

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

METROPOL PALACE, BELGRADE, SERBIA 6 NOVEMBER 2014

MINUTES OF MEETING

Introduction

The PFG co-chairs (DG ELARG and EIB) welcomed the participants to the 17th PFG meeting. W Schlaeger (DG ELARG) highlighted the importance of this particular PFG meeting, against the recent developments, such as the priority given to connectivity, manifested at the Berlin Process in 28th August 2014, where eight heads of State (and foreign ministers) from the Western Balkans met with the German government in Berlin and agreed on a joint framework for regional economic cooperation, governed by three overriding principles (a) economic governance, (b) rule of law and (c) public administration reform.

In addition, W Schlaeger informed the PFG about the now imminent new combined Enlargement and Neighbourhood portfolio under DG NEAR, which will help bring synergies to the Enlargement process of the Western Balkans and subsequently introduced the new strategic reorientation of the WBIF, with a greater extent focus on hard investments. It will be particularly important to support (regional) projects which enhance the connectivity between Western Balkan countries.

The PFG co-chair M. Cingolani (EIB) further mentioned that the focus on existing projects in the previous rounds of the WBIF was a deliberate attempt to consolidate the WBIF pipeline and pointed out the imminent challenges associated with the reorientation of WBIF from project preparation to investments.

Assessment

The screening and assessment of the last round of applications were based on the two eligibility criteria (1) strengthening or unblocking of an existing project and/or (2) a distinct regional impact. The table below shows the result of the PFG decision-making exercise and

the projects that will be presented to the WBIF Steering Committee in Luxembourg (9 December 2014).

Project Code	Project Title (short)	PFG decision	Remarks
WB12-ALB-SOC-02	Optimising school networks	Negative	Mature, but lacking political ownership. Negative screening.
WB12-MKD-SOC-01	Reconstrct. penitentiary institutions	Positive, SC Luxembourg	TA to strengthen project management and supervision during implementation phase.
WB12-SER-SOC-01	TA modernisation of prison facilities Serbia	Positive, SC Luxembourg	Project fully mature and ready for implementation. CEB loan signed.
WB12-BIH-ENV-02	Water & sanitation project RS	Positive, SC Luxembourg	€14.5 million of national IPA funds allocated to this project. Screened positively: important for EC not to compromise the implementation of the project and the disbursement of funds.
WB12-ALB-ENE-01	400 kV OHTL Elbasan-Bitola	Positive, SC Luxembourg	Regional and unblocks; this is an project on the PECL list (Projects of Energy Community Interest). EBRD/EC supportive – positive screening.
WB12-KOS-TRA-01	Rehab. railway route 10	Positive, SC Luxembourg	Only international railway in KOS*. Regulatory framework is an issue and barriers for free market entry must be removed.
WB12-MNE-TRA-01	Recon. road Scepan Polje-Pluzine	Positive, SC Luxembourg	Connects MNE with BiH. Part of SEETO Comprehensive Network. EBRD will co-finance with EIB. There is a debate whether TA funds proposed are too small/large.
WB12-ALB-SOC-01	Infrastructure coast ALB	Negative	Second negative screening. CEB comfortable with submitting this project in later, more eligible rounds.
WB12-REG-SOC-01	Student finance program	Negative	Project premature. KfW needs further discussion with EC. Negative screening.
WB12-BiH-ENV-01	Construction of Sewage network Cazin	Negative	The EC raised concerns about implementation timeline – too ambitious. The EBRD argued the relevance of their timeline, but the project was screened negatively due to the absence of a country-wide strategy for environment in BiH.
WB12-BiH-ENV-03	Water leakage reduction Tuzla	Negative	Continuation of existing project. The project was screened negatively due to the absence of a country-wide strategy for environment in BiH. KfW intends to resubmit, when possible, at a later round.
WB12-KOS-ENV-01	Water resources development KOS*	Negative	Regional impact. Yet, project is premature. Negative screening.
WB12-SER-TRA-01	Reconstruction & modernisation railway SEETO Route 10	Negative	Section not part of SEETO. Negative PFG decision; EIB suggested updating the SEETO network following SER-KOS* dialogue and cooperation.

In total, 13 projects were eligible for screening and assessment of which six were screened and assessed positively. Concerning BiH under the IPA II framework, restricted IPA-measures by DG ELARG are still in place. Furthermore, due to the current ICS-paper (Indicative Strategy Paper related to IPA II) for BiH there were negative screenings of WB12-BiH-ENV-01 and WB12-BiH-ENV-03. However, WB12-BiH-ENV-02 received a positive screening and will be submitted to the SC in Luxembourg, as this water and sanitation project (Republika Srpska) has already received two tranches of (substantial) funding amounting to € 14.5

million under IPA programme 2010-2011. O Reinertsen (WBIF Secretariat) pointed out that IPA II will be used for project funding only if there are country-wide strategies for infrastructure sectors available, currently lacking in BiH. It was nevertheless added that if BiH adopts countrywide sectoral strategies, the above projects which received a negative screening could be considered at a later stage.

EIB suggested that the SEETO comprehensive network could be modified at the request of the beneficiary countries in the context of WB12-SER-TRA-01. A significant enhancement of cooperation between Kosovo* and Serbia has since taken place. Particularly, the update of the SEETO network could assist the process of normalisation of relations between the two countries, and lead to further cooperation also through infrastructure projects.

A total of six projects will be recommended for adoption to the WBIF SC meeting in Luxembourg, with a total grant request of € 8.780.000.

Flood projects BiH – Urgency Measures

In light of the calamitous floods affecting BiH and the wider region in May 2014, BiH will withdraw four approved, but “on hold” projects, of which two are flood related. BiH will re-submit one comprehensive flood related project, covering the aspects of flood protection and flood damage repair, up to the total value of the existing projects of € 4.8 million. The written procedure will be used and then this comprehensive project will be submitted to the WBIF SC in Luxembourg for approval. The deadline for the application submission of this comprehensive project is the 21st November 2014.

Monitoring Report

The WBIF Monitoring Report was updated in November 2014. Key figures of the WBIF portfolio include:

- 11 rounds have been conducted;
- 169 grants have been approved and allocated;
- € 269 million in total grants have and are being disbursed;
- € 2.6 billion of signed loans;
- € 7 billion of total estimated loans;
- Total investment volume is about € 13 billion.

Currently, 54 projects have signed loans. The total number of signed loans is increasing, with the environment sector having signed the highest amount of loans.

Project Cancellations

The table below shows the projects that were considered for cancellation.

Project Code	Project Title (short)	PFG decision	Reasons/Comment
WB7-REG-ENE-11	Main Croat N-S	Keep	Following increased momentum,

Project Code	Project Title (short)	PFG decision	Reasons/Comment
	transmission axis		EBRD recommends to keep.
WB9-HR-ENE-01	JANAF oil pipeline upg.	Keep	€11m loan signed in Oct 14. ToRs drafted but not concluded. Currently, stronger JANAF commitment. EBRD will report to PFG on this project.
WB9-SER-ENE-01	400 kV OHL sub-stations Bajina-Kraljevo	Keep	KfW reported on recent progress, and recommends to keep.
WB9-HR-SOC-01	Reconstr. health institutions	Keep	ToRs held up by the health institutions in Zagreb. CEB recommends to keep.
WB4-SER-TRA-06	TA railways infrastructure	Keep	Masterplan for railways completed. EIB recommends to keep.
WB9-MKD-TRA-01	Motorway Skopje-Blace	Keep	EBRD reported about recent progress and recommends to keep.

Following in-depth discussions on the reasons behind the delays, brought forward by the IFIs, no projects for cancellation will be presented to the WBIF SC in Luxembourg.

Preparation of 11th SC Meeting Luxembourg

The draft agenda will be circulated following the PFG meeting. Official invitation, the final agenda and background papers will be circulated closer to the event. EIB pointed out that there will be a special event, immediately following the WBIF SC meeting.

WBIF Restricted Task Force Recommendations

To date, the RTF has met twice following its inception in July 2014, with written exchanges preceding and following these two meetings and with a number of bilateral meetings. The mandate of the RTF extended to the issues listed below.

(a) Alignment of EWBIF structure with the new Financial Regulations (FRs):

B Banki (DG ELARG) presented the new Commission proposal in detail and showed the current situation of the EWBIF and listed the specific reasons as to why this current situation is incompatible with the requirements of the new FR. The main reason is the limited responsibility and liability of the managers of the EWBIF for the implementation of the projects which is in contradiction to Article 60 FR. The actual responsibility and liability for the implementation of the projects lies with the Lead IFIs and therefore this needs to be reflected in individual Delegation Agreements between the EC and the Lead IFI.

This proposal was consulted with other DGs in particular with DG BUDG and DG DEVCO and is, at this moment, seen as the favoured and only viable solution; the proposal can be seen in the respective presentation in more detail. The Commission (B. BANKI) confirmed that comments and other contributions would be welcome and taken into account. In an effort to find the best possible solution, the Commission also clarified that it would still undertake to check whether there are other schemes used elsewhere in the Commission which could serve as a compliant option for the WBIF.

Cornerstones of the proposed solution are the following: 1) a global Commission financing decision, triggering the “n+1” rule and allocating IPA funds (but without actual disbursement) to the WBIF facility. Following the WBIF SC decision on project approval/selection, 2) complimentary financing decisions covering all projects proposed by the WBIF SC will need to be adopted. 3) Finally, delegation agreements between the EC and the lead IFI are signed. The “new” EC requirements on liabilities, responsibilities and reporting obligations (originating from the FR) are then directly established with the lead IFIs.

(b) Coherent methodology for co-financing

The new approach of IPA Multi-Country Programme will not only cover technical assistance (TA), but also co-financing of investment projects. TA will continue to be financed up to 100% and can finance both national and regional projects (so-called Group I projects, not mature). Regarding mature projects (Group II), these are projects ready for implementation. Grant co-financing will be available but, in principle, only for mature regional projects in a WBIF context. National IPA funds will be available for co-financing of national projects. Based on DG REGIO funding gap method, certain maximum co-financing thresholds were presented, as guidance, per sector. These percentages have been disseminated.

(c) Reviewing criteria for project maturity

Group I projects include TA for project preparation: such as (pre-) feasibility studies, Environmental Impact Assessment (EIA), Cost Benefit Analysis (CBA), etc. The TA pillar of WBIF can with one interlocutor finance national and regional projects.

Group II projects signify that a project is mature and ready for implementation: this includes detailed design, Tender Document preparation, supervision, construction, etc. Under WBIF, these Group II projects will need to have a regional component.

(d) Distinction regional vs. national

The reasons why a distinction of “regional” and “national” is required were presented; these are: (a) to align political priorities on the WBs; (b) to ensure IPA funds are directed to prioritised projects; (c) to prevent “shopping” between the geo-units and WBIF; and (d) to encourage quality based decision making in the beneficiary countries. DG ELARG has also shared their view of what constitutes a regional project.

(e) SPP and update on the NIC framework

In order to improve the effectiveness of public funds, the three mandatory criteria of the NIC framework have been presented. These are “transparency”, “ownership” and “prioritisation”, which, given a structured involvement of the EC and IFIs, will lead to a prioritised single project pipeline (SPP). There is no one-size-fits-all approach, existing

institutions (such as the NIPACs) will be utilised to a maximum extent; the focus is rather on the functions of the NIC framework, rather than institutionalisation.

Further, it should be noted that the establishment of SPP and NIC framework is important not just for the WBIF, but also for the national IPA envelope. The establishment of NIC framework will facilitate the identification of the different sources of funding appropriate for each project, and provide a better overview of the usage of public funds.

An update to progress made on the establishment of the NIC framework will be presented at the WBIF SC meeting in Luxembourg.

New MIS Functionalities

E Voci (IFICO KE4) presented the outline, functionalities and design of the new MIS. The new MIS is designed in a user centric manner and will allow for additional functions to be added (as opposed to the existing MIS); the actions of the new MIS are task driven and can be delegated, tasks are accompanied by the relevant information. No specific software is needed for the new MIS and it allows for easy progress tracking of investment and grant projects; in addition the new MIS will allow for easy reporting and report production.

In the near future and before or at the WBIF SC in Luxembourg, a Beta (Test) version of the new MIS will be available and the main MIS users will be invited to test and comment to this version further; bilateral visits are planned, where the new MIS will be discussed and further elaborated upon.

Private Sector Participation in Infrastructure Financing in the Western Balkans

H Warsmann (IFICO KE3) reported on the potential for private sector participation (PSP), of which Public Private Partnerships (PPPs) are one component on the Western Balkans. This report was largely based on the findings of a recently completed study by EPEC (European PPP Expertise Centre). The findings and additional analysis show that PPPs can target around 5 – 10% of the public investment needs in the WBs. There is some experience at the WBs in the design and implementation of PPPs and whilst the legal and institutional frameworks are largely sufficient, the actual implementation capacities are not.

Overall, 39 PPPs (including PSP) projects were completed or implemented at the Western Balkans (this includes Croatia), with an overall investment volume of € 2.6 billion; the average project amounts for € 66 million investment volume, but this number includes 9 large projects in excess of € 100 million and more (each). Analysis also shows that the social sector is ahead in total numbers of PPP projects, while Energy and Transport dominate by investment volume. The geographic distribution is shown below.

	HR	FYROM	MNE	ALB	KOS	SER
Number	19	9	5	3	2	1
Value €	1.5bn	129mn	92mn	729mn	104mn	47mn

(source: EPEC dataset completed by IFICO research)

Whilst there would appear to be sufficient future potential for PPPs in the transport, energy (generation) and social sectors, the PPPs failure rate in the Western Balkans is relatively high (almost 50%); this is due to insufficient PPPs project preparation, insufficient capacities and / or unrealistic expectations. Nevertheless, applying the Project Readiness Assessment Tool developed by EPEC (for PPP), around 20 projects would qualify for PPP in the region and could reach closure in the next 5 years.

The main needs in the Western Balkans are capacity building, development of PPPs project pipelines and alignment of PPPs tender procedures and documentation.

AOB

M. Cingolani (EIB) presented the findings of two studies the EIB has supported in the Western Balkans that are of interest as background for the coordination of investment policies in region. Details will be presented at the WBIF SC meeting in Luxembourg.

The German co-chair proposed Italy to be presented to the WBIF SC as successor co-chair to the WBIF SC. The Italian representative accepted.

Summary of PFG meeting

W. Schlaeger concluded the PFG meeting, with reiterating the importance of the various implications and impact of the EU Financial Regulations and the new WBIF methodology, in particular the implications for the EWBJF; these have been subject to extensive internal and external deliberations (Restricted Task Force) and should come to a conclusion at the WBIF SC in Luxembourg; this, with a view of enabling and swiftly proceeding to the potential for co-financing in 2015. The other aspects of the new methodology, such as the delineation of regional and national projects, the maximum thresholds of co-financing and the requirement of the NIC framework are subject to further deliberation. Comments to the disseminated note "*New Methodology to support Infrastructure Projects in the Western Balkans*" are invited until the 19th November 2014.

Olav Reinertsen

Head of WBIF Secretariat