

Sixth Meeting of the WBIF Steering Committee
Ministry of Finance, Vienna, Austria
14 and 15 June 2012
Draft Minutes

Summary

The sixth meeting of the WBIF Steering Committee took place on 14 and 15 June 2012 kindly hosted by the Austrian Ministry of Finance, the current Co-Chair of the WBIF Steering Committee. The SC heard a detailed update on the economic developments in the region and discussed the impact on future WBIF activities. The SC agreed to intensify efforts to ensure that it supports priority investments that contribute to regional and national strategies; and to regularly review and assess the impact of project approved under its auspices. The SC approved 18 investment projects for WBIF grant support including regional sectoral studies in transport and energy and a pilot capacity building programme for PPPs. The SC welcomed the exchange of views on progress to date under the WBIF and in particular noted the continued support by the IFIs and donors and their respective priorities. The SC members highlighted the positive evolution of the WBIF and the usefulness of this unique platform for cooperation and coordination. The next WBIF SC meeting will be held in Paris on 6 December 2012 and will be hosted by the CEB, the incoming co-chair of the WBIF Project Financiers' Group (PFG).

1. Welcome and Introduction

Andreas Schieder, State Secretary, Ministry of Finance Austria welcomed participants to Vienna and noted that political stability and economic prosperity in the Western Balkans was a top priority for Austria. This was evident in Austria's long standing support for the WBIF which it sees as a very good tool for cooperation by all stakeholders to support investments that bring a high socio-economic impact and which contribute to further integration by the Western Balkans into the EU. The inflow of FDI and credit to the Western Balkans in the pre-crisis period had led to delays in the reform agenda and hence structural reforms were not as advanced as they should be. Mr Schieder emphasised the value of strong ties between all stakeholders, particularly in times of economic crisis and the need for greater focus on targeted reforms to stimulate growth, tackle high rates of unemployment (particularly youth unemployment) and to ensure that impact of deleveraging by international banks was carefully managed in the Western Balkans. Regarding this latter point, he highlighted the Vienna 2.0 initiative – another example of good coordination among key actors.

Mr Gerhard Schumann-Hitzler, Director, DG Enlargement, echoed Mr Schieder's view that the WBIF was an excellent tool for cooperation, particularly in difficult times. He drew participants' attention to the WBIF Monitoring Report which illustrated that the WBIF has moved from being an idea to a successful reality. He outlined three key functions of the WBIF SC

- (i) Operational - approving applications for grant resources
- (ii) Supervising and monitoring the implementation of approved projects
- (iii) Defining the overall strategy for the WBIF – which should be forward looking.

He invited the participants to reflect further on how the SC wants to handle the issue of supervising and monitoring as this task will increase in importance as the number of projects approved increases. He suggested that briefings and reports on progress made and the impact of projects be a regular feature of SC meetings. Regarding the need to enhance the strategic vision for the WBIF, he noted

the critical importance of ensuring WBIF support for the highest priority investments and thus the need for greater selectivity when reviewing applications to ensure scarce resources go to those project with the greatest impact. Those projects which have the most impact on a regional basis should receive the most support and in this respect he anticipated a closer working relationship between the WBIF and the relevant regional sectoral organisations including the Regional Cooperation Council (RCC), the Energy Community Secretariat (ECS) and the South East Europe Transport Observatory (SEETO).

Following this introduction, the agenda for the meeting and the minutes of the 5th Steering Committee meeting of 7 December 2011 were adopted by the SC.

2. Update on Economic Developments in the Region: Macro-Economic Outlook & Implications for the WBIF

Professor Paul Bernd Spahn and Naida Čaršimamović Vukotić of the IFI Coordination Office presented the key findings and conclusions from the discussion paper on the Macro-Economic Outlook for the Western Balkans and the Implications for the WBIF. Some key points regarding the macro-economic outlook included:

- GDP growth rates continue to be revised downwards throughout the region
- Labour productivity remains low with little indications of endogenous productivity growth
- The region is still lagging behind with regard to infrastructure development
- Since 2009, governments have tried to consolidate budgets which has reduced the fiscal space for investments.
- In general public debt relative to GDP is still comfortably low
- Declining fiscal space is further exacerbated in several countries by high public expenditure, limited potential for revenue increases and in some cases vulnerability to external debt

Based on a review of the pipeline of investments created under the WBIF, the consultants highlighted the following issues:

- As the majority of WBIF grants support project preparation activities, it is not surprising the percentage of projects with signed loans is relatively low. However this percentage differs greatly across the countries from 17% in Croatia (which has several limitations regarding its eligibility for WBIF support) to 52% in Serbia.
- In general WBIF financing can be absorbed due to acceptable levels of debt but this needs careful monitoring particularly given the growth forecasts.
- If all the WBIF supported investments under preparation are executed as planned, government debt in several countries will exceed the 60% debt to GDP “rule of thumb” or in some cases self imposed ceilings.
- Albania’s public debt may be at a critical level that implies additional financing for WBIF projects would rely on tax increases
- It is recommended that new projects – particularly those for countries with more limited fiscal space – be considered carefully with a focus on prioritisation
- There has been an increase in external financing for several Western Balkan countries from emerging markets in Europe, Asia and Latin America. It would be important to know the implications of such loans on the overall fiscal space of the countries concerned

The consultants also presented a series of issues for consideration by the WBIF SC as a basis for further discussions.

Common points that emerged during the ensuing discussion included:

- The unique role of the WBIF that provides a platform to discuss regional and national development priorities and the identification of “bankable” projects
- The need for the WBIF to exercise greater rigour when submitting applications for grant support and for the screening and assessment phase carried out by the PFG. The provision of improved guidelines for applications and assessment should facilitate this.
- The importance of identifying and supporting projects with a regional impact.
- The need to enhance the policy dialogue with countries, financiers and donors.

Some additional issues raised included:

The **World Bank** stressed the need for improved management of public expenditure and in particular the need to have better targeting of expenditure. This is particularly relevant for social spending, unemployment has increased alarmingly and thus the need for smart safety nets and active labour market policies is even more urgent. The World Bank is also concerned at the growing level of government arrears. Even the perception that governments are not paying their debts will further damage the investment climate. The **EBRD** also stressed the fact the money is simply not flowing and the potential damage to the investment climate from issues such as substantially delayed VAT reimbursements by governments. The role of infrastructure in developing the private sector and industrial sector was highlighted by the **EIB** and its importance for attracting FDI. The EIB emphasised the role of SMEs in economic development and the need to get investments moving. They encouraged all stakeholders to make more effective use of existing facilities such as EFSEE and in the future EDIF. **EIB** welcomed the fact that WBIF is starting to reflect in a strategic way about the consequences of its decisions for the economy of the Western Balkans and considers that further effort should be undertaken to build a common view about the future of the area, based on the investments to be undertaken together, that can be shared by all the donors and the beneficiaries of the WBIF. **Kosovo** noted the pressure on governments in the region and the need for guidance to assist in priority setting and sequencing of investments. **Greece** requested that the WBIF further develops this policy and strategy work that raises a number of important questions for the WBIF, particularly as the WBIF can constitute an umbrella platform for discussions between regional fora/organisations and national governments across a number of sectors to constitute a coordinated framework for deciding on investments. **The Energy Community Secretariat** and the **SEETO Steering Committee** also commented during the meeting that their respective organisations were, as part of larger strategy development exercises, developing or improving criteria to assess project applications with a particular emphasis on contribution to regional development.

The SC Co-Chair concluded that it was extremely important that the WBIF takes into account the developments and evolution in the macro-economic environment to guide future work under WBIF.

3. Evolution of IPA – Briefing on Proposals to Adapt IPA for the 2014-2020 Financial Perspective and Implications for the WBIF

The SC Co-Chair briefed participants on the proposals presented by the European Commission (EC) to EU Member States and to the European Parliament to revise the Instrument for Pre-Accession (IPA) for the forthcoming financial period 2014-2020. This is part of the overall efforts to ensure greater coherence between all the financial instruments used by the EC throughout the world. He noted that

the WBIF is expected to continue under this new financial perspective. The guiding principles behind the proposed revision to IPA include:

- Reinforced link between the financial assistance and the policy agenda
- Contribute to the objectives of the EU 2020 Agenda
- Good governance and capacity building remain core themes of financial assistance
- More attention to socio-economic development and lasting impact
- Stronger ownership of the reform agenda and related financial assistance

Some of changes that are envisaged include a more coherent and strategic approach to pre-accession assistance which will include a move to sector based programming on a multi-annual basis rather than a project by project approach. Support under IPA II should be tailored to the individual country needs, not the status of the country with respect to EU accession. More rapid and better implementation of reform agendas should be rewarded with increased financial assistance.

In summary, the objectives of IPA II are to facilitate the beneficiaries' efforts to meet the Copenhagen criteria and to support socio-economic development. The revised approach will require the preparation of comprehensive country strategies for IPA assistance that address key policy areas, that are supported by relevant national sector strategies. These must be prepared in partnership with the beneficiary country and with the relevant Commission services working together. Therefore IPA would move towards a logic of (co)financing policy strategies instead of individual projects. A high-level strategic framework will be agreed for the 7 year period with a formal mid-term review and regular monitoring. This will allow national and multi-country strategies to be developed that will in turn lead to multi-annual programmes of assistance that support the implementation of national and regional reform agendas.

Given the emphasis in the IPA II proposal on socio-economic developments and on the use of blending mechanisms, the WBIF is expected to have an even greater relevance. It's mission will be unchanged:

- Leverage grants and loans to improve project financing (investment aiming at socio-economic development, mainly in infrastructure or private sector development)
- Coordinate donor support in the Western Balkans: creation of a single entry point for projects to improve coherence, synergy, efficiency and visibility

The WBIF is a real strategic driver for investment in region and should be developed further into a macro-economic strategy like Danube to ensure that we connect this region to the EU MS and neighbouring countries.

Moving forward the challenges facing WBIF include the need to focus efforts on facilitating priority investments in key sectors and to ensure that any investment decisions are based on the priority needs in the different sectors and sub-sectors. These should be aligned with the strategic planning under IPA II which in turn needs to be more geared to the political accession agenda. In line with the increased emphasis on local ownership of strategies under IPA II, it is important that WBIF improves coordination between stakeholders and enable the beneficiaries to be in the driving seat to propose projects. The solid basis created to date under WBIF should greatly facilitate this. The SC Co-Chair noted that while the final budget available for IPA would not be know until the end of year, the nature of WBIF, which leverages additional finance from the granting of public funds means that it should be in a privileged position.

The **EIB** noted that it would be important for all WBIF stakeholders to reflect on how this revised approach under IPA II will impact on their internal approach and procedures. **Kosovo** commented on the excellent consultation process led by the EC that led to the revised proposals and warmly welcomed in particular the provision of assistance based on need rather than candidate status. **CEB**

noted that there had been much improvement under IPA I to engender greater ownership by the countries. CEB highlighted that as a project oriented bank it does not see any contraction between a sector approach and projects as projects are required to implement sector plans. **Montenegro** commented that preparation of the necessary documents should commence as soon as possible particularly given the complexity of IPA and the need to brief line ministries and other relevant bodies on the changes and their implications.

4. Implementing the Danube Strategy – The Role of the WBIF

In introducing this presentation, the SC Co-Chair noted that the strategy seeks to create synergies and coordination between existing policies and initiatives taking place across the Danube Region. It does not provide extra EU finance but relies on a more efficient use of existing financial instruments and funds, and in this context it is of particular interest to examine how the WBIF could serve as a useful channel for non EU MS members of the Danube Strategy to advance priority projects for the region. She also highlighted that given the likely development of a macro-regional strategy for the Adriatic region, it is important to have even closer cooperation and coordination between these macro-regional strategies and blending mechanisms such as the WBIF.

In his presentation **Mr Johann Sollgruber, DG Regional Policy** outlined the reasons why the EU attaches importance to the development and implementation of such macro-regional strategies, starting with the Baltic Sea Region and now the Danube. In summary, the overall objective is to organise cooperation between countries or territories by mobilising local and regional actors to align policies and funding and to identify common issues, solutions and actions. Fourteen countries are part of the Danube Strategy, eight of which are EU Member States (MS) and the remaining six include Western Balkan countries namely Bosnia and Herzegovina, Croatia, Montenegro and Serbia. The governance structures of the Strategy are built on the basis of partnership and a multi-level approach to allow all relevant stakeholders to be involved.

The stakeholders identified eleven areas to be addressed by the Strategy including mobility, energy, water, biodiversity, socio-economic development, education and capacity, culture and identity and safety. A network of Priority Area Coordinators and Steering Groups are responsible for advancing actions in each area.

The implementation of the Strategy depends on the use of existing funds – structural and cohesion funds in the case of EU MS as well as programmes that non-EU MS have access to including IPA and other EU programmes for Western Balkan countries. Therefore as the focus moves to better alignment of funding and implementation of projects, the WBIF is seen as a very useful channel for projects from the Western Balkan beneficiaries as it combines both IPA funding and IFI financing. DG Regio would like to enhance the coordination between Danube Strategy structures and those of the WBIF. Following on from the success of the Danube Finance Framework meeting in March, another event will be organised in Belgrade in October with a promoting projects that focus on navigation and third country participation. A first progress report on the Danube Strategy will be available in Spring 2013. Initial preparatory work has commenced on the Adriatic Ionian strategy that will include four Western Balkan countries.

5. Investment Projects submitted for approval under Round 7

In opening this session, the SC Co-Chair noted that the principal in SC meetings is that the relevant country or countries should introduce the project for approval. The SC agreed that in the case where a country is absent, the relevant projects should be postponed until the next WBIF SC meeting.

The Co-Chair of the WBIF PFG, **Christos Gofas, DG Enlargement** informed the meeting that, following the Luxembourg meeting, two projects had been approved or amended by written procedure. These were the “WB6-ALB-ENV-10 Feasibility study construction of sanitary regional landfill – Vlora region”, which had been approved, and the “WB6-SER-ENV-03 Construction of collectors II and VII and water well in Subotica and preparation of technical documents for sludge management”, for which minor alterations had been agreed.

It was further noted that following analysis of the Terms of Reference for the WBIF the Project Financiers’ Group had recommended to cancel two grants approved more than one year ago for which no progress had been reported in preparing project terms of reference. The grants to be cancelled are as follows:

Code	Title	Grant (€)	Lead IFI
TA3-MON-ENV-03	Wastewater treatment plant and network in Danilovgrad	200,000	EIB
WB4-SER-TRA-05	Documentation for modernisation of railway Nis to FYROM.	1,040,000	EBRD

The funds available for Round 7 were summarised by PFG Co-Chair, **Richard Jones of EBRD** to amount to €66.5 million made up as follows:

Source of funds	Breakdown	Total
EC IPA	€ 3m - existing IPF €20m - contribution into EWBJF €20m - into Energy Efficiency fund	€43 m
EWBJF	€13.5m	€13.5m
IFIs	€4.6m - EIB €2.3m – EBRD €3.1m - CEB	€10.0m
Total		€66.5m

Regarding the grant contributions from the IFIs, the EIB announced that the Management Committee of the EIB had decided to transfer the balance of the EIB’s €10million, contribution to the Joint Grant Facility, amounting to €4.65 million to the European Western Balkans Joint Fund. This decision followed the finalisation of the WBIF review in December 2011 in Luxembourg and the transfer of the first contribution from the EC to the Fund on 2 January 2012. The EBRD stated that as their remaining funds would be fully drawn down with the grants due to be approved at this SC they planned to continue to support WBIF by utilising the resources of the EBRD Shareholder Special Funds. The CEB confirmed that they will continue to allocate funds to projects in the future in the same way that they are at present.

It was also mentioned that the financial statements of the EWBJF will be presented with the minutes of meeting.

Fifty two grant requests for projects were submitted in February 2012, and of these twenty three were screened positively at 11th meeting of the PGF in April 2012. Following IFI assessment, twenty project grant requests were recommended for approval to the Steering Committee. The grant

requests were presented by sector and each project application was presented and described by the representative from the relevant NIPAC with supporting comments added by the project's lead IFI and, in the case of regional projects, by the competent regional institution. In all eighteen grants were approved by the Steering Committee with the two projects to be carried forward to the next meeting where it is hoped the relevant NIPAC representatives will be available to present these. The total value of the eighteen grants approved is €48.475m. Of this amount, €23.35m is for the establishment of a regional energy efficiency programme for the Western Balkans. All of the applications approved were for technical assistance grants with two of them combining technical assistance with an investment grant. Five of the grants were for regional projects supported by more than one beneficiary and of these, three grants were allocated to the sectoral studies window of the WBIF, the regional transport study, the concept approach for the Western Balkan Gas Ring and a capacity building programme for PPPs.

The breakdown of the contributions from the available WBIF sources is as follows: IPF €2.25m; IPA €20m; €EWBJF 19.925m; EIB €0m; EBRD €2.3m; CEB €4m.

During the discussion it was suggested by **Austria** that the SC should investigate why nearly two thirds of the projects proposed in this round did not pass screening and assessment. **DG ELARG** replied that the IPF was available to provide assistance during the upstream stage during preparation of applications and that the pass rate had in fact improved over time. It was also stressed that the guidelines under preparation by the WBIF Secretariat to be discussed at the Regional Workshop in November, should improve the quality of applications and assessment further.

EIB very much welcomed the focus given this year to the support for energy efficiency in the Western Balkans through the horizontal budget of the multi-beneficiary IPA programme. EIB regretted however, that unlike with the EDIF proposal approved last year, it was not possible this year for other interested IFIs to contribute to the effort undertaken under this specific and large budget envelope.

It was announced that the next call for projects (Round 8) had been launched with a letter sent to the NIPACs on 15 May. The deadline for the submission of applications is 14 September with a PFG meeting for screening and assessment to be held on 6 November and the next SC on 6 December.

At the 5th SC of December 2011, it was agreed that, from 2012, an implementation fee of up to 4% would be receivable by the lead financial institution to cover its costs. The co-chairs of the PFG (EC and EBRD) informed the SC that the budgets of the projects proposed for approval at this meeting were inclusive of this fee (except for the 3 IPF projects). This approach also applies to the project (WB6-ALB-ENV-10 Feasibility study for construction of sanitary regional landfill - Vlora Region - EUR 1 million) approved by written procedure in February 2012 where KfW will act as lead financing institution.

SC members approved by consensus that there should be an amendment to the Terms of Reference of the JGF of the WBIF to reflect this change to working practices in 2012. The amendment together with the consolidated version of the Terms of Reference of the JGF-WBIF are attached as Annex I of these minutes. As previously agreed, the IFIs will provide an interim report on fees at the end of 2012 as well as a more detailed report on the use and added value of the fee ahead of the June 2013 SC following a year of implementation.

7. WBIF to Date – Views of Beneficiaries and Donors

The SC Co-Chair commented that after 3.5 years of existence, the WBIF had moved from plans on paper to physical investments that contribute to socio-economic development in the region and advancement in the EU accession process. Therefore it is important that the WBIF SC reviews

regularly progress on the ground, the impact of investments it has supported and the lessons learnt from their implementation.

Presentations were made by three NIPAC representatives on WBIF projects that have advanced in their respective countries. **Albania** introduced its rural roads project. Based on a World Bank financed project the Albanian Government developed a strategy to improve the rural roads to allow mobility and socio-economic development in rural region. The investment is now being financed by EBRD, EIB & IPA as well as national funds and substantial progress has been made as outlined in the video prepared by EBRD.

The former Yugoslav Republic of Macedonia outlined its experience with the WBIF supported pilot project for a wind park where a WBIF grant implemented by IPF provided the necessary support to ELEM, the relevant public company, to undertake a feasibility study, develop the relevant documentation for the tender for the pilot project and ensure transfer of competencies to local authorities and experts for the development of future wind parks. This also facilitated the signing of a loan with KfW for this project and further developments are on-going. The presenter observed that the particular structure of the WBIF allowed for swift development leading to actual construction. She also stressed the highly positive benefits of the close cooperation among domestic actors, external financiers and international experts as well as with neighbouring administrations. This enhanced communication will continue to be highly useful in the future, particularly given the difficult economic environment and the need for greater regional cooperation.

Bosnia and Herzegovina presented status of construction of Corridor Vc in BiH and outlined the relevant WBIF projects that are supporting the development of this highly strategic Trans European Network corridor. Several grants have been awarded for this Corridor including technical assistance implemented under IPF for updating of feasibility studies and assistance to the project implementation unit for construction on part of the motorway and further technical assistance for detailed design for a specific part of the motorway being managed by EIB. The railway element of the Corridor is also being supported by WBIF with two grants implemented by IPF focused on feasibility studies on specific sections of the railway. The representative highlighted the importance of support for overall strategic development of Corridor Vc given the scale and scope of this corridor and expressed the hope that further assistance will be available via IPA and other sources.

A number of bilateral donors took the floor to comment on WBIF to date and regarding their priorities in the Western Balkans. **Norway** expressed its pleasure with the evolution of WBIF and in particular the coordination that has facilitated the development of large projects that are of importance to the region. It is important that the SC reviews the concrete progress being made under projects in the WBIF pipeline. He welcomed the enhanced communication and transparency among stakeholders. Moving forward, Norway highlighted in particular the importance of socio-economic development and job creation.

Luxembourg also expressed its satisfaction with the briefing on progress within the WBIF and in particular the results on the ground. He looked forward to reporting this positive progress to his administration to ensure continued support for the WBIF and encouraged the SC to continue its work on better prioritisation.

Austria outlined the range of financial and technical assistance mechanisms that it supports in the Western Balkans and emphasised its on-going commitment, particularly to the WBIF. Following on from the strategic discussions on Day 1, regarding the need to ensure that the WBIF evolves with the dynamic environment, Austria believes that private sector development and in particular engaging the private sector as co-financiers will be critical in the future.

Germany highlighted its provision of technical and financial assistance through GIZ and KfW and agreed that WBIF should regularly review its strategy to ensure that it is relevant. At present, Germany would encourage a greater focus on competitiveness, growth and jobs.

Finland noted that within its current assistance programme to the Western Balkans it focuses on a number of specific themes including stability and security, aid for trade, environment and social stability and briefed participants on the new themes that are part of the revised development policy. Finland welcomed the increase in projects in the social sector. He asked the WBIF to consider what are the guiding principles regarding allocation of resources between sectors.

Greece stressed its close economic ties with the region and informed the meeting that the Greek funds from the Hellenic Plan for the Economic Reconstruction of the Balkans has been extended to 2020 for projects that have been agreed by the end of 2011.

Italy welcomed the progress being made by projects that had been approved early –on under the WBIF and emphasised the importance of private sector development. The SC was encouraged to ensure greater speed in WBIF processes and to continue to emphasise capacity building to ensure sustainable development. Italy was pleased to note the contribution that WBIF is making to better cooperation and communication among beneficiaries and will maintain its commitment to the WBIF.

EBRD commended the WBIF Secretariat for ensuring the smooth running of WBIF processes that allows SC focus on substantive issues. The WBIF now provides a platform for undertaking complex activities such as the EDIF, which would normally be either impossible or very slow to put in place. This provides a model for other regions in the world. EBRD sees the tangible benefits to the bank itself from its involvement in the WBIF and is very pleased with its progress.

EIB seconded many of comments already made and noted that EIB's decision to transfer the balance of its grant contribution to the joint fund is a concrete statement regarding its belief in the value of the WBIF. The increasing emphasis on assuming a more sectoral approach will present challenges. The positive evolution whereby the WBIF becomes a venue for greater discussion on strategy and policy issues should continue to allow us to achieve concrete results in terms of growth and social inclusion in the area. The WBIF should seek to expedite arrangements so that financing reaches the final beneficiaries more speedily.

The increased involvement of the beneficiaries was stressed by **CEB** as one of the most tangible results of the WBIF to date. While more stakeholders means increased complexity it also results in better ownership and this is of clear benefit to the WBIF. He also noted the substantial improvement in cooperation and sharing among IFIs.

WBIF is an important instrument for the **KfW** as it implements its mandate in the Western Balkans. KfW highlighted the role of the PFG in channelling the applications from the NIPACs, linking them with potential financing from the external financiers so that they can be provided with the immediate assistance required to implement them. KfW also commended the work of IPF and the great convenience it provides in avoiding extensive procurement procedures for each and every grant. KfW agreed with the EIB on the challenge to improve the procedures required to utilise funds from the Joint Fund.

The **World Bank** commended the improvement in assessment and screening of projects and looks forward to the new guidelines for all WBIF stakeholders which will, amongst other things allow WBIF stakeholders to see where the project fits into national and /or regional strategies. The strengthening of the World Bank's Western Balkans office in Vienna should facilitate better World Bank involvement in the PFG and other WBIF related events. It also proposed that the private sector

development arm of the World Bank – IFC could make a useful contribution to the WBIF given the increasing focus on private sector development. The World Bank looks forward to presenting the results of the sectoral studies that have been approved at this meeting and believes that the WBIF continues increasingly provide a good platform for this type of strategy and policy discussions.

Many delegates commented on the value of reviewing experience with the WBIF including its procedures and well as its impact. The WBIF Secretariat noted that the Regional Workshop foreseen for November would allow for more discussions where the beneficiaries in particular can contribute.

8. Stimulating Private Sector Development

The SC Co-Chair observed that the EC has asked the countries of the Western Balkans to develop an overarching framework for policy reform in the region, modelled on the EU's 2020 Agenda but with specifically tailored targets for smart, sustainable and inclusive growth. The RCC has been mandated to take a leading role in coordinating this process and is using its different platforms to consult and coordinate with the countries and external experts on this.

A highly relevant platform for private sector development related issues is the SEE Investment Committee comprising deputy ministers and state secretaries from all the Western Balkan countries. The Committee was established in 2007 as part of the OECD-led Investment Compact for South Eastern Europe.

The RCC with the active support of DG Enlargement recently assumed management responsibility for the SEE Investment last November. This Committee comprising deputy ministers and state secretaries from all the Western Balkan countries, provides a forum for discussions and recommendations on various aspects of the investment climate in the region and its regular Ministerial meetings allow the countries to undertake specific commitments on policy reform.

Mr Sanjin Arifajic, RCC outlined the structures and overall objectives of the SEE Investment Committee and how it proposes to approach the challenge of identifying and agreeing on a vision for SEE 2020 as instructed by the 2011 Ministerial Meeting. The five headline targets will focus on integrated, smart, sustainable and inclusive growth as well as governance for growth. The SEE Investment Committee see the SEE 2020 as providing a:

- Regional strategy for growth, consistent with national development strategies and Europe 2020 objectives;
- Governance framework for cooperation and coordination on policy responses to issues that cross national borders; and
- Framework for interaction with donors engaged in regional interventions and coordination with national IPA programmes

The SEE Investment Committee faces a challenging task in the coming months to establish and agree regional targets that are appropriate for the Western Balkans taking into account national priorities, economic and fiscal programmes and regional obligations. They should also clearly identify a monitoring and governance mechanism to manage implementation and measurement of achievement. The SEE Investment Committee Ministerial Meeting in November 2012 will be held back to back with the CEFTA Joint Committee meeting and is scheduled to adopt the headline targets proposed by the expert group working under the Investment Committee. The adoption and implementation of the measures necessary to achieve these targets should improve the overall

investment climate and will therefore also benefit the important investments being prepared under the WBIF.

The SC Co-Chair welcomed the convergence between the WBIF and the SEE Investment Committee regarding the need for a more strategic approach and looked forward to increased coordination between the WBIF and the SEE Investment Committee such that Committee which can act as the regional sectoral body for private sector development will be a key interlocutor for the WBIF.

9. EDIF – Western Balkan Enterprise Development and Innovation Facility

The SC Co-Chair recalled that this large Facility had been approved in December and that it was now timely to have an update on progress in establishing the first private sector development initiative under the WBIF.

The **EIF** highlighted the importance of supporting SMEs particularly given the current economic situation and welcomed the indications from the EC and donors that competitiveness and private sector development would be a key component of their future programmes. The EIF briefed participants on the various steps that have been taken since December to set up each of the four pillars under this large Facility – the Innovation Fund (ENIF), the Expansion Fund (ENEF), the Guarantee Facility and the TA pillar. Negotiations with the European Commission on the relevant legal and contractual agreements required are at an advanced stage and it hoped to conclude these in the coming months which will allow for the next steps including the call for tender for the manager of the ENIF. As the EBRD will manage the ENEF, such a tender process is not required. The EIF is confident that the EDIF can be launched in time for the WBIF SC meeting in December while the start-up of the different pillars will have slightly different timing.

The **OECD** briefed the meeting on activities to date to map current TA activities in the area of SME policy support and to identify policy reforms required to support high growth and innovative SMEs. Coordination meetings with donors, SME experts and in particular with each beneficiary in the coming months should result in a short list of three to five reforms for each beneficiary that individual governments would commit to and the TA pillar would then be used to support their efforts. Thereby the countries would improve the environment for the type of company targeted by the financing mechanisms under EDIF.

The **EBRD** noted that in addition to work on the legal issues, the EBRD is also working on additional funding raising, deploying the team on the ground and developing a potential pipelines. Therefore assuming legal issues can be resolved, EBRD hopes that ENEF will be active by the end of the year.

It was noted that the EDIF will be open to other donors and investors to participate and to allow EDIF to become THE platform for access to finance for SMEs in the region.

Montenegro recalled that during the Luxembourg meeting Montenegro conditionally supported EDIF subject to the establishment of representative offices. EIF responded that the platform will primarily use the EBRD office network and should minimise administrative costs. EIF emphasised that the manager of the ENIF will assure that all countries of the region will be covered with no exception.

Croatia noted how necessary this ambitious project is for SMEs in the region. Croatia observed that the beneficiary administrations could benefit greatly from being involved in the various planning and preparation activities so as to learn from experience e.g. to be involved in the design and implementation of the ENIF tender process. Croatia expressed interest in the composition of the investment committee for ENEF and hoped that the TA activities would commence as soon as possible as this was urgent for countries. The EIF was urged to provide more complete information on the overall facility including the governance structures, the scope of action and budget as soon as possible.

EIF highlighted that the normal EU rules would be followed for the recruitment of the ENIF manager – along the lines of those used for the JEREMY initiative and beneficiaries will be informed about the results of the process. EIF also promised that in line with the requests at the recent EDIF meeting in Sarajevo meeting, regular updates on the status and next steps will be provided to beneficiaries. The beneficiary countries that participate in ENIF will be represented in the “board of directors of ENIF and also in the Platform Advisory Group that will decide on the strategic direction of the overall Facility. It was emphasised that each pillar will have its own governance body. **EBRD** informed the meeting that the current proposal is that the investment committee will be independent – comprising EBRD as the investment adviser with independent experts with experience of equity markets, ideally from the region. EBRD would be in the minority in the Committee to guarantee the independence.

10 Conclusions and Recommendations

The Co-Chairs thanked all participants for their contribution to this successful meeting that was held in a very constructive and open atmosphere.

The main results were summarised as follows:

1. The SC approved the minutes of the 5th SC meeting in Luxembourg in December 2011. It agreed to include the decision of the 5th meeting concerning the fee structure into the Terms of Reference by adding a new point 7.
2. The SC heard a detailed update on the economic developments in the region and discussed the impact on future WBIF activities. It agreed that shrinking fiscal space calls for further efforts on prioritisation. As projects supported by the WBIF move from the preparatory phase to completion, the WBIF Steering Committee needs to regularly review and assess the impact of these projects and the lessons learnt in their implementation
3. The SC agreed to further emphasise the strategy and policy element of its work. It is important that we work together to define our strategy for moving forward and to refine this based on the changing environment. The WBIF SC should regularly review the overall climate in which the WBIF operates and see if, and how, it needs to adapt its functioning to adequately respond to any key issues. In this respect we should expect to make good use of the sectoral studies window that we have under WBIF.

Greater interaction with regional sectoral bodies such as the Energy Community Secretariat, SEETO and the SEE Investment Committee will help the WBIF SC to review and select the projects with the greatest impact. Close coordination and cooperation is also required with EU macro-regional strategies such as the Danube and in the future the Adriatic. It was agreed that enhanced guidelines would strengthen both the project application process and the screening and assessment of applications by the PFG to allow priority projects to be selected. The WBIF Secretariat is currently preparing draft guidelines; they will be discussed and agreed with all stakeholders, most notably at the WBIF Regional Workshop planned for 8 November in Dubrovnik.

4. The SC approved 18 investment projects for WBIF grant support including the Energy Efficiency facility, regional sectoral studies in transport and energy and a pilot capacity building programme for PPPs. The approval of 2 projects was postponed to the next SC meeting since the relevant NIPAC was not present to introduce the projects. Two projects previously approved - the wastewater treatment plant and network in Danilovgrad and the documentation for the modernisation of the railway Nis to the former Yugoslav Republic of Macedonia have been cancelled and the respective grant amounts will be released and made available for other rounds of project submissions.

5. The call for proposals under Round 8 of the WBIF has been launched with a deadline of 14 September for receipt of completed applications.
6. The SC welcomed the information from beneficiaries on specific WBIF projects that are at an advanced stage and noted the continued support by the donors and their respective priorities. The SC members highlighted the positive evolution of the WBIF and the usefulness of this unique platform for cooperation and coordination.
7. Regarding the need to improve the overall climate for private sector development the WBIF welcomes the ambitious work programme of the SEE Investment Committee and hopes that this Committee will be a key interlocutor for the WBIF.
8. The SC looks forward to the launch of the EDIF in December. This is the first major initiative of the WBIF in the private sector development area.

Regarding WBIF governance structures, the SC thanked the EBRD for its work as Co-Chair of the WBIF Project Financiers' Group between January and June 2012 and welcomed the CEB as the incoming PFG Co-Chair. The CEB has kindly agreed to host the next meeting of the WBIF SC in Paris on 6 December 2012.

The SC also thanked most warmly two departing members of the WBIF Secretariat in DG Enlargement, Thomas de Bethune, the current Head of the Secretariat and Valentina di Sebastiano, for their hard work in developing the WBIF since its establishment and wished them both well in the next step of their careers.

The EC will continue to ensure that the WBIF Secretariat has the necessary resources at its disposal to provide the support required to all aspects of the Framework.

The SC members commended the Austrian Co-Chair for their excellent organisation and their warm hospitality.

Annexe

AMENDMENT TO the Terms of Reference of the Joint Grant Facility

as adopted on 8 December 2009 in Brussels between the European Commission, the European Investment Bank ,
the European Bank for Reconstruction and Development and the Council of Europe Development Bank

Article 1

1. The Terms of Reference of the Joint Grant Facility (“the ToR”) shall be hereby amended, as follows:

a. Section 7 “Amendments and withdrawal” is amended as follows:

“7. Lead financial institution fee

From 1 January 2012, the lead financial institution shall be paid up front from the EWBJF resources, for all projects, a flat remuneration per project of to cover its costs:

- a) 0.5% (zero point five per cent) of the total amount of the relevant Grant operation for IPF projects managed by the Commission;*
- b) 2% (two per cent) of the total amount of the relevant Grant operation for investment grants; or*
- c) up to 4% (four per cent) of the total amount of the relevant Grant operation for technical assistance.”*

This remuneration may be amended from time to time by a decision of the Assembly of Contributors of the EWBJF, with a first review to take place by end 2012.”

b. Previous Section 7 “Amendments and withdrawal” becomes Section 8 “Amendments and withdrawal” and remains unchanged.

Article 2

All other provisions of these ToRs shall remain unchanged.

Article 3

This Amendment to the ToRs shall enter into force on the date, on which the last of the parties signs the Amendment.

Article 4

The following document is annex to this ToRs for information purposes only:

**CONSOLIDATED VERSION OF THE
WESTERN BALKANS INVESTMENT FRAMEWORK
JOINT GRANT FACILITY
TERMS OF REFERENCE**

Preamble

The Western Balkans Investment Framework (WBIF) is a joint initiative of the European Commission of the European Communities (the “Commission”), the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), and the Council of Europe Development Bank (CEB) (collectively referred to as the “partner IFIs”), endorsed by the European Council, to enhance harmonisation and co-operation in investments for socio-economic development of the Western Balkans. These Terms of Reference set out the principles, objectives and mechanism of the Joint Grant Facility (JGF).

1. Aims and general principles

1.1. The WBIF aims at streamlining existing facilities and pooling resources from the Commission, the partner IFIs, the Member States and other donors, so as to enhance support to the Western Balkans Beneficiaries (as defined in Section 3.1.1 below).

1.2. The JGF provides grant resources to projects supported by loans from the partner IFIs and other financing intermediaries in order to offer to the Beneficiaries an integrated financial package for investment projects in priority infrastructure and other socio-economic development areas in the Western Balkans. Priority projects are defined and proposed by Beneficiaries and the allocation of JGF resources is subject to screening and approval of the JGF governance bodies.

1.3. The JGF is governed by a Steering Committee and a Project Financiers’ Group. The Steering Committee provides strategic guidance and advice on the operations of the WBIF; approves Grant operations (as defined in Section 3.5 below) to be supported by the JGF; and monitors the implementation of the JGF. The Project Financiers’ Group is the single entry point for grant support requests from the JGF and is responsible for screening and assessing requests for financial support from the JGF and submitting its proposals to the Steering Committee for approval.

1.4. Beneficiary ownership and long-term sustainability are the guiding principles of the JGF, including a clear financing perspective for the implementation of the supported investments. Beneficiaries shall be involved from the earliest stages throughout the entire life cycle of the investment implementation. For this, the JGF allows upstream and downstream cooperation and coordination among all concerned supporters of investment projects.

1.5. The JGF resources are intended to be used principally to support operations for which loans are jointly provided by the Financial Institutions cooperating in the framework of the Joint Lending Facility (JLF)¹.

2. Resources

The resources of the JGF originate from:

¹ The JLF is an informal arrangement between the partner IFIs, whose key principles are set out in a separate document agreed between the partner IFIs and made available to all the JGF members.

- a) Grant resources allocated from the EC Instrument for Pre-Accession (IPA)².
- b) Grant contributions from the EIB³, the EBRD and the CEB.
- c) Bilateral grant contributions from Member States and other donors through the European Western Balkans Joint Fund (EWBJF)⁴.

3. Eligibility rules

To be eligible for support from the JGF, investment projects shall comply with the following criteria:

3.1. Geographical coverage

3.1.1. Eligible investment projects must be on the territory of one or more of the following Beneficiaries in the Western Balkans: Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia and Kosovo under UNSCR 1244 (herein after the "Beneficiaries").

3.1.2. For trans-national and/or regional projects involving one or more of the eligible Beneficiaries but also other non eligible countries, the JGF support will only cover the investment part pertaining to the eligible Beneficiary.

3.1.3. The place of registration of the legal entity benefiting from the grant shall be within a Beneficiary. For regional projects involving also non-Beneficiary countries, the institution or body in charge of the investment could also be based in a non-Beneficiary country, but the JGF support will only cover the part of the investment taking place in any of the Beneficiaries.

² In 2007, the Infrastructure Projects Facility was set up by the European Commission, EIB, EBRD and CEB. The IPF has channelled IPA multi-beneficiary grants for infrastructure investments in the Western Balkans. The IPF consisted of two windows: a) the Technical Assistance window, whose grants are used for helping preparing infrastructure investments to be financed through IFIs loans and b) the Municipal Window, whose grants are used to co-finance, together with IFIs loans, infrastructure investments at municipal level. The IPF technical assistance will remain as an implementing mechanism under the WBIF, while the JGF will replace the IPF for project selection with IPA funds made available for this purpose. IPF has given priority to the Potential Candidates for accession since the Candidate Countries have access to component III of IPA, and this approach will apply also to future allocation to the JGF from IPA.

³ The EIB's contribution would be used for technical assistance activities.

⁴ The EWBJF will be set up building upon the existing EBRD Western Balkans Fund, to be enhanced for new contributions to the WBIF.

3.2. Eligible sectors

3.2.1. Investment projects should support any sector that contributes to the economic, social and environmental development of the Western Balkans, including:

- 1) Environment: water supply, waste water treatment, sewage systems, solid waste and hazardous waste management, emission control, etc.
- 2) Energy: renewable energy, interconnection systems, transmission, co-generation, hydro, gas pipelines, etc.
- 3) Energy Efficiency and savings
- 4) Transport: railways and inland waterways including river ports, roads, seaports, airports, border facilities, inter modal terminals and urban transport.
- 5) Social: schools and education centres, hospitals and health centres, social housing, reclusion centres and other public buildings.
- 6) SMEs, private and financial sector support
- 7) Other sectors supporting socio-economic development as agreed by the Project Financiers' Group and the Steering Committee.

3.2.2. Within these sectors, IPA funds of the JGF will be used only for the purpose defined in each relevant Commission Decision (e.g. for IPF TA and Municipal window) following EU Member States approval in the IPA Committee. The IPA Funds cannot be used for activities already supported by or eligible for the Regional Development Component of IPA⁵.

3.3. Eligible beneficiary entities

Investment projects may benefit public or private entities or entities with mixed public-private capital responsible for the provision, management, construction and negotiation of public utilities and services.

3.4. Eligible Costs

All elements of the eligible cost⁶ of the investment projects are in principle eligible for grant financing subject to approval of the Steering Committee.

⁵ The Regional Development Component of IPA (IPA III) provides support to candidate countries for the policy development as well as for the preparation to the implementation of the Community's Cohesion policy, in particular in their preparation for the European Regional Development Fund and the Cohesion Fund. They require the relevant management structures to be in place in the Beneficiaries, and the IPA Funds will thus be managed directly by the Beneficiaries under decentralised management which entail, *inter alia*, specific project selection and approval procedures, similar to those applied for EU Cohesion Policy funds. Potential candidates can benefit from similar measures implemented through component I. Support concentrates on transport and environmental infrastructure investment as well as measures to enhance competitiveness.

⁶ When calculating the eligible costs of a project that may benefit from grant financing or co-financing, the rules and procedures of the Commission, the partner IFIs and the EWBJF will apply. According to the IPA Regulation the following expenditures are not eligible: a) taxes, including value added taxes (in principle); b) customs and import duties, or any other charges; c) purchase, rent or leasing of land and existing buildings; d) fines, financial penalties and expenses of litigation; e) operating costs (can be allowed on a case-by-case basis); f) second hand equipment; g) bank charges, cost of guarantees and similar charges; h) conversion costs, charges and exchange losses associated with any of the component specific euro accounts, as well as purely financial expenses; and i) contributions in kind. In addition, any leasing costs or depreciation costs are not eligible. In the case of revenue-generating projects, meaning a project involving an investment in infrastructure, which is subject to charges

3.5. Type of Grant operations

The grant financing to a specific investment project (“Grant operation”) may take the form of:

- 1) Technical assistance: financing technical assistance including preparatory work for eligible investment projects such as impact assessments, feasibility studies, detailed design, project supervision and targeted capacity building and implementation support.
- 2) Investment grants: direct grants for specific project components, as well as incentive schemes based on performance of implementing institutions.
- 3) Incentive payments to financial intermediaries.
- 4) Interest rates subsidies: provision of a lump-sum amount to ensure that the loan finance needed for the investment project can be made available at reduced interest rates.
- 5) Insurance premia: funding of insurance premia necessary to implement the investment projects.

3.6. Beneficiary Ownership

3.6.1. Project proposals could be identified by different stakeholders, including national and local authorities of the Beneficiaries, the partner IFIs, other Multilateral and Bilateral financing institutions, regional and local institutions and bodies. They will be considered eligible only if submitted to the JGF by the Beneficiaries, either via the NIPACs⁷ or via the partner IFIs.

3.6.2. The projects for which the grant is requested should be consistent with the EU Pre-Accession Strategy and relevant sector policies and national investment plans, when these are available and/or up-to-date and, at regional level, support investments with high regional impact and/or a strong social and environmental dimension. The priority given to support these projects should also be consistent with the list of projects identified and prioritised in the context of regional networks (SEETO, REC, PEIP, ECS etc.)⁸. Ideally, proposed projects should also be part of relevant national sector strategies with clear resources allocated from national budgets.

3.7. Complementarities with IPA National Programmes and other donors' initiatives

Grant requests shall explicitly mention any complementarities or coherence with projects supported or planned for support under the IPA National Programmes (for implementation by the EC Delegations or by the Beneficiaries authorities) and/or other donors activities, by providing at least a preliminary indication of the type and amount of donor support that the investment project may receive from sources other than the JGF.

3.8. Blending grants and loans

borne directly by users, the eligible cost is calculated according to a funding gap method deducting the value of the net revenue over a specific time from the value of the investment cost.

⁷ NIPAC = National IPA Coordinator. The NIPAC is responsible for coordination of programming and monitoring the implementation of IPA in the Beneficiaries of the Western Balkans and Turkey. As IPA represent the biggest source of external aid and is linked to the progress and development needed in the EU accession process, and in line with the local ownership over donor funds and donor coordination as foreseen in the Paris declaration, the involvement of the NIPAC is of utmost importance for the effectiveness of the JGF and the WBIF.

⁸ SEETO = South Eastern Europe Transport Observatory; REC = Regional Environment Centre; PEIP = Priority Environmental Investment Projects, ECS = Energy Community Secretariat.

The JGF resources are intended to be used principally to support operations jointly financed by the institutions cooperating in the framework of the Joint Lending Facility. On an exceptional basis technical assistance may be proposed for standalone assignments not directly related to loans from the JLF.

3.9. Consistency with policies, rules and procedures of the Contributors

Each Grant operation funded by the JGF and its implementation shall be consistent with the policies, rules and procedures of each source of funds (Commission, EIB, EBRD, CEB and EWBJF).

4. Governance structure

4.1. The Steering Committee

4.1.1. Functions

The Steering Committee decides on the JGF grant allocations, takes all decisions related to the Joint Grant Facility and provides strategic orientation on the Western Balkans Investment Framework. The Steering Committee has the following strategic, operational and supervision tasks:

Strategic tasks – The Steering Committee provides strategic guidance and advice by consensus on the strategy and policies of the JGF and of the WBIF through:

- a) Advice on long-term strategic objectives of the JGF in line with the EU Pre-Accession Strategy;
- b) Revision of eligibility criteria, terms of reference and other policy issues of the JGF;
- c) Advice and guidance on the achievement of the WBIF.

Operational tasks – the Steering Committee approves the requests for grant support from the different funding sources of the JGF, namely the IPA funds, the partner IFIs contributions⁹ and the Contributions to the EWBJF. The Steering Committee may decide to reject grant requests for financing under the JGF, or to refer them back to the Project Financiers' Group for further screening and re-submission.

Supervision tasks – The Steering Committee will supervise and review the operations of the JGF through the annual progress reports submitted by the Project Financiers' Group. The Steering Committee may request the Project Financiers' Group to provide clarification or additional information on specific projects.

4.1.2. Structure and composition

Members - The Steering Committee is composed of representatives of the Commission, the partner IFIs and the Contributors to the EWBJF. Each member institution or Contributor to the EWBJF appoints up to two representatives. Experts/advisers from the lead IFIs can attend, as appropriate, for the projects of their competence.

⁹ The approval of grant resources from the partner IFIs would require also the approval of the IFIs' respective governing bodies, according to their respective rules and procedures.

Chairmanship - The Steering Committee is co-chaired by the Commission (permanent) and one of the Contributors to the EWBJF (on rotating basis every 12 months) holding the Chair of the Assembly of Contributors to the EWBJF.

Observers - The Beneficiaries and Member States not contributing to the EWBJF as well as the Regional Cooperation Council will be invited to the Steering Committee meetings for discussions on strategy and policy orientations of the WBIF. Other donors actively engaged in the Western Balkans as well as other stakeholders in the region may be invited by the Chairs as observers to the discussions.

4.1.4. Methods of work

Meetings - The Steering Committee meets at least twice a year in the headquarters of the Commission in Brussels, *or* in the headquarters of a partner IFIs *or* in the country of the EWBJF Co-chair, upon its request. Meetings may also be organised in the Western Balkans. The Project Financiers' Group proposes an agenda for these meetings which is approved by the Co-chairs and issued at least 3 weeks before the meeting. The agenda shall be structured into a strategic & policy section and an operational section focusing on the JGF so as to allow for orderly discussions.

Decision making system - The Steering Committee will seek decisions by consensus for the approval of grant requests to be supported by the JGF. Where this proves impossible, the final responsibility for deciding on the allocation of the funds follows the management responsibilities of each funding source (i.e. the Commission for EC funds, each of the partner IFIs for their contributions, and the EWBJF Contributors for the EWBJF in accordance with the voting rules of the Fund).

Administrative Support - The Commission provides the necessary administrative support for the organisation, running and follow-up of the meetings of the Steering Committee. The Co-chair from the EWBJF or the partner IFIs will take care of the logistics support and administrative support needed at the meeting, in case it hosts the meetings. The Commission will draft conclusions of the meetings and seek adequate input from participants so that the Co-chairs can finalise them. The final conclusions will be issued at the latest 3 weeks after the meeting.

Costs - Members of the Steering Committee and any other participant shall not receive from the JGF any form of remuneration for their participation in the Steering Committee nor any other compensation associated to their status including any costs incurred by them in relation to travelling to and attending the Steering Committee meetings.

4.2. The Project Financiers' Group

4.2.1. Objectives

The Project Financiers' Group provides a "single entry point" for requests for grant support from the JGF. The Group is responsible for screening and assessing requests for financial support from the JGF.

The main objective of the screening and assessment is to establish a pipeline of priority projects eligible for JGF grant support, to be submitted for approval to the Steering Committee.

4.2.2. Functions

The Project Financiers' Group coordinates the identification, screening & assessment of investment projects. The Member institutions of the Project Financiers' Group shall make available technical expertise within their organisations to facilitate this task. It submits grants requests to the Steering Committee and coordinates the implementation of approved Grant operations. This process is structured in the phases described in Section 5 below.

4.2.3. Structure and composition

Members - The Project Financiers' Group is composed of representatives of the Commission, each of the partner IFIs and EU bilateral Financial Institutions or development agencies of EWBJF Contributors participating on equal conditions as the partner IFIs to the JGF, and abiding to the principles of the Joint Lending Facility. All donors to the JGF, EU Member States and the Beneficiaries will be kept regularly informed about the work of the Project Financiers' Group and all grant requests sent to the Group will be made available for information following their submission. Each member institution appoints up to two representatives as regular members of the Group. For the technical work of the Project Financiers' Group, each member institution will draw from technical/sector expertise available within its organisation.

Chairmanship - The Project Financiers' Group is co-chaired by the Commission (permanent) and the partner IFIs (on rotating basis every 6 months), each leading for the matters of its competence as described under Section 5 below.

Liaison with other actors - The Project Financiers' Group will ensure timely and effective liaison within its organisations (Commission with other Commission Directorates General and relevant Delegations of the Commission, IFIs with their local offices), with the Beneficiaries (NIPACs and other relevant Beneficiary institutions), the Regional Cooperation Council and other Regional bodies set up by the Beneficiaries, as well as with the contributors to the EWBJF and with other donors and IFIs (e.g. the World Bank) operating in the region.

4.2.4. Methods of work

Work Programme - The Project Financiers' Group adopts an annual calendar of meetings, which takes into account of the meetings of the JGF Steering Committee.

Reporting - The Project Financiers' Group submits annual reports to the Steering Committee on the status of implementation of the JGF, including global achievements on all aspects of the JGF, from the resources allocation, commitment and disbursement, the investment projects supported and the status of their implementation. Detailed project reporting is the responsibility of the lead institution for each specific project. The Project Financiers' Group will decide on the standard format and content of this reporting.

Technical expert inputs - The Project Financiers' Group will be assisted, when needed, by the technical expertise within the member organisations. To this aim and where appropriate, technical experts from each member institution can be invited to attend meetings of the Project Financiers' Group to provide an opinion on projects requiring their technical expertise.

Frequency of meetings - The Project Financiers' Group meets at least on a quarterly basis (four times per year) in accordance with the agreed annual calendar. In addition to these regular meetings, the Project Financiers' Group may decide to hold additional *ad hoc* meetings and/or video/teleconferences to discuss projects and issues that require immediate action. If appropriate and with the agreement of the Project Financiers' Group members, the regular, scheduled meetings can also take place through teleconference.

Location of meetings - The regular meetings of the Project Financiers' Group shall normally be held in the premises of the Commission in Brussels. Alternatively, the Project Financiers' Group can decide to hold meetings in the headquarters of the partner IFIs or in a different location, for instance in the Western Balkans.

Administrative Support - The co-chairs of the Project Financiers' Group will each ensure that adequate administrative support is provided in terms of administrative, logistical, organisation functions for the tasks directly under their responsibility. To this aim, a contact point for administrative support will be appointed in each of the member institutions of the Project Financiers' Group referred to in Section 4.2.3.

Costs - The member representatives of the Project Financiers' Group as well as experts attending the meetings shall not receive from the JGF any form of remuneration for their participation in the Project Financiers' Group nor any other compensation associated to their status including any costs incurred by them in relation to the travelling to and attending the Project Financiers' Group meetings.

5. Processing of projects requests and implementation of grant operations

The process for approving and implementing grant operations of the JGF is coordinated by the Project Financiers' Group and it is structured along the following key phases:

Phase I: Upstream work and Project identification in close cooperation with Beneficiary NIPACs¹⁰, Donor Coordination Offices and other relevant local stakeholders.

Phase II: Submission of grant requests to the Project Financiers' Group by the Beneficiaries via NIPACs or by the partner IFIs in coordination with the NIPACs and Donor Coordination Offices.

Phase III: Screening of submitted grant requests to verify eligibility and consistency of proposed projects with the EU Pre-Accession policies.

Phase IV: Assessment of eligible project requests to verify their long-term sustainability, technical and financial quality.

Phase V: Submission of grant requests by the Project Financiers' Group to the Steering Committee for its approval.

Phase VI: Implementation of approved projects under the coordination of the Project Financiers' Group.

5.1. Phase I - Upstream work and Project identification

In this phase projects are identified and discussed jointly by the Beneficiaries and potential donors and IFIs in order to be presented to the JGF. This process will include the following elements that can be run in part or total in parallel depending on the degree of maturity of the examined projects:

- Upstream discussions on potential investment projects are initiated by NIPACs in liaison with National Donor Coordinator Offices (if different) and in coordination with EC Delegations, IFIs and (concerned) donor representatives on the ground. Potential implementing institutions/investors in the Beneficiaries should also be involved in these discussions. This coordination work aims at ensuring that requests for support from the JGF are consistent with relevant National (Sector) Strategies, investment plans, with national budgets and IPA programmes under decentralised management. In this context, they also identify together with other concerned stakeholders the questions that need to be addressed by the Project Financiers' Group during the screening and assessment of proposed projects.

¹⁰ The NIPAC is not always the same as the Donor Coordination Office in the Beneficiary. However, as IPA Funds represents the largest source of Donor support in the Western Balkans, the NIPAC remains the key interlocutor of the Beneficiary for planning and prioritisation of Donor support. In particular since the main part of the IPA support will be implemented locally, and not be channelled via the JGF, it is crucial that support requested via the JGF is done by or with the involvement of the NIPAC. When a different body is appointed as Donor Coordinator it is important also to involve it.

- Joint missions – the Commission and IFIs may organise joint missions to facilitate these discussions between the Beneficiaries and partner IFIs and to support the Beneficiaries to make the best possible use of the joint grants and loans resources from the EC (IPA funds allocated via the JGF and IPA funds implemented by the EC Delegations or implemented by decentralised management¹¹ by the Beneficiary), the partner IFIs and from other donors operating in the region.

5.2. Phase II - Submission to of grant requests to the JGF

As a result of phase I, the requests for grant support shall be submitted to the Project Financiers' Group by the Beneficiaries, either by the NIPACs or by the partner IFIs. If a grant request is submitted without the Beneficiary's endorsement as to the priority for them of the proposed investment, the Project Financiers' Group will need to consult with the NIPAC and Donor Coordinators Office in the relevant Beneficiary following the submission. Grant requests shall be submitted according to the deadlines for submission indicated in the Annual Work Programme (see Section 4.2.4 below) of the Project Financiers' Group. The following functional mail box also included in the WBIF website shall be used for formal submission: ELARG-Joint-Grant-Facility@ec.europa.eu.

Both for projects requesting investment grants and preparatory grants (TA grants) and in order to be able to screen projects requests effectively, applicants are requested to submit a summary for the investment using the "JGF Project Application Form" (established and updated as needed by the Project Financiers' Group).

5.3. Phase III: Project Screening

In this phase requests for investment support presented by the Beneficiaries to the JGF are analysed under the lead of the Commission in its role as co-chair of the Project Financiers' Group. The screening work is based on a sound identification of the projects along with the questions to be addressed. The screening work aims at drawing a list of eligible projects ready for the assessment phase. It focuses on the following activities, in particular checking the eligibility of grant requests and related investment projects as defined under Section 3 above:

- | | |
|-------------|---|
| Activity 1: | Ensuring beneficiary ownership and capacity building by collaboration with the NIPAC office and other Beneficiary and regional bodies |
| Activity 2: | Assessing project consistency with national (sector) strategies, national and regional investment plans and with the IPA priorities and the project potential for IPA support (not allocated via the JGF) or other donor funding. |
| Activity 3: | Assessing project consistency with EU policies (pre-accession agenda, sector priorities, competition rules etc.) drawing from and involving the EC Delegations, line DGs and ELARG geographical teams |
| Activity 4: | Assessing eligibility of projects for support from the JGF and the appropriate mix of funding sources. |

5.4. Phase IV - Project Assessment

Project requests considered eligible under the JGF are also assessed, under the lead of the partner IFIs according to the rotating co-chair assignment, to verify the technical quality, compliance with environmental and social

¹¹ In the **external actions** field (i.e. EU activities involving non-Member States), budget appropriations may be managed ([art. 163 Financial Regulation](#)) **on a decentralised basis by the beneficiary third country or countries**. The implementation of actions by beneficiary third countries or international organisations is subject to scrutiny by the Commission ([article 165 of the FR](#)). For Candidate Countries, the objective is that all IPA support shall be implemented under decentralised management and for component III of IPA, this is always the case. For the potential candidates for accession, implementation is done in close cooperation with the Beneficiary authorities by the Commission Delegations in the concerned Beneficiary allowing for appropriate preparation for decentralisation.

standards including the promotion of gender equality, procurement requirements, financial and economic profitability, credit risks and legal aspects. In this phase, a “lead IFI” will be identified among the partner IFIs that also co-finance with loans the project, to coordinate the lending process among co-financiers and to implement the JGF grant support, subject to approval of IFI loan (for investment grants). The assessment phase can be run in parallel with the screening phase depending on the nature and quality of the request, and needs to duly take into account of the due diligence process of the participating partner IFIs. Key activities for this assessment phase are:

- | | |
|-------------|---|
| Activity 1: | Technical aspects, environmental and social standards, procurement, financial and economic profitability, credit risk, legal aspects. |
| Activity 2: | Consistency with IFIs’ policies and procedures |
| Activity 3: | Analysis and estimation of TA/grants needs |
| Activity 4: | Financial structuring/identification of lending under the Joint Lending Facility (only IFIs) |
| Activity 5: | Identification of lead IFI and possible mutual reliance |
| Activity 6: | Link with project borrowers and promoters on technical and financial aspects |
| Activity 7: | Exchange of information among Finance Institutions (e.g. pricing, conditionality) |

The following criteria (not in order of priority) will be used to assess and prioritise the eligible projects:

- *Rationale for use of grant funds:* Based on the justification for the use of grant funds provided in the grants application, the Project Financiers' Group will further analyse the economic justification for the request for and the use of grants for the project. The Project Financiers' Group will examine the leverage of the grant and the loan; the value-added to final beneficiaries in terms of social impact, acceleration, targeting or quality enhancement of project preparation, delivery and operation; and the financial, social and environmental sustainability of the project to which the grant contributes.
- *The Financing Perspective:* Proposals should be accompanied by a clear perspective of financing from the JLF and an indication of possible additional grant funding from IPA National Programmes and/or other donors and from the Beneficiary's own (national) budget. In particular for investments where the affordability necessitates substantial donor grant support in addition to loans, it should be verified whether the project has received earlier support from an EC Programme or if there is planned or potential further support from IPA outside the JGF (National Programmes implemented locally), and/or from other donors, for the implementation of the project. This does not preclude approval of projects that require upstream work, e.g. feasibility studies and thus need not necessarily already have a financing perspective at that time. At the same time an indication of the maturity and readiness for implementation of the project should be provided. If a project is not ready for a quick start for any reason, the Project Financiers' Group will include it in the reserve list of grants requests ready to be presented again when the conditions are favourable
- *The Regional / Cross Border Impact:* Project with a strong regional and/or cross border impact will have a higher priority than those restricted to local impacts.
- *Conformity with socio-environmental standards:* The proposed investment project should meet EC and IFI policies and standards on social issues, on the environment, and threats against all categories of human rights and against ensuring equal opportunities.
- *Economic and Financial soundness:* It is recognized that proper assessment can only be done after the availability of a Feasibility Study/Report. The assessment of economic and financial soundness will be done by the lead IFI, in coordination with the co-financing IFIs, using their normal internal processes with respect to JLF financing for the project. Proposals to the JGF should only be made if the underlying JLF investments have a perspective of economic viability.
- *Capacity of Beneficiary institution:* The Beneficiary institutions must have a reasonable capacity to define their investment plans, to procure and implement the project, possibly supported with some specific technical assistance.

- *Balanced use of resources:* The Project Financiers' Group will endeavour to present projects across a balance of sectors and Beneficiaries, paying due regard to the guidance of the Steering Committee.

Following the screening and assessment phases, the Project Financiers' Group will establish and update the JGF project pipeline with priority and reserve lists of projects which are eligible under the JGF.

5.5. Phase V - Approval

The members of the Project Financiers' Group will endeavour to agree by consensus on the grant requests for submission to the Steering Committee, and issue them at least 3 weeks before the Steering Committee meetings.

5.6. Phase VI - Implementation

Implementation of support from the JGF will follow rules and modalities of the relevant funding source. The following general principles will apply:

- (1) For support originating from IPA under the IPF Technical Assistance, the Commission implements the TA contract(s) under direct centralised management¹².
- (2): For support originating from the IPA/IPF Municipal Window, the “lead IFI” implements the projects under Joint Management mode¹³.
- (3): For support provided from the EWBJF or the partner IFIs’ grant resources, the “lead IFI” implements the project.
- (4): Once projects are approved and ready for implementation, for each project, relevant contacts will be identified from the lead IFI and other co-financing IFIs, the EC Delegation and the Beneficiary institution, with the purpose to follow-up in a coordinated manner on the project implementation progress and project completion. The “lead IFI” will inform the Project Financiers' Group.

6. Reporting, monitoring and review

On an annual basis the Project Financiers’ Group reports to the Steering Committee on the progress achieved in implementing the JGF. The report will cover all aspects of the JGF, from the resources allocation, commitment and disbursement, the investment projects supported and the status of their implementation.

The JGF mechanism (e.g. grant needs vs. actual grant resources pooled, governance, single fund) and the EWBJF (e.g. fees, level of contributions, decision-making) will be reviewed by the participating Institutions (EC and partner IFIs) and contributors following one year of activities from the first Steering Committee meeting and prior to 31 December 2010, based on the annual reports submitted by the Project Financiers' Group and considering issues raised by the Steering Committee members and other stakeholders participating to the Steering Committee meetings.

7. Lead financial institution Fee

From 1 January 2012, the lead financial institution shall be paid up front from the EWBJF resources, for all projects, a flat remuneration per project of to cover its costs:

¹² As defined by the EC Financial Regulation art. 53b, and the Implementing Regulation art. 35a, 42 and 42a , and specified in the Guidance for [joint co-financing with Member States and other bilateral donors](#)

¹³ As defined by the EC Financial Regulation art. 53d and the Implementing rules of the FR art. 35 and 43.

- (a) 0.5% (zero point five per cent) of the total amount of the relevant Grant operation for IPF projects managed by the Commission;
- (b) 2% (two per cent) of the total amount of the relevant Grant operation for investment grants; or
- (c) up to 4% (four per cent) of the total amount of the relevant Grant operation for technical assistance.

This remuneration may be amended from time to time by a decision of the Assembly of Contributors of the EWBJF, with a first review to take place by end 2012.

8. Amendments and withdrawal

These ToRs may be modified at the request of any member of the Steering Committee. Such request, including rationale and justifications, shall be submitted to the Steering Committee, via the Commission, for approval by consensus. If consensus cannot be reached, the proposed amendments will be referred to the Governance Bodies of the Contributors to the JGF; i.e. the Commission, the partner IFIs and the EWBJF, who will agree or take a position on the proposed amendments in accordance with their respective procedures and/or voting rules, and then refer it back to the Steering Committee for approval. Changes to the practical methods of managing the grant requests as set out under Section 5 above can be made by the Project Financiers' Group, informing the Steering Group.

Any participating institution or donor may withdraw from the Joint Grant Facility as described in these terms of reference upon prior 6 months' notice to the other participants.

Annex I: General conditions for the EWBJF