



# INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

## MULTI-COUNTRY

### Western Balkans Guarantee 2019 - 2020

#### **Action summary**

The EU strategy for the Western Balkans adopted by the Commission on 6 February 2018 provides a credible enlargement perspective for the Western Balkans (WB) and outlines an ambitious roadmap for enhanced EU engagement with the region. To accelerate progress towards the European perspective the Strategy specifically announces the creation of a new guarantee scheme as part of the Western Balkans Investment Framework (WBIF).

In the context of considerable investment needs and constrained fiscal space, the purpose of the new instrument is to enable scaling-up of investments in areas that directly contribute to sustainable socio-economic development and regional integration, particularly boosting the region's competitiveness and job creation.

The EUR 50 million guarantee will achieve this in particular by crowding-in private capital and by supporting private investment e.g. by households, start-ups and SMEs, innovative corporates or public private partnerships (PPPs). In order to alleviate the economic consequences of the COVID-19 pandemic, the Western Balkans Guarantee will be reoriented to provide a "specific fit for purpose COVID-19 response" across the priority areas identified. This is in line with the "Communication on the Global EU response to COVID-19", and contributes to the implementation of the COVID-19 economic reactivation package in close cooperation with the International Financial Institutions outlined in the "Communication on Support to the Western Balkans in tackling COVID-19 and the post-pandemic recovery - Commission contribution ahead of the EU-Western Balkans leaders meeting on 6 May 2020".

<b>Action Identification</b>			
<b>Action Programme Title</b>	IPA II Multi-country Action Programme for Western Balkans Guarantee for the years 2019-2020		
<b>Action Title</b>	Western Balkans Guarantee		
<b>Action ID</b>	IPA 2019/041-956.01/MC/WB GUARANTEE		
<b>Sector Information</b>			
<b>IPA II Sector</b>	9. Regional and territorial cooperation		
<b>DAC Sector</b>	43010 – Multisector aid		
<b>Budget</b>			
<b>Total cost</b>	At this stage, the total costs including other contributions is unknown. Potential additional financing from partner financial institutions as well as leverage effect will depend on the nature of the approved project proposals.		
<b>EU contribution</b>	<b>EUR 50 000 000</b> (IPA 2019: EUR 50 000 000)		
<b>Budget line(s)</b>	22.020401 – Multi-country programmes, regional integration and territorial cooperation		
<b>Management and Implementation</b>			
<b>Method of implementation</b>	Indirect management		
<i>Indirect management:</i> <b>Entrusted entity</b>	A competitive procedure will be launched, open to Partner Financial Institutions pillar-assessed for Financial Instruments and linked to the WBIF (i.e. Agence française de développement AFD, the Council of Europe Development Bank CEB, the European Bank for Reconstruction and Development EBRD, the European Investment Bank Group EIB, Kreditanstalt für Wiederaufbau KfW, and World Bank Group).		
<b>Implementation responsibilities</b>	Directorate-General for Neighbourhood and Enlargement Negotiations, Unit D.5 Western Balkans Regional Cooperation and Programmes		
<b>Location</b>			
<b>Zone benefiting from the action</b>	Western Balkans		
<b>Specific implementation area(s)</b>	Republic of Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, Republic of North Macedonia, and Republic of Serbia		
<b>Timeline</b>			
<b>Final date for contracting including the conclusion of contribution/delegation agreements</b>	At the latest by 31 December 2020 for IPA 2019 At the latest by 31 December 2021 for IPA 2020		
<b>Final date for operational implementation</b>	241 months from the adoption of the Financing Decision		
<b>Policy objectives / Markers (DAC form)</b>			
<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>

\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

Participation development/good governance	X	<input type="checkbox"/>	<input type="checkbox"/>
Aid to environment	<input type="checkbox"/>	X	<input type="checkbox"/>
Gender equality (including Women In Development)	<input type="checkbox"/>	X	<input type="checkbox"/>
Trade Development	X	<input type="checkbox"/>	<input type="checkbox"/>
Reproductive, Maternal, New born and child health	X	<input type="checkbox"/>	<input type="checkbox"/>
<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
Biological diversity	X	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	<input type="checkbox"/>	X	<input type="checkbox"/>
Climate change adaptation	<input type="checkbox"/>	X	<input type="checkbox"/>

# 1. RATIONALE

## PROBLEM AND STAKEHOLDER ANALYSIS

In February 2018, the Commission adopted a strategy for "A credible enlargement perspective for and enhanced EU engagement with the Western Balkans" (COM(2018)65) and outlines an ambitious roadmap for enhanced EU engagement with the region. To accelerate progress towards the European perspective the Strategy specifically announced the creation of a new guarantee scheme as part of the Western Balkans Investment Framework (WBIF).

In this context, an ex-ante assessment for a Western Balkans Guarantee<sup>1</sup> Instrument was prepared in compliance with the new Financial Regulation, where the Commission assigned a contractor with the "definition of the methodology" and the "market assessment"<sup>2</sup> The study assessed the market conditions in the Western Balkans (notably Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia, henceforth referred to WB) in relation to the EU policy context, regional context, and beneficiary economy-specific needs. It also identifies the status quo of investment needs and barriers; to finally review existing instruments addressing those as well as to identify the benefits to be achieved from a new guarantee instrument under the WBIF umbrella.

### Access to finance & other SME challenges

SMEs in the region account for 99% of all enterprises (similar to EU28). They produce between 50% and 67% of Gross Value Added (GVA) and supply between 60 and 80% of jobs (EU28: 59 and 67% respectively). They are thus an essential component of socio economic life in the region. The SME network however remains less dense than in the EU (30 SMEs per 1,000 population vs 44 in EU28), with likely links to the region's employment underperformance. WB SMEs also tend to be less productive and competitive than their EU peers. When compared with EU28, the WB SME population is heavily weighted towards micro enterprises (less than 10 employees) and shows a gap in small enterprises (10 to 49 employees), likely reflecting difficulties experienced by micro enterprises in growing.

WB SMEs are primarily active in trade and services, although agriculture and manufacturing are proportionately more important than in the EU, while construction is significantly less represented than in the EU. Despite this bias towards manufacturing in the SME population and its proximity to large solvent markets, the region underperforms in terms of exports. The trade sector is the largest employer and producer of value-added to the economy in the Western Balkans region. Stimulating cross-border investments as well as trade within the region and with the EU, will help increase local employment and local value creation that will help integrating the region in international value chains; thus strengthening the regional economic development. Cross-border SME investments need to be accompanied by infrastructure investments relevant for trade (in transport and trade section).

Among the barriers to business, SME enterprises surveys usually list access to finance, competition from the informal sector, political instability and taxation matters. Most SMEs face this issue; however, certain groups such as young companies, innovative companies, young entrepreneurs, women entrepreneurs or social enterprises are even more affected. Enterprises face (i) restrictive credit policies of commercial banks often still nursing non-performing loan portfolios from the 2008 crisis (including high collateral requirements, limited leverage and long business history); (ii) limited offering of non-loan finance such as leasing; and (iii) limited equity / quasi equity offering. Lack of awareness also appears to be an issue likely to restrict demand, particularly for equity/quasi equity products or non-lending products.

### Agriculture and rural development

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<sup>1</sup> Ex-ante Assessment for a Western Balkans Guarantee Instrument: Market Assessment Report, October 2018 Ares(2018)5663018

<sup>2</sup> The ex-ante stage 3 "Instrument Design" will be done by the European Commission Directorate-General for Neighbourhood and Enlargement Negotiations Ref. Ares(2019)3348139 - 22/05/2019

Agriculture is a socio-economically important sector in the Western Balkans, characterised by a strong contribution to economic output (despite underused resources and production potentials), underdeveloped agro-food chains, marginalisation of rural areas, and (with the exception of Serbia) net trade deficits. On average, the sector contributes 12% of GVA, compared to 4% in EU-11 Countries or 1.5% in EU-28. On a beneficiary economy basis, the weight ranges from 8% in Bosnia and Herzegovina to 22% in Albania.

In a region with rural population ranging from 36% in Montenegro to 60% in Bosnia and Herzegovina, compared to an average of 25% in the EU, agriculture is also crucial in terms of employment and provides between a fifth and about half of jobs nationwide. The impact of investment in agriculture on poverty reduction and economic development in the region is significant.

The policy framework is increasingly aligning with EU requirements and the Instrument for Pre-accession Assistance for Rural Development (IPARD) is already active in four of the beneficiary economies in the region. Sector barriers include (i) access to finance, especially for investment in productive assets; (ii) poor rural infrastructure (from road density to electricity to bank branches); (iii) insufficient farming support services, including finance, insurance and risk management; (iv) fluctuations in public agricultural budgets; and (v) low ICT penetration and support to innovation.

Access to finance certainly is a key issue: WB agriculture faces the largest financing gap of all economic sectors in the region and commercial banks' loans to the sector account usually for a few percent of their loan portfolios and well below the sector's weight in GDP, with the exception of Serbia. IPARD investment grant beneficiaries are also reported to experience difficulties in financing their own contributions. Lenders are either uninterested in the sector or ill-equipped to deal with and price farming risk, resulting in strict credit policies in the sector. This is also valid for the agro-food sector and a thriving processing sector is necessary for the development of primary production.

### Digital transformation

The Western Balkan region has given a lot of attention to digital development recently. A digital pillar of the Multi-annual Action Plan for a Regional Economic Area was agreed by the WB beneficiary economies and the donor community during the Trieste Summit in 2017. The action plan focuses on four key needs: (i) broadband connectivity; (ii) cyber security (iii) eSkills; and (iv) digitisation of industry. In addition, the European Commission launched the flagship Digital Agenda for the Western Balkans in June 2018 as part of the new Western Balkans strategy.

Western Balkan economies however experience significant gaps in digital transformation compared to EU levels. The region is lagging compared to its EU peers in terms of individual use and infrastructure indicators, the gap being more pronounced in the infrastructure area. Among the Western Balkans beneficiary economies, Albania, Bosnia and Herzegovina, and Kosovo are facing the longest path ahead.

Addressing this infrastructure gap is essential to enable digital transformation of WB. In particular, investing in broadband connectivity to raise penetration and speed is imperative to achieve better results in the other policy areas of the Digital Agenda, such as (i) increasing cybersecurity, trust and digitalisation of industry, (ii) strengthening the digital economy and society, and (iii) boosting research and innovation<sup>3</sup>.

While broadband infrastructure development is primarily a private sector endeavour, the European Commission's Broadband Guidelines recognises situations in which public funds could be provided to build broadband networks. A guarantee instrument could thus deliver effective support in mitigating some of the risks faced by the private sector in the region as well as support investment in commercially more marginal propositions such as rural or remote areas.

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<sup>3</sup> Actions in innovations should, to the extent of possible, build on the Smart Specialisation Platform that provides advice to EU countries and regions (including the Western Balkans) for the design and implementation of their Smart Specialisation Strategy (S3).

With regards to other policy areas of the Digital Agenda such as especially innovation or digital entrepreneurship, intervention through a guarantee instrument could be effectively integrated with the SME actions described before.

### Energy

The WB energy sector is small and fragmented. It remains in a transition stage characterized by limited private sector participation, insufficient and aging infrastructure, high reliance on fossil fuels – especially coal and lignite, limited role of gas, low energy efficiency, often low energy prices, and limited cross-border trade.

The potential for the sector however is considerable and it could become a driver for regional growth through (i) connectivity projects, (ii) utilization of a large untapped renewable energy and energy efficiency potential, and (iii) the induced effect on economies of a more reliable, more competitive and cleaner energy supply. In addition, the region is positioned on several gas and electricity transit routes that contribute to the EU's energy supply. Participation in the Energy Community Treaty, which aims at extending the EU internal energy market rules and principles in South East Europe, and beyond, provides a clear policy framework.

In terms of investment, needs range from €15 billion in the short term to €60 billion or more in the medium term and under low emissions scenarios. Such large numbers cannot be met without significant private sector participation and the potential contribution of a guarantee instrument towards reaching this volume of investment is considerable. In terms of sub-sectors, market failures can be observed in power generation. Obsolete lignite-fired plants or environmentally questionable small hydro plants being preferred to cleaner gas-fired plants or renewable sources (RES) such as wind and photovoltaic. A guarantee instrument can certainly address a number of these failures, particularly if targeting specific risks that contribute to current high levels of cost of capital for RES projects.

Needs are also very large in distribution grids, which could require several billions in investment in aggressive grid smartening scenarios. Funding is currently constrained by beneficiary-ownership and fiscal capacity issues as well as by the creditworthiness of grid operators, which suffers from low electricity prices. On the other hand, connectivity needs remain a main focus of EU grant support and IFI financing and should not be a prime target for a guarantee instrument. Energy Efficiency needs are important and financing is still constrained, including by the ability to borrow in the residential sector. A guarantee instrument could help reduce financing costs, particularly in the residential sector. It could also support private sector implementation of the EPBD directive for public buildings through ESCO operators by facilitating the securitisation of receivables under energy performance contracts and thus freeing ESCOs' balance sheets for new projects once an existing portfolio is implemented and performing.

### Environment and climate change

The WB beneficiary economies' environment suffers from a poor legacy, including an energy sector largely reliant on coal and lignite, illegal waste dumping, accumulated industrial and mining waste, limited waste water treatment, an energy inefficient building stock, and, in some cases, war-related damages.

Further, socio-economic changes at work in a region transitioning from socialism and pursuing the goals of the European perspective bring further pressure on the environment. Population is increasingly congregating around cities and towns, and along the coasts. Urban sprawl is growing and increased pressure on often deficient municipal infrastructure is generating large investment needs. Further, a move of production and consumption patterns towards western trends increase demand for mobility, cargo transportation and waste management services. In addition, fast developing tourism industries, in particular on the coasts, are bringing in seasonal population peaks that need to be catered for.

Investment needs to remedy this situation are considerable. For instance, the cost of convergence with EU standards in the water & wastewater sector and the solid waste sector is estimated at €16 billion and

€7 billion respectively. Financing such considerable investment needs remains a challenge in times of fiscal strain at the domestic level and limited credit worthiness for all but the largest cities.

The total estimated investment value of environmental projects under development in the WBIF pipeline is thus €1.3 billion only, while the IPA II allocations for the environment sector amount to €0.5 billion. In these conditions, closing the environmental infrastructure gap will be a slow process indeed. Limited fiscal space in several WB beneficiary economies is an additional challenge to reach EU targets and aim for a climate-resilient future.

In addition, there is a considerable scope in WB to move from a linear to a green and circular economy model and turn environmental challenges into business opportunities. This would represent, for SMEs in particular, a new source of revenues, cost savings, job creation and, consequently increased productivity. According to the Western Balkan Chamber Investment Forum (CIF), SME finance and green finance agendas have not advanced in parallel in the region. There is a need to unlock finance for conventional SMEs to improve their sustainability performance (“green performers”) and to allocate finance for SMEs who are focused on expanding sales of green goods and services (“green innovators”).

### Social sector

The social sector is vast and encompasses several EU Acquis Chapters, including ‘Social Policy & Employment’, ‘Judiciary & Fundamental Rights’, ‘Education & Culture’, and ‘Consumer & Health Protection’. The WB lag behind EU28 standards due to (i) structural transformations that occurred during the transition towards a market economy rendering certain assets and services obsolete; (ii) insufficient maintenance of existing capital infrastructure and attention to the manpower operating it; and (iii) a continuous lack of investment in new capital stock as the sector is not usually prioritised in constrained budget times. It is an indication that only three beneficiary economies (Albania, Montenegro and North Macedonia) have currently approved Social SSPPs with a cumulative value of only €787 million.

Failures in education or health outcomes are critical as they endanger the competitiveness of the beneficiary economies and can also contribute to migration towards countries offering better outcomes. Overall, social infrastructure investment needs in the region probably are in excess of €1 billion annually, an amount to be compared with a WBIF pipeline and IPA II allocations of €1.3 billion and €0.5 billion respectively. In addition, the region saw 9 PPP projects taking place in the social sector between 2001 and 2016 for a cumulative investment value of €83 million.

In the context of constrained fiscal space coupled with low government priority for the sector and insufficient revenues generated by social projects, the mobilisation of private investors could be possible though PPP projects receiving at least part of their income through availability payments from the public sector. These could cover initially construction (or renovation) and maintenance of public buildings delivering social services or complete energy efficiency-driven overhaul of a public building together with management and maintenance of energy systems under an ESCO style contract.

It should be noted that WBIF recently funded technical assistance by EPEC to strengthen the capacity of the public sector to undertake PPPs in the Western Balkans, which inter-alia produced a series of practical guides on how to assess Value for Money or on preparing and procuring PPP projects, as well as a guide to the main provisions of availability-based PPP contracts. The proposed guarantee instrument would be well placed to provide credit support and specific risk guarantee to social sector PPP projects developed under the EPEC guidance.

While social and inclusive entrepreneurship represent a promising avenue for the employment and inclusion of the most vulnerable, the sector suffers from a lack of visibility, recognition and funding in the Western Balkans. The EUR 10 million Youth Guarantee scheme launched by the Commission together with the European Investment Fund at the beginning of 2019 shows that, despite some programmes, investment needs are considerable to strengthen the entrepreneurial capacity and provide job opportunities for vulnerable groups.

### Transport and trade sector

Despite considerable investment in excess of €12 billion over the past decade, the WB transport network remains two to three times less developed than in the EU. In addition, network quality is below that of the EU. The rail network is in a particularly poor shape and road network maintenance remains a challenge. Economic development in the region requires greater trade within the region and with the rest of the world, in particular the EU. However, poor infrastructure represents one of the main barriers for trade development and the integration of the region in international value chains; thus, considerable investments are needed to develop and upgrade transport infrastructure.

Participation in the recently signed Transport Community Treaty, which aims at the progressive integration of the transport market of the WB and the EU on the basis of the relevant acquis, provides a clear policy framework for the sector. The signature of the Treaty is an encouraging development and it will allow to build on the achievement realised in the framework of the 2004 Memorandum of Understanding on the development of the South East Europe Core Regional Transport Network and to reach a higher level of integration.

Investment needs are considerable and the WB Transport single sector pipelines (SSPP) indicate a cumulative investment need in excess of €20 billion in the short- to medium term. SSPPs in the transport sector have a bias towards projects linked to the Connectivity agenda and cover primarily projects on the Orient-East Med (OEM), Mediterranean (MED) Corridors, and to a lesser extent the Rhine-Danube Corridor. As such, SSPPs may not give a complete picture of all transport needs in the region. For instance, the Serbian General Master Plan for Transport estimates total costs of infrastructure needs at over €22 billion over the 2009-2027 period. In addition to regional and national strategies, investment needs remain considerable in infrastructure-focused operations implementing low-carbon and climate resilient investment plans in the field of sustainable and smart urban mobility.

Historically, the vast majority of transport infrastructure investment in the region has been financed on a sovereign basis. Overall, seven transport PPP projects reached financial close in the region between 2001 and 2016, representing an aggregate investment value of €356 million, with two airport concessions accounting for a combined €200 million. The ability to implement transport projects is primarily constrained by reduced fiscal space availability and the new Guarantee could play a role on enhancing PPPs and non-sovereign lending practices to modernise and create essential infrastructure in accordance with the acquis.

### COVID-19 response

The COVID-19 pandemic not only represents a worldwide public health emergency but has become an international economic crisis that could surpass the global financial crisis of 2008–2009. Right now, containment and mitigation measures are necessary to limit the spread of the virus and save lives. However, they come at a cost, as shutdowns imply reducing economic activity. These human and economic costs are likely to be larger for the economies of the Western Balkans, which generally have lower health care capacity, larger informal sectors, shallower financial markets, and less fiscal space. Economic policy in the short term should be focused on providing emergency relief to vulnerable populations and affected businesses. The short-term goal is not to stimulate the economy which is impossible, given the supply-restricting containment measures, but rather to avoid mass layoffs and bankruptcies. In this sense, governments and central banks need to support businesses needs through a range of instruments including loan guarantees, direct lending, tax holidays, etc.

In order to alleviate the economic consequences of the COVID-19 pandemic, the Western Balkans Guarantee, by providing credit risk coverage, has the capacity to increase the lending capacities of local banks to ensure there is sufficient liquidity to businesses and thus, mitigate mass layoffs and bankruptcies.

## **OUTLINE OF IPA II ASSISTANCE**



In the context of considerable investment needs and constrained fiscal space, the purpose of the EUR 50 million Guarantee is to enable scaling-up of investments in areas that directly contribute to sustainable socio-economic development and regional integration, particularly boosting the region's competitiveness and job creation. The guarantee will achieve this in particular by crowding-in private capital and by supporting private investment e.g. by households, start-ups and SMEs, innovative corporates or public private partnerships (PPPs). The instrument will enable investors, particularly from the private sector, to implement projects at a lower risk and will, in turn, boost the region's competitiveness and contribute to job creation. DG NEAR Units D5 and A3 conducted a "reality check" of the ex-ante results (summarised above) through direct dialogues with stakeholders of the WBIF, local private sector representatives and EU Delegations. The results were contrasted with the priority areas identified under the Flagship Initiatives and based on their suitability to a guarantee-type intervention the following target sectors – although only indicative – were prioritised:

- Unlocking adequate diversified finance for early-stage SMEs/Start-ups and for innovative investments in established SMEs including for digitalization;
- Stimulating, cross-border investments as well as trade within the region and with the EU, in particular through export-oriented investments that increase local employment, local value creation and that enable companies to reach EU standards and to shape a regional economic area;
- Enabling investment into sustainable agriculture, rural development and food processing (e.g. in conjunction with IPARD), including instruments such as leasing and insurance;
- Scaling-up green investments that boost environmental and climate actions in innovative and economically viable ways, (e.g. recycling, renewable energy or energy/resource efficiency) and supporting green entrepreneurship, including the circular dimension of economic development<sup>4</sup>;
- Promoting innovative ways to support social entrepreneurship, impact investment and SMEs focused on strengthening the social dimension of economic development (e.g. concepts to address informality, vulnerable and marginalised groups, youth employment, empowering women).

In order to alleviate the economic consequences of the COVID-19 pandemic, the Western Balkans Guarantee will be reoriented to provide a "specific fit for purpose COVID-19 response" across the priority areas identified. In practical terms, proposals targeting the liquidity needs of SMEs will be prioritised which will allow to deploy this type of support swiftly to tackle the short and medium term economic impact of the pandemic. This is in line with the "*Communication on the Global EU response to COVID-19*"<sup>5</sup>, and contributes to the implementation the COVID-19 economic reactivation package in close cooperation with the International Financial Institutions outlined in the "*Communication on Support to the Western Balkans in tackling COVID-19 and the post-pandemic recovery - Commission contribution ahead of the EU-Western Balkans leaders meeting on 6 May 2020*"<sup>6</sup>.

While no minimum allocation is foreseen for each of the identified areas, the European Commission will, to the extent of possible, promote, for learning purposes, covering a diversity of priority areas in cooperation with different implementing partner financial institutions. However, in order to ensure an adequate impact of each of the projects and an efficient use of the resources, contracts below EUR 8 000 000 will not be selected at this stage.

## **RELEVANCE WITH THE IPA II MULTI-COUNTRY INDICATIVE STRATEGY PAPER AND OTHER KEY REFERENCES**

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<sup>4</sup> e.g. eco-innovation; greening of products and production systems, innovative solutions that lower fuel consumption and emissions, allow recycling of bio-waste and food waste, improve packaging with biodegradable or better recyclable packaging; address reuse and recycle of demolition and construction waste; innovate in insulation and energy saving)

<sup>5</sup> JOIN (2020) 11, 08.04.2020

<sup>6</sup> COM(2020) 315, 29.04.2020

The Western Balkans Strategy announced the creation of a new guarantee instrument as an integral part of the existing regional investment platform, under the Western Balkans Investment Framework (WBIF) umbrella, and is explicitly named in the new WB strategy under the Flagship Initiatives for socio-economic development and for connectivity.

Its complementary purpose relative to current instruments under the WBIF (e.g. investment grants) is to scale up and generalise the mobilisation of private investment with a reinforced EU policy focus across a range of sectors in line with the new WB strategy.

With regards to existing EU portfolio guarantees active in the region (e.g. WB EDIF, GGF, EFSE, REEP, COSME, EaSI and InnovFin<sup>7</sup>), the new WB Guarantee will be the only that will also be open to scaling-up household investments in renewables or energy efficiency. The ex-ante also shows that a general need remains to enhance access to finance for a broad range of SMEs across sectors. This is mainly due to the fact that: i) overall volume of available guarantees is small in relation to needs; ii), instruments are fairly generic in nature and broadly target the SME population which can result in mostly strong, well-established SMEs benefiting; iii) not all instruments are present in all beneficiary economies of the region<sup>8</sup>. The final beneficiaries targeted by the WB Guarantee will ensure complementarity (e.g. by targeting specific groups of entrepreneurs from vulnerable or marginalised backgrounds; underserved sectors such as agriculture or start-ups).

## **LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE**

The EU closely assists the Western Balkans region through several dedicated financial programmes. EU financial assistance is channelled mainly through the Instrument for Pre-accession Assistance (IPA), which supports the WB strategy, the 2030 Agenda, and the Sustainable Development Goals.

Amongst the instruments under IPA II, the Western Balkans Investment Framework (WBIF)<sup>9</sup> supports socio-economic development and European perspective across the region through the provision of technical assistance and investment grants to strategic projects in the energy, environment, social, transport, enterprise development sectors and, since December 2017, digital infrastructure.

Evaluations stress among the WBIF strengths its capacity to encourage ownership of beneficiaries, the strategic prioritisation of investments, sharing of expertise, cooperation among all stakeholders, and transparency. The Management Information System (MIS) is also considered a best practice to follow.

While WBIF focuses on technical assistance and investment grants for sovereign lending, the Western Balkans Enterprise Development and Innovation Facility<sup>10</sup> (EDIF) aims at improving access to finance for small and medium sized enterprises (SMEs) by addressing major gaps in accessing finance for SMEs. One of its instruments, the WB EDIF Guarantee Facility incentivises selected financial intermediaries to build up new SME loan portfolios and thereby improves SMEs' access to bank lending in their respective economies. The Guarantees ensure transferred benefits for SMEs including longer loan maturities, lower cost of borrowing and reduction of collateral requirements.

The WB EDIF Guarantee has proved to be a valuable tool to leverage private capital, i.e. an EU contribution of EUR 60 000 000 can trigger potentially more than EUR 400 000 000<sup>11</sup> loans, reaching underserved SME sectors.

As underline by the ex-ante evaluation for the new guarantee, existing EU Guarantees in the region are designed specifically as SME portfolio guarantees (i.e. guaranteeing a bank-lending portfolio for

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<sup>7</sup> The Western Balkans Enterprise Development & Innovation Facility (WB EDIF), the Green for Growth (GGF), the European Fund for Southeast Europe (EFSE), the Regional Energy Efficiency Programme (REEP), Europe's programme for small and medium-sized enterprises (COSME), the Employment and Social Innovation (EaSI) and Europe's programme for research and innovation project (InnovFin).

<sup>8</sup> EaSI and Innovfin do not cover Kosovo and Bosnia & Herzegovina, while EAFRD do not has guarantees for rural development.

<sup>9</sup> Information about WBIF, available at: <https://wbif.eu/>

<sup>10</sup> Information about WB EDIF, available at <http://www.wbedif.eu/about-wbedif/>

<sup>11</sup> EDIF annual report 2018, p. 20 <http://www.wbedif.eu/library/wb-edif-annual-report-2018/>

SMEs). The new WB Guarantee pilot is the only EU Guarantee in the region that will also be open to guarantee non-SME investments across all sectors under the WBIF umbrella (e.g. scaling-up household investments in renewables or energy efficiency). The cross-sector approach of the new guarantee is in line with the strategic development of the WBIF 2.0 to be an integrated blending platform. In addition, this guarantee can be used as a pilot phase for ambitious, innovative ways to use guarantees that, if proven successful, could be scaled up under the future EFSD+, expected to be further harmonized across regions in the next Multiannual Financial Framework. The design will be in line with the rationale developed under the European Fund for Sustainable Development (EFSD), and drawing on the best practices developed for existing EFSD and EFSI guarantees. In the spirit of the EFSD, to avoid over-subsidising and crowding-out while introducing market-based mechanisms, the Commission would ask IFIs to charge guarantee beneficiaries (e.g. private financial intermediaries) a market-compatible premium to the extent appropriate. The design will also draw on best practices to reward achievement of concrete EU objectives and to align the interests of all stakeholders.

With regards to existing EU portfolio guarantees, the ex-ante evaluation for the new guarantee shows that, despite the existence of specific risk-sharing vehicles such as WB EDIF, GGF, EFSE, REEP, COSME, EaSI and InnovFin, a general need remains to enhance access to finance for a broad range of SMEs across sectors. This is mainly due to the fact that: i) overall volume of available guarantees is small in relation to needs; ii) instruments are fairly generic in nature and broadly target the SME population which can result in mostly strong, well-established SMEs benefiting; iii) not all instruments are present in all beneficiary economies of the region.

Taking those results into account, the new WB Guarantee will use the same MIS as the WBIF and, to the extent of possible consult WBIF stakeholders and governance structures, to ensure ownership of beneficiaries and the strategic prioritisation of investments. With regards to non-SME investments, it will ensure complementarity with the WBIF across all sectors. With regards to SME portfolio guarantees, the WB Guarantee will draw on existing instruments to ensure an adequate target leverage while ensuring complementarity at the final beneficiary level (e.g. by targeting specific groups of entrepreneurs from vulnerable or marginalised backgrounds; underserved sectors such as agriculture or start-ups).

In addition, the WB Guarantee foresees a feature that no other guarantee in the region presents, which is a grant component dedicated to Technical Assistance (TA) to enhance additionality where needed. Blending a grant component inside the guarantee shall ensure more ambitious goals of the financial instruments in terms of targeted groups, innovativeness of the services provided and achieving higher policy objectives. In this particular case, the TA could be used at different levels: i) assist guarantee beneficiaries (e.g. local financial intermediaries) design and/or adapt their products; ii) help final beneficiaries (e.g. SMEs, entrepreneurs) strengthen viable projects through the provision of business development services; iii) fast-track reforms or support institutional capacity necessary to unlock private investment.

## **2. INTERVENTION LOGIC**

The Western Balkans Guarantee will contribute to accelerate progress towards the European path in the Western Balkan region by enabling the scaling-up of investments in areas that directly contribute to sustainable socio-economic development and regional integration, particularly boosting the region's competitiveness and job creation. Amongst the priority areas identified under the Flagship Initiatives and based on their suitability to a guarantee-type intervention the following target sectors – although only indicative – were prioritised:

- Unlocking adequate diversified finance for early-stage SMEs/Start-ups and for innovative investments in established SMEs including for digitalization;
- Stimulating, cross-border investments as well as trade within the region and with the EU, in particular through export-oriented investments that increase local employment, local value creation and that enable companies to reach EU standards and to shape a regional economic area;

- Enabling investment into sustainable agriculture, rural development and food processing (e.g. in conjunction with IPARD), including instruments such as leasing and insurance;
- Scaling-up green investments that boost environmental and climate actions in innovative and economically viable ways, (e.g. recycling, renewable energy or energy/resource efficiency) and supporting green entrepreneurship, including the circular dimension of economic development<sup>12</sup>;
- Promoting innovative ways to support social entrepreneurship, impact investment and SMEs focused on strengthening the social dimension of economic development (e.g. concepts to address informality, vulnerable and marginalised groups, youth employment, empowering women).

In order to alleviate the economic consequences of the COVID-19 pandemic, the Western Balkans Guarantee will be reoriented to provide a “specific fit for purpose COVID-19 response” across the priority areas identified. In practical terms, proposals targeting the liquidity needs of SMEs will be prioritised which will allow to deploy this type of support swiftly to tackle the short and medium term economic impact of the pandemic.

Due to the wide variety of sectors and areas of the potential project proposals, final indicators will be agreed with the implementing partners based on their project proposals and, to the extent of possible, in line with the EU Platform for Blending in External Cooperation (EUBEC) and Regional Cooperation Council (RCC) indicators to ensure the reliability of the sources of verification.

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<sup>12</sup> e.g. eco-innovation; greening of products and production systems, innovative solutions that lower fuel consumption and emissions, allow recycling of bio-waste and food waste, improve packaging with biodegradable or better recyclable packaging; address reuse and recycle of demolition and construction waste; innovate in insulation and energy saving)

		OBJECTIVELY VERIFIABLE INDICATORS <sup>13</sup>			SOURCES & MEANS OF VERIFICATION	
		BASELINES  (INCL. VALUE & REFERENCE YEAR)	MILESTONES  (INCL. VALUE & REFERENCE YEAR)	TARGETS  (INCL. VALUE & REFERENCE YEAR)		
<b>OVERALL OBJECTIVE(S) / (IMPACT(S))</b>	<b>INDICATOR'S NAME</b>					
To support the sustainable socio-economic development and regional integration.	Annual Foreign Direct Investment net Inflow and outflow (FDI) per capita (EUR)				Eurostat	
<b>SPECIFIC OBJECTIVE(S) / OUTCOME(S)</b>	<b>OBJECTIVELY VERIFIABLE INDICATORS (*)</b>				<b>SOURCES OF VERIFICATION</b>	<b>ASSUMPTIONS</b>
<p>SPECIFIC OBJECTIVE 1 – Strengthen job creation, innovation and competitiveness in particular at the level of early-stage SMEs, digital sector, greening business (inc. green performers and innovators), and social entrepreneurship (inc. SMEs led by high impact target groups) and rural sector SMEs (including agriculture and agri-businesses).</p> <p>SPECIFIC OBJECTIVE 2 – Reduction of local pollution and greenhouse gases emissions, including increase on recycling.</p> <p>SPECIFIC OBJECTIVE 3 – Increase trade and cross-border investments within the region and with the European Union</p>	<p>Number of beneficiaries, disaggregated by sex, age and regions where relevant EUBEC 7.1</p> <p>Number of jobs created, supported or sustained in employment by the investment(s), disaggregated by sex EUBEC 6.6</p> <p>Amount of greenhouse gas emissions induced, avoided, reduced or sequestered per year (CO2 tons/year) EUBEC 7.3</p> <p>Intraregional trade and trade with the EU (export and imports) RCC indicators for South East Europe</p> <p>Amount of private sector investment mobilised through the guarantee to support non-bank and/or non-loan financing for SMEs</p>				<p>Annual Reports to Steering Committee and to the Commission with indicators agreed with Implementing partners (including EUBEC &amp; Regional Cooperation Council RCC indicators)</p>	<p>Stable and/or improving market conditions and macroeconomic situation in the Beneficiary economies to promote private sector financing</p> <p>The TA elements are delivered effectively and according to the needs of the instrument and the implementing partners</p> <p>Stable political and security climate on the regional level in general and on the beneficiary economy level to secure investments.</p> <p>Interest of the private sector to invest in the priority areas.</p>

<sup>13</sup> Due to the wide variety of sectors and areas of the potential project proposals, the indicators in this table are only indicative. Final indicators will, to the extent of possible, take these indicators into account. Final indicators will be agreed with the implementing partners based on their project proposals and in line with, among others the EU Platform for Blending in External Cooperation (EUBEC), and the Regional Cooperation Council (RCC) indicators to ensure the reliability of the sources of verification. For this reason, baseline, milestones and targets will be defined at the contractual stage.

<p>SPECIFIC OBJECTIVE 4 – Financial sector diversification, including non-bank or non-loan financing for SMEs</p>						
<p><b>OUTPUTS</b></p>	<p><b>OBJECTIVELY VERIFIABLE INDICATORS (*)</b></p>				<p><b>SOURCES OF VERIFICATION</b></p>	<p><b>ASSUMPTIONS</b></p>
<p>To leverage private sector investments to increase access to and the availability of adequate, sustainable, affordable and diversified financing in strategic areas that directly contribute the specific objectives listed above. Outputs will depend on the nature of the project proposals. As an indicative list the Actions outputs could include:</p> <ul style="list-style-type: none"> <li>• Increased access and use of financial services for MSMEs, including for remote regions and in particular for women and youth entrepreneurs</li> <li>• Investments in innovation, including digitalisation and greening businesses are increased</li> <li>• MSMEs are more integrated into global and regional value chains</li> <li>• Innovative and more inclusive business models are scaled up (e.g. social enterprises and cooperatives)</li> <li>• Increased income from agricultural and agri-businesses activities</li> <li>• Increased and improved access to affordable, reliable, sustainable and modern energy and improving quality of life</li> <li>• Increased renewable energy generation capacity</li> <li>• More efficient and rational use of natural (e.g. water) and energy resources, including energy efficient appliances</li> <li>• Increased income from green businesses</li> <li>• Increased green performance of MSMEs</li> <li>• Increase of export-oriented investments in MSMEs</li> </ul>	<p>Volume of private sector investment mobilised through the guarantee instrument in the approved project proposals. Leverage ratios as measured by:</p> <p>a) investment leverage ratio b) total FI financing leverage ratio c) private financing leverage ratio</p> <ul style="list-style-type: none"> <li>• Number of beneficiaries, disaggregated by sex, age and regions where relevant EUBEC 7.1</li> <li>• Number of MSMEs loans provided for investments in innovation/digitalisation/green products, services and performances</li> <li>• Number of cooperatives and/or social enterprises supported and amount of outstanding loans and other sources of financing to cooperatives and/or social enterprises EUBEC 4.2 &amp; 4.5</li> <li>• Number of farmers, agri-businesses and green-businesses reporting increased turnover and/or an increase in their international trade flows EUBEC 4.6</li> <li>• Number of people with new or improved access to electricity, disaggregated by sex and age EUBEC 1.5</li> <li>• Additional electricity production from renewable sources, disaggregated by urban and rural EUBEC 1.7</li> <li>• Energy savings as a result of energy efficiency measures EUBEC 1.8</li> <li>• Number of MSMEs reporting increased turnover and/or an increase in environmental performance</li> <li>• Length of new or upgraded urban transport lanes; water supply pipes; sewer pipes; connections to water supply EUBEC 2.3, 3.1, 3.2, 3.3</li> <li>• Amount of wastewater treated, and solid waste collected and disposed EUBEC 3.9, DEVCO Sector Indicator Guidance</li> </ul>				<p>Annual Reports to Steering Committee and to the Commission with indicators agreed with Implementing partners (including EUBEC &amp; Regional Cooperation Council RCC indicators)</p>	<p>The project proposals of the implementing partners are of sufficient quality and volume and provide sufficient added value</p> <p>Beneficiaries, including at the local level, are supportive to the projects prepared by the eligible implementing partners</p>

<ul style="list-style-type: none"> <li>• Increased financing to non-banking financial institutions, including microfinance institutions, credit-cooperatives and guarantee schemes, with a proven social impact.</li> <li>• Increased financing for non-loan financing, including leasing, insurance and equity.</li> <li>• Increase in the proportion of population that has access to basic services</li> <li>• Local pollution, waste generation and GHGs levels from the relevant municipal activity are reduced</li> </ul>	<ul style="list-style-type: none"> <li>• Number of MSMEs reporting increased turnover and/or an increase in their international trade flows EUBEC 4.6</li> <li>• Volume of private sector investment mobilised through the guarantee to support non-bank financing for SMEs disaggregated by type of institution</li> <li>• Percentage of private sector investment to non-bank financing as compared to bank financing.</li> <li>• Volume of private sector investment mobilised through the guarantee to support non-loan financing for SMEs disaggregated by type of financial product</li> <li>• Percentage of private sector investment to non-loan financing as compared to loan financing.</li> <li>• Length of new or upgraded urban transport lanes; water supply pipes; sewer pipes; connections to water supply EUBEC 2.3, 3.1, 3.2, 3.3</li> <li>• Amount of wastewater treated, and solid waste collected, disposed and/or recycled EUBEC 3.9, DEVCO Sector Indicator Guidance</li> <li>• Amount of greenhouse gas emissions of public buildings induced, avoided, reduced or sequestered per year (CO2 tons/year) EUBEC 7.3</li> </ul>					
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## DESCRIPTION OF ACTIVITIES

The Western Balkans guarantee may be used to cover the risks for loans, guarantees, counter-guaranties, capital market instruments, and any other form of funding or credit enhancement, insurance, and equity or quasi-equity participations. Different types of eligible operations may be supported under the different priority areas. The following is an indicative (and non-prescriptive/exhaustive) list for the proposed priority areas to be covered by the guarantee instrument:

### MSMEs, including digital, rural, green and social entrepreneurship sector

- Guarantees targeted to commercial banks and non-banking financial institutions for medium-long term lending towards MSMEs for investments and capital expenditure, potentially covering the various types of risk (counterparty default, interest rate fluctuation, foreign exchange rate fluctuation). This type of guarantee will cover the default risk of the loans in a certain eligible portfolio. The eligible portfolio should be additional to the financial institution's usual standalone operations, for example target a new client group, developing a new type of product, leading to increased inclusion in the financial market.
- Guarantees to encourage Seed Capital, Venture Capital, Impact Investment Funds and Innovative SME Equity Funds and other non-institutional investors in the areas of digital innovative solutions and start-ups to ensure a smooth transition to the commercial credit market.
- Guarantees targeted to commercial banks and non-banking financial institutions Promoting innovative ways to support social entrepreneurship, impact investment and SMEs focused on strengthening the social dimension of economic development (e.g. concepts to address informality, vulnerable and marginalised groups, youth employment, empowering women).
- Credit enhancement for investment funds attracting private institutional investors into investments in climate-smart sustainable agricultural value chains as well as support to cooperatives, including forestry and agroforestry.
- Guarantees to mitigate risk attached to enhancing the access to finance for agriculture, rural development and food processing sector.
- Risk mitigation mechanisms for commercial banks and non-banking financial institutions for medium-long term lending towards investments in agricultural (including forestry) value chains.
- Guarantees to mitigate risk attached to launching new financial tools for sustainable agricultural (including forestry) investment promotion.
- Guarantees to mitigate risk attached to development of insurance mechanisms to enhance resilience of farmers against climate risks.
- Guarantees to mitigate risk attached to the COVID-19 pandemic.

### Regional integration, in particular through the support of trade and cross-border investments

- Guarantees targeted to commercial banks and non-banking financial institutions for medium-long term lending towards MSMEs for cross-border investments as well as trade within the region and with the EU, in particular through export-oriented investments that increase local employment, local value creation and that enable companies to reach EU standards and to shape a regional economic area<sup>14</sup>.
- Financial guarantees to cover part of the portfolio risk of an investor or group of investors promoting comprehensive value chain investments, combining TA for skill development and financing mechanisms.

### Reduction of local pollution and greenhouse gases emissions, including increase on recycling

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<sup>14</sup> See the "Multi-annual Action Plan on a Regional Economic Area in the Western Balkans " adopted at the Triste Summit



- Guarantee instruments to mitigate various types of investment risks including: guarantees for utility demand side programmes and for vendor finance agreements with suppliers of green technologies and guarantees to support the use of energy performance contracting in order to scale up private sector participation in energy efficiency investments.
- Guarantee cover for equity/subordinated loans for renewable energy and/or related-infrastructure investments; it could cover innovative, renewable and sustainable energy and related technologies to address key risks that currently deter private sector participation, such as weather related/resources risks, exploration, ramp-up risks, uncertain grid access, connection to the grid for off-grid actions etc. Guarantees can be provided to cover transmission lines and grid connection related risks. Off-taker and liquidity risks are closely related with this type of transmission line/connection delay risks.
- Guarantees covering fully or partially the offtake agreements in renewable energy investments aiming to reduce the overall financing cost and the risk perception for sustainable energy related investments, including liquidity risks mitigation instruments to provide coverage against cash flow constraints or potential off-taker defaults.
- Guarantees used also to promote the launch of capital market instruments for energy efficiency/renewable energy investments and/or investments in appropriate transmission/distributions systems and energy interconnections that will unlock significant public and private investments on a potentially transformative scale.

## **RISKS**

Main risks would be political and economic. The host beneficiary economy could make political decisions or will trigger events that prove to have adverse effects on the different Guarantee portfolios. This seems unlikely and will be mitigated by a geographically diversified portfolio covering the entire WB region. An economic crisis, as the one that could be produced by the COVID-19 pandemic, can potentially reduce private sector investments hence having an adverse effect on the action in terms of final beneficiaries reached and leverage achieved.

The financial risk, i.e. portfolio default beyond Commission targets, will be properly managed by a combination of factors. First, the implementing partner expertise in portfolio construction together with the alignment of interests with the Commission through “skin in the game” will ensure a proper management of the financial risk; second, an acceptable risk target for the instrument will be estimated and contractually established with the implementing partner; finally, technical assistance will provide support to intermediaries in the ground and final beneficiaries to ensure proper risk assessment and management.

Working with different implementing partners will also reduce the implementation risk should one of the partner financial institutions fail to properly implement their portfolio. This risk is further mitigated by the selection of implementing partners: all need to be pillar-assessed for the provision of financial instruments to ensure that the resources are managed according to the best practices.

## **CONDITIONS FOR IMPLEMENTATION**

For an effective and timely implementation of the action, both the regional stability and the quality of projects is essential.

A key condition to attract and leverage private sector investments is a stable or improving macroeconomic and market environment in the Western Balkan economies. Stable political and security climate, as well as legal certainties on the regional level in general and on the beneficiary economy level are also fundamental to secure investments. An economic crisis as the one that could be produced by the COVID-19 pandemic can potentially reduce private sector investments hence having an adverse effect on the action in terms of final beneficiaries reached and leverage achieved.

It is also crucial that project proposals submitted by the implementing partner financial institution are of sufficient quality and volume, provide sufficient added-value and are mature enough to be implemented. In addition, local counterparts and beneficiaries need to be aware and supportive to the projects

prepared by the eligible implementing partners. The TA elements, if delivered effectively and according to the needs of the instrument and the implementing partners, will cater for ensuring a strong pipeline of projects while creating awareness of the action.

### **3. IMPLEMENTATION ARRANGEMENTS**

#### **ROLES AND RESPONSIBILITIES**

DG NEAR Unit D5, in close collaboration with Unit A3, will be the operational responsible Unit for preparing the Commission financing decision, as well as for the allocation and implementation of the Guarantee Instrument. The instrument will be implemented through pillar-assessed Partner Financial Institutions linked to the Western Balkans Investment Framework (WBIF).

To the extent of possible, WBIF stakeholders will be consulted, but only the European Commission will be responsible for allocation decisions, thus ensuring that proposals are aligned with EU policy objectives.

Partner Financial Institutions will implement the guarantee on behalf of Commission, passing-on the guarantee to financial intermediaries that will, in turn, transfer the benefit of the guarantee to final beneficiaries (e.g. entrepreneurs, social enterprises, farmers, local municipalities, etc.). Partner Financial Institutions will be asked to mobilize as much as possible third-party private financing instead of own or public resources. This implementing partner role will include the technical and risk assessment of covered investments/beneficiaries, aligned with the Commission interests and in line with the agreed risk parameters.

Beneficiary economies will be consulted via WBIF and through local focal points while not expected to be part of formal evaluation of proposals, though endorsement of proposals may be relevant.

EU Delegations and Geographical Units will be consulted through focal points and will participate in the project preparation by screening relevant concept notes and project proposals as well as during the project implementation. In addition, partner Financial Institutions will coordinate with EU Delegations locally and EU Delegations will contribute to the visibility of projects at beneficiary level.

#### **METHOD(S) OF IMPLEMENTATION AND TYPE(S) OF FINANCING (SEE ANNEX IMPLEMENTATION – BUDGET)**

The Guarantee will be implemented through indirect management with partner Financial Institutions. An estimate number of 4 to 6 contracts will be selected by the Commission services through a competitive procedure using the following criteria:

Eligibility criteria: Partner Financial Institutions need to be pillar-assessed for the implementation of Financial Instruments. Pillar assessments and framework arrangements (where relevant) covering the implementation of EU Financial Instruments have to be in place by early 2020 for an institution to be eligible (i.e. indicative date of contract signature).

The selection criteria: Will be set by the Commission services in the call for projects and will aim to maximize impact by mobilizing additional investment towards EU objectives, in particular from the private sector, while targeting underserved and priority areas and target groups. It will also take into account:

- Clarity on how the guarantee will work and who will benefit (including, economic, financial and social benefit);
- Strategic policy relevance – alignment with EU policy priorities, e.g. reaching priority areas, target groups; mobilising private capital; contributing to financial sector diversification beyond bank loans; environmental/Climate benefit;
- Complementarity – with existing national/donor/EU initiatives and instruments as well as with ongoing or required reform efforts;

- Breadth, quality and sustainability of impact: balancing scalability/leverage with reaching lasting impact for those who need support most; preference for approaches replicable in more than one beneficiary economy (i.e. regional dimension and cross-border integration);
- Efficiency of using EU guarantee (versus other mechanisms) to address risk and mobilize private investment with clear pricing rationale; building market-based solutions;
- Alignment of Interest: IFIs as implementing partner in the EU interest to pass-on guarantee to mobilize third-party financing to the extent possible; ensure “skin in the game” where IFI itself benefits from guarantee;

In addition, particular attention will be put on avoiding negative side-effects (environmental, social, crowding-out) of the project proposals.

## **4. PERFORMANCE MEASUREMENT**

### **METHODOLOGY FOR MONITORING (AND EVALUATION)**

Having regard to the specific nature of the action, a final evaluation will be carried out for this action or its components contracted by the European Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account the innovative aspects of the action. Indeed, the Western Balkans Guarantee represents an important transition from grants and free-of-charge guarantees towards introducing increasingly efficient market-based mechanisms in line with what will be expected for EU Guarantees under the global EFSD+ instrument in the next Multiannual Financial Framework (MFF). This pioneer role in the Western Balkans will be used to gather experience for the design of future guarantees in the Western Balkans under EFSD+. In addition, the new Western Balkans Guarantee is the only EU Guarantee in the region that will also be open to guarantee non-SME investments across all sectors under the WBIF umbrella (scaling-up household investments in renewables or energy efficiency).

The Commission shall inform the implementing partner in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the IPA II beneficiary and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the IPA II beneficiary, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

The European Commission may carry out a mid-term or an ex-post evaluation for this action or its components for duly justified reasons either on its own decision or on the initiative of the partner. The European Commission reserves its right to review the ex-ante assessment used to set up the Western Balkans Guarantee and update it during the implementation of the guarantee if it's considered to no longer accurately represent the market conditions existing at the time of implementation.

The evaluations should be carried out following DG NEAR guidelines on linking planning/programming, monitoring and evaluation<sup>15</sup>. It is recommended that a Reference Group comprising the key stakeholders of this action be set up to steer the evaluation process and ensure the required quality level of the evaluation outputs as well as the proper follow-up of the recommendations of the evaluation.

In addition, the Action might be subject to external monitoring in line with the European Commission rules and procedures set in the Financing Agreement.

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<sup>15</sup> [https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/near\\_guidelines.zip](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/near_guidelines.zip)

At Guarantee level, the reporting on results (output and outcomes) will be the responsibility of the implementing partner, which is expected to consolidate information that presents accurate and timely monitoring of the portfolio investment on at least an annual basis<sup>16</sup>, as per the reporting requirement of the Financial Regulation.

This should include information on both expected and actual results, to assess progress towards targets, and may require collection and quality assurance of data from downstream partners where relevant.

Progress and final reports transmitted by the implementing partner (lead financial institution) to the Commission will have to include information on the expected and actual results (i.e. at the time of reporting), as defined in the relevant contract. Reporting on the expected and actual results should include relevant disaggregation of data whenever possible and relevant, e.g. for beneficiaries that are people: disaggregation by sex, age, location, income/poverty levels; for beneficiaries that are firms: disaggregation by size of firm, sex/age of firm owner, location of firm; etc. Where disaggregation is relevant, but it is not yet possible or cost-effective for monitoring and reporting, then tangible efforts should be made to improve tracking and reporting in the future. All results should also be disaggregated by at least beneficiary economy/place of operations.

Implementing partners are expected to track and report of relevant indicators both for “direct”<sup>17</sup> and “indirect”<sup>18</sup> operations. Implementing partners should have a sound understanding of the methodologies underlying the data (numbers or other) they report on, including an assessment of the reliability of the data (for example on any possibility of over- or under-reporting of results); and where needed respond to further enquiries from the Commission on methodologies/data reliability.

The Result Oriented Monitoring (ROM) mechanism will be used to support the monitoring of the action.

## **5. CROSS-CUTTING ISSUES**

Implementing Partners Financial Institutions and eligible local financial institutions will ensure that all projects financed with EU resources respect European Union principles and commitments in terms of environmental and social impact (e.g. gender issues, equal opportunities, minorities and vulnerable groups, etc.), as well as public procurement, state aid, trade policy, equal opportunities and will also respect the principles of sound financial management with effective and proportionate anti-fraud measures as well as gender equality, good governance and human rights.

Moreover, in accordance with Article 22 of Regulation (EU) 2017/1601, eligible financial institutions will comply with tax good governance standards and will as such not support projects that are structured to avoid or evade tax obligations due in the respective jurisdictions. The Commission will pay utmost attention that the various stakeholders involved in the implementation of the guarantee apply these obligations on an ongoing basis.

Synergies between the Western Balkans Guarantee and EU funded ((Multi-)Annual Action programmes and Multi-country) climate change capacity building programmes and, where applicable, policy reform instruments including sector budget support should be strengthened. Technical assistance as well as capacity building programmes should facilitate the identification and formulation of climate relevant projects at beneficiary economy and/or regional level, and support local and regional climate policies. This will strengthen the already ongoing processes of pipeline development and securing local ownership.

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<sup>16</sup> As a general rule, annual reporting is expected for output indicators (up to project completion), while reporting for outcome indicators takes place at the end of the project, as well as at project completion.

<sup>17</sup> “Direct operations” are understood to be operations that the implementing partner deliver directly (i.e.: not through financial intermediaries).

<sup>18</sup> “Indirect operations” are operations that the implementing partner deliver through financial intermediaries such as banks, micro-finance institutions, and private equity and investment funds.

The achievement of those objectives will be measured using relevant indicators, including human development indicators and other indicators agreed at international level by the Union and its Member States.

### **GENDER MAINSTREAMING**

Women face additional barriers than men while trying to enter the labour market. For that reason, the present action, in those activities regarding support to SMEs, will support women-led SME initiatives as a specific target group.

Financial sector diversification, improved transport and energy can increase both women's and men's productivity and in so doing promote gender equality. In particular, transport and energy play a crucial role in broadening access to health and education services, employment, improving the exchange of information, and promoting social cohesion. This action will look into possibilities of exploring how interventions can be responsive to the needs of both women and men. A crucial step is to make sure that both women and men are represented at each step of the planning and design process of investments. Beneficiary agencies and NGOs, community-based organisations, and women's groups that can be used in planning and implementation will be identified and consulted.

### **EQUAL OPPORTUNITIES**

The action will ensure that equal opportunities are given to women, men, people with disabilities, minority groups etc. Participants and experts should have an appropriate gender balance given the specific competences and expertise needed in the project.

With regards to SME portfolios, increasing access to finance to women-led initiatives will be specifically supported. For infrastructure projects in areas such as transport, energy and agricultural sector, which are male-dominated sectors, women's participation will be encouraged.

### **MINORITIES AND VULNERABLE GROUPS**

Participation in the implementation of the action will be guaranteed on the basis of equal access regardless racial issues or ethnic origin, religion and beliefs, age or sexual orientations. Besides, investment projects provide benefits to the groups of population without distinction, including people belonging to minorities and vulnerable groups.

### **ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER STAKEHOLDERS)**

The selection of priority areas to deploy the guarantee was established in close consultation to beneficiary and other relevant actors in the region through a survey followed by a conference call. In addition, the preparation of investment projects is always accompanied by public consultation which requirements are set by beneficiary planning regulations and EU Directives.

### **ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)**

Environment, climate change and disaster resilience are systematically considered during the preparation and design of major infrastructure projects, in particular when preparing Environmental Impact Assessments (EIA) but also, for example, when carrying out geophysical investigation to determine seismic classification. The implementing partner financial institution in charge for the implementation of the projects, are bound to follow the EIA approach according to EU legislation.

Energy efficiency and renewable energy projects specifically targets environmental and climate change and specific indicators such as amount of greenhouse gas emission reduced/avoided, and MWh of yearly energy savings will be monitored. In addition, investment proposals will have to be aligned with the EU environmental acquis to benefit from the EU instrument.

With regards to SME support, in particular for agri-businesses, special consideration will be given to upgrading of farm and primary products processing practices, resource-efficiency, processes limiting the effects of climate change, low-emissions/low-carbon initiatives, and sustainable agricultural practices (e.g. deforestation, biodiversity loss, soil erosion, air pollution, water contamination).

## **6. SUSTAINABILITY**

The guarantee will encourage desirable investments by "insuring" against specific risks, consuming EU funds only in case projects fail commercially. This instrument thus specifically targets investments that have a reasonable chance of being commercially viable, but whose loss is perceived as too high for the investment to be financed without the guarantee. For example, such a guarantee can address a lack of collateral in start-ups and SMEs, which have a good new product but few assets to sell in case of default.

As most of the infrastructure and SME investments financed through the Guarantee will be commercially viable, the benefits of the action (e.g. jobs created, services offered, efficiency improvements, etc.) are likely to be maintained and scaled beyond the implementation period.

Due to its nature (i.e. "insuring" against specific risks) the guarantee will allow local financial intermediaries to build up their knowledge of new/niche markets (e.g. agri-businesses, start-ups). These local financial intermediaries might also benefit from the technical assistance component of the guarantee to design and/or adapt their products to cater for the final recipient's needs. Henceforth, "new markets" considered too risky will become better known, and thus market-attractive for the local financial intermediaries.

The European Commission will also ensure that the projects financed are strictly linked to regional, national, and municipal strategies and sector work programmes, considering this a key aspect in ensuring the sustainability of the action's results.

## **7. COMMUNICATION AND VISIBILITY**

Communication and visibility will be given high importance during the implementation of the action. The implementation of the communication activities shall be funded from the amounts allocated to the action.

All necessary measures will be taken to publicise the fact that the action has received funding from the EU in line with the EU communication and visibility requirements in force. All stakeholders and implementing partners shall ensure the visibility of EU financial assistance provided through IPA II throughout all phases of the programme cycle. Additional Visibility Guidelines developed by the European Commission (DG NEAR) will have to be followed.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives, as well as the benefits of the action for the general public. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value and impact of the EU's interventions and will promote transparency and accountability on the use of funds.

Visibility and communication aspects shall be complementary to the activities implemented by DG NEAR and the EU Delegations in the field. The European Commission and the EU Delegations should be fully informed of the planning and implementation of the specific visibility and communication activities.

It is the responsibility of the beneficiary to keep the EU Delegation and the Commission fully informed of the planning and implementation of the specific visibility and communication activities.

Two initiatives are foreseen:

- Signature events & press releases: every time an implementing partner will sign a Guarantee agreement with a financial intermediary (such as a bank), a signature event with a representative from the Implementing Partner, the Financial Intermediary and the European Commissions will take

place. A press release, done by the implementing partner and reviewed by the European Commission, will echo such event.

- Poster: Financial Intermediaries benefiting from the WB Guarantee will have to display in their branches (at customer's sight) a poster acknowledging the EU contribution. While the Poster will be provided by the European Commission, implementing partners will be responsible to provide contact points at the financial intermediary level.

These activities shall be funded from the amounts allocated to the action and the European Commission shall be informed of their planning and implementation.