF. IFIs should not be asked to judge the fiscal space of beneficiary countries in the GAF, this is a matter for the beneficiary countries to determine. As regards to the existing sector study ceiling, both WB and EIB will propose a new methodology to the WBIF SC meeting in Paris, where an increase of the sector study ceiling will be proposed, something in the range of 3 times the current level and finally seconded the EBRD clarification to the legal status / order of the documents.

DG NEAR welcomed the initiative of EIB and WB on the sector study ceiling and looks forward to receiving this proposal. Fiscal space would indeed be a national matter (MoF, NIC, etc) and not for the IFIs to judge. Concerning the GAF, the ownership (who fills in which section and when) may merit additional clarification. The principal ownership is with the beneficiaries and the relevant IFIs. Then the WBIF Secretariat and the PFG will be processing (screening and assessment) these GAFs and ultimately, they will be subject to the WBIF SC decision. The budget can be amended and updated if and when required, the indicators are in the guidelines and need to be used. DG NEAR further offered to organise a workshop in January 2016 on the GAFs; the accreditation provisions are not needed and will be taken out of the GAF.

Concerning the GAF, the participants are required to send their comments to IFICO by the 20th of November (valentina.balcan@ificoord.eu).

Reporting Arrangements

DG NEAR (B Banki) updated the participants on the latest reporting related developments (since the 19th PFG). Comments to the reporting were received from some but not all relevant participants. Currently, 5 report are produced: (i) the Annual Report, (ii) the Annual EWBIF Financial Statements, (iii) the Annual EWBIF Implementation Report (AIR), (iv) the 6 monthly Monitoring Report and the (v) bi-monthly report. Out of those, the AIR is proposed to be adapted

to cater for the COM's reporting requirements for co-financing and would be a narrative part and a financial part. As to the financial reporting, a certain level of detail is required by the COM and this needs to be agreed upon soon. The structure of this adapted AIR has been disseminated for discussion (hand out) and will be sent out electronically. Comments are invited until the 20th November (please cc to valentina.balcan@ificoord.eu).

EBRD mentioned that these reporting requirements are acceptable. **EIB** questioned if this reporting would concern only co-financing projects or also TA projects. **KOS** mentioned that these reporting requirements are similar to their national reporting system. **KfW** agreed in general on the content of the particular report template, but questioned the overall amount of reports and recommended a streamlining. The MIS should be used as much as possible as basis for generating reports; however, the amount of data requested for input and the frequency of updating should be limited to the factual requirements. **WB** agreed to the reporting in principle, but mentioned the WB specific trust fund financing and seconded KfW in their concerns of the overall reporting requirements. **CEB** questioned if these reporting requirements would also concern IPF projects. **SER** questioned if all beneficiaries are able of supplying this information. **IPF4** mentioned that projects change and that the narrative part of the reporting too would need updating.

DG NEAR replied that the overall reporting requirements will be reviewed and can be discussed (for example, the 6 monthly monitoring report could be done yearly). The beneficiaries might need TA in the initial phase of the overall implementation of the new structures and reporting could be part of this. If and to the extent IPF contracts are financed through the EWBIF, then also the IPF projects would require this AIR report. **IFICO** mentioned that the MIS could cover more parts of the reporting than it currently does.

Investment Projects Programming 2016

DG NEAR (W Schlaeger) introduced the milestones for the 2016 programming for co-financing projects. The programming starts with the NICs, producing a prioritised SPP (involving the EU, IFIs, bilateral donors, etc) and select projects according to certain criteria. These are (for 2016): maturity, connectivity relevant (if IPA 2 funds are concerned) i.e. PECCI list for energy and Core Network for transport, sector strategies adopted, soft measures implemented (list from the Vienna Summit conclusions). Then, these projects are submitted to the WBIF Secretariat, followed by a screening and assessment phase, official submission to- and ultimately approval by the WBIF SC. The timeline is as follows:

- i. 13th WBIF SC meeting in Paris 16/12/2015: Launch of call;
- ii. End of March 2016, deadline for submission (GAFs);
- iii. Screening and Assessment until end of May 2016 resulting in a "list" of projects;
- iv. WB6 Paris summit in June/July 2016.
- v. October 2016, IPA Committee decision;
- vi. December 2016, WBIF SC approval.

An additional TA project will be launched to support the beneficiaries. This is the so-called “CONNECTA” project, which will be subject to the next IPA Committee (17 Nov) financing decision. It is a € 10 M project, concerned about the preparation of project pipelines for priority connectivity infrastructure projects with the aim of boosting the connectivity agenda. Important will also be the implementation of the beneficiaries of the so-called “soft measures” as by the WB6 Vienna summit statement. The beneficiaries are encouraged to implement these soft measures with priority. CONNECTA is expected to be operational by April 2016.

In addition, the Commission is undertaking the Gap Analysis for energy and transport projects in the Western Balkans, whose results are expected to feed into the CONNECTA.

GER enquired if the 14th WBIF SC is supposed to approve the “list” of projects for the Paris summit. **EBRD** questioned the predetermined system of calls for co-financing and recommended project earmarking years in advance, since this would allow for better planning; in addition, EBRD requested clarification that the percentages for co-financing are flexible and not (as is the case for the 2015 projects) a guaranteed level.

DG NEAR clarified that the ultimate decision on these projects is with the 15th WBIF SC in December 2016. The programming will need to follow the current WBIF structure and COM requirements, in the future, the possibility of 2 calls per year can be discussed. The percentages for co-financing are maximum limits and not a guarantee.

NIC Framework Transposition

IFICO (F Sellner) reported on the progress and methodology of the NIC transposition, aimed at the 2015 requirement of the submission of a NIC endorsed SPP by the 10th December 2015 to DG NEAR. Good progress has been made in all beneficiary countries, even in BiH a NIC is established and operational. SER, followed by MNE, KOS, the former Yugoslav Republic of Macedonia, BiH and ALB reported on their specific progress, issues and requirements (*details in the presentations*).

DG NEAR expressed their overall satisfaction with the progress achieved and looks forward to receiving the NIC endorsed SPPs by the 10th December.

WBIF Evaluation Report

DG NEAR (A Baggioli) introduced the concept of the WBIF evaluation and emphasised the overall positive outcome of this evaluation and appreciated the pro-active involvement of the relevant stakeholders. The draft final report was circulated, comments received and incorporated and the final version of the WBIF Evaluation Report will be disseminated soon and relevant recommendations should be implemented now. Given that the evaluation cut-off date was the 16th June 2015, certain recommendations are already being implemented; while some others may stimulate a thinking process in WBIF to remain as a successful and sustainable blending facility for infrastructure projects at the Western Balkans. Mr G McDonnell (AETS consulting) reported on the strength & weaknesses, findings, conclusions and recommendations of the WBIF Assessment Report. While several of the recommendations are already being addressed, a number remain open, these include: No. 2 on the competition of funding options in the region, No. 4 on the fiscal space, No. 5 on the inclusion of the SOC and ENV sectors, No. 7 on the project

pathway, No. 9 on the stronger involvement of the regional organisations (SEETO and ECS) and No. 10 on the NIC operationalisation and WBIF communication.

AOB Day 1

DG NEAR mentioned:

- (i) A written request was received from MNE for the Project WB10-ENE-MNE-001 the gas development master plan;
- (ii) The key dates leading up to the 13th WBIF SC meeting in Paris, including the draft agenda that will be disseminated soon;
- (iii) The temporary WBIF eligibility criteria for TA will not be re-applied at the 13th WBIF SC meeting in Paris, thus, all projects, national and regional will be eligible for TA.

The outgoing WBIF SC co-chair **Italy** announced that Norway has been nominated by the bilateral donors as new incoming co-chair for 2016. **NOR** accepted the nomination as WBIF SC co-chair 2016.

The PFG Co-chair **CEB** mentioned their efforts in creating a “Migrant and Refugee Fund”, where interested donors can contribute until March 2016.

DAY 2 (open and closed session)

The **PFG co-chairs** welcomed the participants to the second day of the 20th PFG. The first session is open to all, this concerns the MIS update. Following this MIS session, the NIPAC representatives and parts of the IFICO team will deliberate on the draft NIC Assessment Report, while the PFG members will deliberate in the project related (and closed) session.

MIS Update (open session)

IFICO (E Voci) summarised the design philosophy of the MIS and reported on the experience and the lessons learned during the round 14 application and evaluation process for which MIS was used for the first time; the work programme for the coming period will be concerned on the fixing of various issues and bugs, including developing the workflows; new features will be introduced to improve reporting and data rendering; as well as a list of changes requested by users and fixing issues identified during the grant application and evaluation process. He also suggested to simulate a full trial round, from submission to assessment, prior to the next official round.

IFIs noted that the new MIS was pointing to an improved but a more resource intensive system compared to the one it replaced once teething problems were solved. They generally requested that data owners should be identified for all key fields and entry responsibility delegated to them; they also warned against the temptation of over innovating and increasing the complexity of the system beyond reasonable needs.

BiH reported on difficulties experienced when filing applications building on existing projects, including historic data that could not be updated and enquired about the opportunity for users to receive additional training. **SER** asked whether the MIS would be used for the forthcoming investment grant round and whether a separate application template would be used, which was confirmed on both points.

IFICO confirmed the need to identify data owners and delegate responsibility for that data to them and accepted that the current delegation function was experiencing some software difficulties (which were being worked upon). It also noted that existing data quality issues were beyond the powers of the system administrator and confirmed that training was and will be available. Finally IFICO encouraged all MIS users to actively participate in the next test round.

IPF4 suggested that Lead IFIs delegate to IPF data filing tasks for IPF-led projects and IFICO confirmed that an IPF delegation function would be available shortly.

Acting Head of WBIF Secretariat (W Schlaeger) thanked participants and called the open session to an end. NIPACs left the PFG meeting to attend a specific NIC/IFICO session.

Round 14 Screening and assessment (closed session)

Acting Head of WBIF Secretariat (W Schlaeger) summed up the eligibility criteria used for Round 14 and re-confirmed that Round 15 to be formally launched at the Paris SC meeting would not have any restriction. 13 applications had been received for Round 14 for a total grant request value of €21.4 million and 9 applications had been screened positively for a total grant request value of €13.65 million (with one negatively screened project nevertheless accepted, see 006 TRA KOS below).

| Project Code | Project Title (short) | PFG decision | Reasons/Comment |
|---------------|---|--------------------|--|
| 002 ENE ALB | Fierza HPP | Negative | Project not eligible under R14 criteria. Beneficiary likely to present again in R15. Screening comments to be addressed in application in case of re-submission. |
| 002 ENE MULTI | SEE Regional Security Coordination Initiative | Positive, SC Paris | 3 beneficiaries at starting phase (BiH, MNE, SER), other 3 expected to join at a later stage. Sector study ceiling issue to be addressed by Paris SC. |
| 002 ENE SRB | 400kV OHL Obrenovac Bajina Basta | Positive, SC Paris | LFI confirmed that proposed budget is tight but sufficient to deliver the tasks. |
| 006 ENE BIH | Gas interconnector BIH HRA | Negative | Good project but BIH under sanctions from En Com and need to coordinate with IAP development |
| 002 ENV KOS | Lepenc canal and dams | Positive, SC Paris | Builds on a WB sector study. Project is made of 3 interlinked components but final location of some may vary depending on study outcome. "No Regrets" approach to be used. |
| 003 ENV BIH | WATSAN FBIH | Negative | No national sector strategy in BIH, it is a must for |

| Project Code | Project Title (short) | PFG decision | Reasons/Comment |
|---------------|---|--------------------|--|
| | | | receiving IPA funds. TRA experience shows it can be done. COM declined 2 previous requests on similar ground. |
| 002 SOC BIH | Maximum Security State Prison – MIS & Training | Positive, SC Paris | Project started with a Round 1 grant. Now under construction (10% complete) and completion expected Q4 16. Services under the grant to start in Q1 16. CEB to produce 1 st ToR draft to help. |
| 004 SOC BIH | Design of Medical Center | Positive, SC Paris | Continuation of an existing project with EIB loan in place. Breakdown of costs and Duration clarified during the meeting as application was insufficiently detailed. |
| 002 TRA MNE | Route 4 Rail Bar Vrbnica – Rehab design concrete bridges | Positive, SC Paris | High cost noted, EIB to implement via IPF and seek opportunities to reap economies of scale (86 bridges are concerned). |
| 002 TRA MULTI | Feasibility study Adriatic Ionian Highway | Positive, SC Paris | Concerns about budget suitability for a full local standards FS, concerns in HRA about alignment and connection point HRA-MNE, need to coordinate with KfW who is working on bypasses in MNE to be integrated with AIH. |
| 002 TRA SRB | Railway Stalac Kraljevo Rudnica | Positive, SC Paris | Alignment proposed by Beneficiary had to be modified to respect the core network alignment. JASPERS to be involved in the review of options. Likely future co-financing candidate. |
| 006 TRA KOS | Eastern Railway Line Fushe Kosovo – Podujevo – SRB border | Positive, SC Paris | Initial negative COM screening (alignment is on comprehensive network and FS was financed by WBIF but is not on core network). COM accepts that KOS has few rail routes on core networks, that project is high national priority and that financing plan is credible without WBIF co-financing but warns this is no precedent. |
| 008 TRA KOS | Rail Route 10 – Fushe Kosovo – Mitrovica | Positive, SC Paris | Phase 2 of an existing project for which EBRD loan is signed and EIB loan expected to sign soon. |

In conclusion, 10 projects were approved. Amounts and IPF/JGF allocations will be clarified in the coming days. JGF will likely need to rely on new contributions expected to be announced around the year end to fulfil all requests.

IFICO (S van der Touw) presented cumulative figures to Round 13 included and exclusive of all cancelled grants.

After the first 13 rounds, WBIF has approved 180 grants that are either active or completed, for a total value of € 315 million. Projects supported by these grants represent total capital investments of approximately € 13 billion. In addition, 20 grants were approved but subsequently cancelled.

Significant work has gone on with IFIs to validate data and signed loans and the figure is now reliably estimated at € 3.2 billion. The potential for new loans is estimated at € 8 billion approximately.

WBIF Secretariat (E Loppe) presented 2 projects with ToR preparation issues.

WB10-MKD-ENV-01, Water and Sewerage Programme in the former Yugoslav Republic of Macedonia, KfW, Grant 400.000 EUR. Draft ToR were prepared for this project but are still pending, waiting for a decision of Beneficiary on the municipalities to be included. The cancellation of this project will be discussed at the Paris SC in case the issue is not solved by then. DG NEAR will inform the Beneficiary accordingly.

WB12 BIH ENV 04 Component 1, Preparation of Flood Hazard Maps, EIB, Grant 3.380.000 EUR. Draft ToR have been prepared but remain pending, awaiting critical input data from Beneficiary. The progress of this project will be reviewed at the next WBIF SC in case this issue is not solved.

AOB and Conclusions

- ***Request for additional funding for CWB10 ENE MNE 01 Gas Master Plan***

Acting Head of WBIF Secretariat (W Schlaeger) shared a request just received from the MNE NIPAC for additional funding of € 150K over and above the original allocation of € 550K in order to carry-out a Strategic Environmental Impact Assessment (SEA). It was initially envisaged to carry out the SEA as a new separate project financed from a subsequent WBIF call for proposals. It is now recognised that this approach would prove less time and cost effective than an extension of the current project and in particular final government approval of the Gas Master Plan would be delayed until completion of the SEA. The matter was briefly discussed and it was decided to proceed with the request on an exceptional basis. **IPF4** confirmed that it had sufficient capacity, in between its remaining balance and contingencies, to undertake the assignment.

- ***Ceiling of Sector Studies***

EIB and WB will provide a proposal to the 13th WBIF SC meeting in Paris.

- ***Applicable standards for PFS and FS documents***

The discussion of some grant applications highlighted a number of issues pertaining to differences between EU and national standards for PFS and FS. IFICO and IPF will review the matter and suggest guidelines on when to recommend the use of which document (PFS or FS) and under which standards (EU or national).

- ***Next steps***

The immediately following next steps concerning the ***finalisation of the RoP and the GC*** (and the CA respectively) are:

- Comments to the GAF have until 20 Nov, please cc submissions to valentina.balcan@ificoord.eu;
- Clarification by COM legal / financial departments on the “new option” (no CA) by end of November;
- Comments to the draft annual reporting format until 20 November, please cc submissions to valentina.balcan@ificoord.eu;
- Invitation of a technical drafting workshop at the end of November in Paris will be further discussed;

The next steps regarding the ***13th WBIF SC meeting in Paris*** are:

- Dissemination of draft agenda and invitation letter until 20 Nov;
- Dissemination of background documents (as usual);