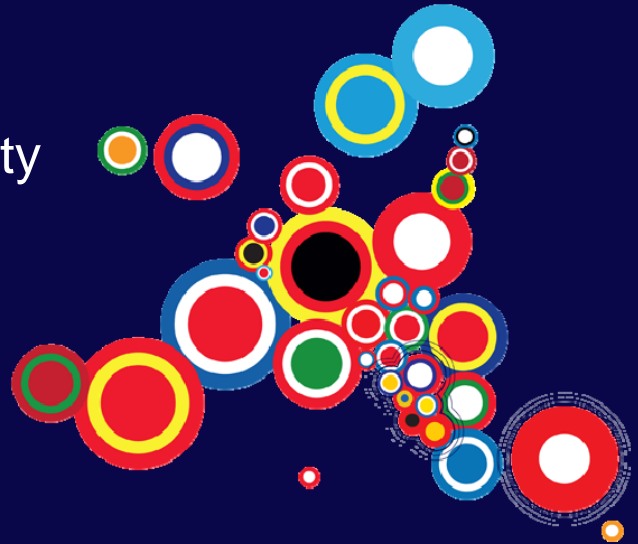




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

MULTI-COUNTRY

Co-financing of Connectivity Projects in the Western Balkans – 2016



Action summary

The European Commission is, via the Western Balkans Investment Framework (WBIF), co-financing mature energy and transport infrastructure projects together with loans from the international financial institutions, as part of the Connectivity Agenda/Berlin Process.

After the initial round in 2015, this action represents the continuation of co-financing in 2016, to support the construction of energy and transport infrastructure, namely Projects of the Energy Community Interest (PECIs) and the Trans-European Transport Core Network (TEN-T core network) in the Western Balkans region.

This action contributes to improving connectivity within the Western Balkans, as well as between Western Balkans and the European Union, and will serve as a driver for economic growth, jobs, and new investments in the region.

Action Identification			
Action Programme Title	IPA II Multi-country Action Programme for Connectivity 2016		
Action Title	Co-financing of Connectivity Projects in the Western Balkans 2016		
Action ID	IPA 2016/039-401.01/MC/COFIN CONNECT		
Sector Information			
IPA II Sector	9. Regional and territorial cooperation		
DAC Sector	43010 - multi-sector aid		
Budget			
Total cost	EUR 521 348 000 (connectivity projects)		
EU contribution	EUR 145 500 000		
Management and Implementation			
Method of implementation	Indirect management with EIB, EBRD and KfW Contribution Arrangement via the Western Balkans Investment Framework (WBIF) Joint Fund		
Implementation responsibilities	DG NEAR/D.5, EIB, EBRD, KfW		
Location			
Zone benefiting from the action	Western Balkans		
Specific implementation area(s)	Western Balkans		
Timeline			
Deadline for conclusion of the Financing Agreement	N/A		
Contracting deadline	at the latest by 31 December 2017		
End of operational implementation period	31/12/2025		
Policy objectives / Markers (DAC form)			
General policy objective	Not targeted	Significant objective	Main objective
Participation development/good governance	✓	<input type="checkbox"/>	<input type="checkbox"/>
Aid to environment	<input type="checkbox"/>	✓	<input type="checkbox"/>
Gender equality (including Women In Development)	<input type="checkbox"/>	✓	<input type="checkbox"/>
Trade Development	✓	<input type="checkbox"/>	<input type="checkbox"/>
Reproductive, Maternal, New born and child health	✓	<input type="checkbox"/>	<input type="checkbox"/>
RIO Convention markers	Not targeted	Significant objective	Main objective
Biological diversity	✓	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	✓	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	✓	<input type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	✓	<input type="checkbox"/>	<input type="checkbox"/>

1. RATIONALE

PROBLEM AND STAKEHOLDER ANALYSIS

Connectivity agenda in the Western Balkans

Improving connectivity within the Western Balkans and between the Western Balkans and the European Union (EU) is a key factor for growth and jobs and will bring clear benefits for economies and citizens.

The Western Balkans Six (WB6) has made the connectivity agenda one of its highest priorities, with a special emphasis on the preparation and financing of concrete regional infrastructure investment projects, but also on the implementation of technical standards and accompanying reform measures such as aligning and simplifying border crossing procedures, railway reforms, information systems (ITS), road safety and maintenance schemes, unbundling and third party access.

The European Union has set aside up to EUR1 billion for connectivity investment projects and technical assistance for the 2014-2020 period. It provided the first EUR200 million at the Western Balkans Summit in Vienna in August 2015 for ten priority projects, out of which eight from the MC IPA allocation. The 2016 follow-up will include EUR 145.5 million for connectivity projects in the transport and/or energy sector to be approved by the WBIF Steering Committee. Additional EUR 56 million are allocated for DG NEAR's two other actions (described in separate action documents): Support to the Western Balkans Investment Framework for Technical Assistance and the Green for Growth Fund (GGF).

Transport sector

The EU adopted, in January 2014, a new transport infrastructure policy to put in place a powerful European transport network across the 28 Member States. These new guidelines refocus transport financing on a tightly defined new core network, the **Trans-European Transport Core Network (TEN-T core network)**, which will form the backbone for transportation in Europe's single market. It will remove bottlenecks, upgrade infrastructure and streamline cross border transport operations for passengers and businesses throughout the EU.

Within the **WB6 framework**, the European Commission and the six Prime Ministers from the Western Balkans agreed, on 21 April 2015 in Brussels, on **indicative extensions of the TEN-T core network in the Western Balkans region**. In Riga, on 22 June 2015, the WB6 Transport Ministers confirmed the maps of the comprehensive and core networks extending the TEN-T network in the Western Balkans and introduced the **corridor coordinators**.

At the Western Balkans Summit in Vienna on 27 August 2015, all participants particularly welcomed the substantial progress achieved in connectivity, notably the agreement by the Western Balkan six Prime Ministers in Brussels in April on the regional core transport network corridors, and the further agreement (in Riga in June) on the core network corridors, projects to be implemented by 2020 and the appointment of corridor coordinators. This will enhance the connectivity between the Western Balkans beneficiaries as well as with the EU network. The European Commission will continue to facilitate this process.

Each country of the Western Balkans has established **National Investment Committees** and **Single Project Pipelines** which should become credible planning mechanisms ensuring that the beneficiaries have the fiscal space to take up the necessary loan financing to get all the projects implemented on time. The priority transport and energy projects mentioned above are reflected in both national investment planning and sector strategies.

The vision for Trans-European Transport Networks (TEN-T) reflect that rail, road, air and sea transport links are seen as key drivers not just for closer integration between Member States and their peoples, but also for increasing economic competitiveness.

Extending the core network corridors to the Western Balkans ensures closer integration within the region as well as with the EU and provides a basis for leveraging investment in infrastructure. The core network corridors, once completed, will provide quality transport services for citizens and businesses, with seamless integration within the region as well as with the EU.

Energy sector

The EU is consuming and importing increasing quantities of energy. The acknowledgement of the advantages of coordinated action in such a strategic field has led to the adoption of common rules and strategies to pool Europe's efforts to secure the energy that it needs at an affordable price, while generating the least possible pollution. The EU thus adopted in February 2015 the Energy Union Strategy based on the three long-established objectives of EU energy policy: security of supply, sustainability and competitiveness. It is in the perspective of stronger security of supply and market integration that the EU set out in particular the target of 10% electricity interconnection by 2020, which is the minimum necessary for the electricity to flow and be traded between Member States.

With the aim to extend the EU internal energy market to EU neighbouring countries in South East Europe and the Black Sea region, the **Energy Community (EnC)** was created in Athens in October 2005 and entered into force in July 2006. The EnC takes in particular measures to create a single energy market, its legal framework relying principally on the adoption of EU energy *acquis*.

Adopted in October 2013, the South East Europe Energy Strategy outlines the key objectives and actions needed to create a regional energy market, as well as the investment needs for energy efficiency and renewable energy.

A list of **Projects of Energy Community Interest (PECI)**s was subsequently adopted, identifying in particular the electricity and gas interconnections as key areas that would contribute to the Western Balkans economic development and further EU integration.

Accompanying reform measures: Connectivity is not only about building new infrastructure, but also about getting the best use out of it. Opening of the rail market would clearly benefit consumers in terms of providing a better and more efficient service. It would also more easily attract investors including those from abroad if they could be sure of access to the entire corridor rather than merely national segments. The transport accompanying reform measures (formerly so called "soft measures") agreed in Vienna in 2015 addressed these issues by setting targets for aligning technical standards and formalising cross-border operations between networks.

1. Opening of the transport market

1.1 Implementation of rail reform strategy

2. Establishment of competitive, reliable and safe transport system

2.1 Improvement of road safety

2.2 Trade and transport facilitation

2.3 Intelligent Transport System (ITS) deployment on the Core Network

2.4 Establishment of functioning maintenance system ensuring no section in poor/very poor condition by 2020

3. Increasing the effectiveness of Border Crossing Procedures

3.1 Effective Border Crossing Agreements

3.2 Implementation of Integrated Border Management (IBM) strategy

In energy, the Energy Community prepared a list of national **accompanying reform measures** to accompany these investments (third party access, unbundling, regulator independence, licensing and permitting regimes, customer switching, etc.).

The EnC also flagged the regional measures necessary for the operation and development of a real regional energy market in the Western Balkans region, based on three pillars (spot market development, cross-border balancing and regional capacity allocation).

The 2015 Vienna Summit focused on the energy dimension of the connectivity agenda and agreed on the high priority deliverables in this sector, while the 2016 Paris Summit focused on the results achieved and the road ahead. To further support the implementation of accompanying reform measures, DG NEAR has

provided a EUR 1 million direct grant to the EnC Secretariat aimed in particular on the creation of the regional electricity market.

Co-financing Policy and Connectivity

Under the new approach, funds from the Instrument for Pre-Accession (IPA II) are supporting the development of infrastructure in the Western Balkans not only by Technical Assistance (financing studies and preparatory documents etc.), but also by financing a share of the investment costs. This is vital to cope with the lack of fiscal space in the budgets of the IPA II beneficiaries and to favour economic development as a response to the continuous stagnation of the economies.

The support of the European Commission and DG NEAR to the connectivity agenda is reflected in the substantial increase of the available funding: around EUR 100-150 M per annum of regional IPA II funds have been earmarked for connectivity projects – for co-financing in the period 2015-2020. The **Western Balkans Investment Framework (WBIF)** has been identified as the most suitable instrument to allocate these funds and to ensure efficient and coordinated fund allocation. IPA II regional funds are only available for projects under the connectivity agenda for co-financing, while the technical assistance (TA) continues for all four WBIF sectors (energy, transport, environment, social). National IPA allocations might also contribute towards regional projects, in a coherent approach of the Connectivity Agenda/Berlin Process of DG NEAR.

Future IPA II regional funds will primarily be used for transport projects on the core transport network, and energy projects on the PECE list.

The **WBIF methodology** consists of:

- **Co-financing of investments**, where the main principle is to support implementation of **mature regional projects** subject to a **maximum co-financing threshold** per sub-sector (overall 20% rate, with exception of the railway sector for which the rate is 50%);
- **National Investment Committees (NICs)** in the IPA II beneficiaries are responsible for defining and managing the prioritised **Single Project Pipelines**, and serve as a basis for programming of all available financing sources (incl. national and other donors).
- The **criteria and conditions** applied for the list of potential projects for **co-financing** are:
 - (1) Projects must be **mature** (technically, financially);
 - (2) Projects must be subject of the **Connectivity Agenda (TRA: core network, ENE: PECE list)**;
 - (3) **Country strategy papers agreed, and country-wide sector strategies adopted**;
 - (4) Projects must be confirmed by a prioritised **Single Project Pipeline and discussed by a NIC**.

WBIF Programming and Identification of Connectivity Projects: 2016 vs. 2015

The year 2015 was the first time that major IPA allocations from the Multi-Country envelope were foreseen for co-financing of connectivity investment projects. Due to the fact that the set up / finalisation of the NIC structures and the Single Project Pipelines was still in progress during the programming period, the identification of connectivity projects for financing in this special year started with a desk review based on information from the WBIF Management Information system (MIS), which is based on the current pipeline of WBIF technical assistance projects (preparatory studies). This information was then discussed with the IFIs (international financial institutions: EBRD, EIB, and KfW), and with the six geographical units in DG NEAR. EUDs contacted the line ministries in the six IPA II beneficiaries, doing the next fact checking, as part of the preparations for the upcoming programming visits by the WBIF team in NEAR/D.5, in close cooperation with and accompanied by DG NEAR geographical units and Delegations of the EU in the Western Balkans.

The first year of co-financing (2015) is referred to as Round 0:

- The European Commission, IFIs and beneficiaries identified the first batch of mature, strategically and connectivity relevant projects in a structured dialogue in the first half of 2015.
- These projects were then presented to the Vienna WB6 summit;
- The European Commission took its Financing Decision for 145 M EUR in November 2015;
- The first funds were thus approved at the 13th WBIF SC meeting in Paris in December 2015 for Investment Grant (IG) co-financing.

The second year of co-financing (2016) is referred to as Round 1:

- WBIF received 10 GAFs by the end of March 2016, carried out technical screening and assessment, and established a list of a number of strategically highly relevant and mature connectivity projects.
- Progress with the implementation and/or transposition of accompanying reform measures is slow and has to be taken into account - as a selection criterion - for EU funding of investments under the WBIF, in addition to lack of transport and energy strategy in Bosnia and Herzegovina, as well as political situation in the former Yugoslav Republic of Macedonia.
- The projects proposed for co-financing under this action have been submitted to the WBIF under the first round of the call for proposals procedure, but have not yet been approved by the WBIF Steering Committee. This list of projects is however only indicative and non-exhaustive. Other mature projects in the sectors of energy and transport which meet the relevant criteria may also be considered for co-financing.
- The funds under this action will equally be used to cover the management fees for the Joint Fund Managers as regards the connectivity projects not committed yet co-financed under the Financing Decisions for the years 2015 and 2016 (max. EUR 5 615 000).
- The Paris Summit looked at the progress with the implementation of the Round 0 projects from 2015. It is important that the COM IPA 2 funds are used and consumed within the set timeframes, budgets and according to the conditionalities.
- Finally, whilst the GAF (Grant Application Form) was not a condition precedent for Round 0, it was later decided that all these projects need to be translated into a GAF, as they will serve as the "description of the action" document in the contractual arrangements.
- Following the Paris Summit, this Action Document was prepared, to be approved at the IPA Committee in November 2016, followed by the Financing Decision beginning of December 2016.
- The final list of projects from Round 1 will be presented to the 15th WBIF SC meeting in London, in December 2016 for adoption.

For the 2016 Round 1, the WBIF team in NEAR/D.5 again undertook **programming missions** in all six capitals (Podgorica, Tirana, Skopje, Pristina, Belgrade, Sarajevo), to inform the EUDs, NIPACs, line ministries and companies of the processes, timelines, and procedures for the Round 1 deadline for applications of end March 2016. The general agenda of the programming missions included: preparation meeting with the EUD (Head of Operations, Head of Sections, relevant task managers), meeting with NIPAC office, and a joint meeting with NIPAC, relevant line Ministries, Ministry of Finance, possibly Prime Minister's office, possible other stakeholders (rail, road, electricity, gas companies, etc.) for energy and/or transport project discussions according to proposed list.

In addition, the authorities were informed on actions and timelines of four parallel processes: Connectivity/Berlin Process, NEAR IPA procedural deadlines, WBIF state of play and new methodology, and NIC/SPP framework and infrastructure project prioritization.

Following the country visits, the team organized consultations with the relevant stakeholders within the WBIF meetings, as well as via a set of videoconferences, in order to finalize the details of the "project passports" annexed to this action Document, i.e. project descriptions, maturity, financial frameworks etc.

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

The Multi-country Indicative Strategy Paper 2014-2020¹ (hereinafter referred to as the Strategy Paper), establishes support for economic, social and territorial development as one of its main objectives. In order to promote a comprehensive approach to the economic development of the region by stimulating key long-term drivers of growth, the Strategy Paper refers to the targets set by the regional strategy South East Europe 2020.

In that perspective, the Strategy Paper, describing the EU assistance, identifies in particular as a priority investing in improved transport and energy interconnections within the region and with the EU.

The action will be implemented in line with the priorities identified in the Strategy paper but also in line with relevant EU policies, such as the TEN-T guidelines and the European Energy Security Strategy, which encourages the development of energy interconnections between candidates, potential candidates and the EU.

The action will also follow EU macro-regional strategies, such as the EU Strategy for the Danube Region (EUSDR) and the future EU Strategy for the Adriatic-Ionian Region (EUSAIR) which both identify better connections within the Western Balkans and between this region and neighbouring Member States as key priorities.

The action addresses the need identified by the Multi-country Strategy Paper to prioritize infrastructure development, planned using one single mechanism involving the relevant stakeholders. As stipulated throughout the Strategy Paper, the Western Balkans Investment Framework will remain the main instrument for regional infrastructure investment support. WBIF includes national administrations (with the NIPAC and Ministries of Finance playing an important role), the Commission (both geographical and regional units), IFIs and bilateral donors. As asked for in the Strategy Paper, this action results in a list of priority projects for financing in 2015, and from 2016 onwards to be based on a single project pipeline per sector, based on national strategies.

The action also addresses the development of financing mechanisms expressed in the Strategy Paper (blending loans and grants, new financial instruments, promote private sector participation in financing, etc.) to ensure access to finance for large infrastructure projects linking the Western Balkans and Turkey to the EU.

The action is in line with the different national strategies and the Indicative Country Strategy Papers² establishing the priorities for national IPA Programmes with the exception of Bosnia and Herzegovina where national strategies in the transport and energy sectors do not exist and whose Indicative Strategy Paper therefore does not cover these sectors. However, the adoption of the "Bosnia and Herzegovina Framework Transport Policy 2015 – 2030" can be seen as a first step in this regard, while the June 2016 adoption of draft transport strategy is similarly welcomed as a further step in the right direction. Future WBIF investment support will require the full adoption of country-wide strategies.

LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE

The action is in line with previous WBIF financing of infrastructure projects in the Western Balkans, namely technical assistance (preparatory studies), further expanded with the 2015 co-financing of investments (construction). WBIF continues to serve as a forum for exchanging economic analysis on investment needs as well as the framework for blending grants with loans, thus achieving significant leverage of the scarce public funds. It is confirmed as the appropriate mechanism to link national strategies to regional and macro-regional strategies and to provide technical assistance to projects on the lists established by the NICs in order to bring them to maturity and to make them "bankable". With the 2015 co-financing, WBIF evolved its previous financial assistance, and included co-financing of construction, proved in the 2015-2016 reflection as a positive evolution of EU's assistance to the Western Balkans. Co-financing actions already exist in the

¹ C(2014) 4293, 30.06.2014

² C(2014) 5770, 18.08.2014-Albania; C(2014) 9495-Bosnia and Herzegovina,15.12.2014; C(2014) 5861, 19.08.2014-the former Yugoslav Republic of Macedonia; C(2014) 5771, 18.08.2014-Montenegro; C(2014) 5772, 20.08.2014-Kosovo; C(2014) 5872, 19.08.2014-Serbia; and C(2014) 5998, 26.08.2014-Turkey

national IPA programmes, supporting the IPA II beneficiaries on meeting the targets set in the national IPA programmes. In a coherent approach, co-financing is now streamlined for regional IPA funds too.

DG NEAR recognized the need to improve coordination and implementation of infrastructure projects in the Western Balkans, and has obtained consensus in the WBIF Steering Committee on the new WBIF methodology and co-financing, inclusive of approval of the IFIs, the IPA II beneficiaries, and the donor countries, and assisted by the detailed review of the WBIF pipeline done in 2014.

The new methodology and co-financing strengthen the ownership principle, with National IPA Coordinators (NIPACs) responsible for prioritization of projects via the NICs and SPPs, and in the future responsible for sending in applications for co-financing. At the same time, the new methodology tries to keep the procedures at the minimum level of complexity as possible, and taking into account EUBEC recommendations (EU Blending and External Cooperation Platform). Coupled with ensured transparency of WBIF structures the new methodology enables continuity of projects from the WBIF pipeline.

In line with the Multi-Country Strategy Paper, and in order to increase the impact of the EU's financial support, co-financing via the Multi-Country IPA is, therefore, concentrating on the areas where regional investments are most needed to meet accession criteria and tailored to take into account the capacities of the IPA II beneficiaries to meet these needs. Assistance under regional programmes is directed towards areas where similar or joint efforts by several IPA II beneficiaries are needed, and where energy and transport investments will produce a positive connectivity impact in several IPA II beneficiaries.

The existing regional structures (SEETO and EnC) support the investments, in particular by setting up and implementing accompanying reform measures and preparation of infrastructure projects, as well as overall transposition and implementation of the EU acquis.

The Joint Assistance to Support Projects in European Regions (JASPERS) offers support to the IPA II beneficiaries to develop, manage and review the quality of their infrastructure projects, making them eligible for IPA funding. In the framework of the WBIF, the Infrastructure Project Facilities (IPFs) complement JASPERS in supporting the beneficiaries in the preparation of project documentation (feasibility studies, preliminary and detailed design, environmental impact assessment, tender dossiers, etc.). If JASPERS also supports the elaboration of sector strategies, their activities and IPFs' services are nevertheless mostly focused on infrastructure development.

In total four Infrastructure Project Facilities (IPFs) have supported national and regional efforts in the development and upgrading of transport, energy, environment, and social infrastructures, promoting the sustainable development in the Western Balkans through the effective and rapid preparation of investment projects. IPF 1 and 2 have been completed, IPF 3 and 4 are currently active, and IPF 5 is planned to start shortly. DG NEAR is preparing a special Connectivity TA, to further speed up the project preparation in this area.

When implementing the action, it will be guaranteed that there is no overlap, but complementarity with the existing instruments.

Given the fact that public funds are scarce, there is a clear need to concentrate investments, as well as policy and regulatory efforts, on key corridors and interconnectors. By injecting substantial additional funds, this action shall boost progress on these connectivity priorities.

The initiative of such an action naturally belongs to the European Commission due to its key role in advancing the EU integration of the Western Balkans.

2. INTERVENTION LOGIC

LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	
To contribute to enhancing the sustainable socio-economic development and competitiveness of the Western Balkans	GDP growth Increase of trade in goods and services Human development index	European Commission Progress Reports National Statistics Institutes National Central Banks SEE 2020 implementation reports Government budget reports Public Finance statistics Eurostat	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
To improve connectivity within the Western Balkans and between Western Balkans and the EU	Development of a regional energy market in the Western Balkans, integrated to EU energy market Implementation of the extension of the TEN-T core network in the Western Balkans	WB6 Ministerial meetings conclusions SEE 2020 implementation reports Reports from SEETO Reports from EnC	Political commitment from beneficiaries Sufficient administrative capacity in the beneficiaries Local ownership of action outputs Financial sustainability for an efficient operation and maintenance of the infrastructure Continued government commitment towards EU integration process
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
Result: Completion of the connectivity projects benefiting from co-financing of the EU.	Completion of the construction of energy and transport infrastructure projects, as specified in the project list (electricity transmission lines, gas pipelines, roads, railways etc.).	Reports from the WBIF's joint fund, lead Financial Institutions, IPA II beneficiaries, Contractors Reports from SEETO Reports from EnC WB6 Ministerial meetings conclusions	Political commitment from beneficiaries Agreement of the beneficiaries on the priorities to address (e.g. PECI's list pre-identified projects on the indicative extension of the TEN-T core network) and the methodology (e.g. applying the Union guidelines for the TEN-T) Sufficient administrative capacity in the beneficiaries Set up of National Investment Committees, or similar coordination mechanisms and establishing single project pipelines EIA and possibly SEA carried out and completed
ACTIVITIES	MEANS	OVERALL COST	ASSUMPTIONS

Activities to achieve Result: Construction of transport and energy infrastructure projects, including technical assistance, via grant-loan arrangements between the European Commission and the IFIs involved in the WBIF	Contribution Arrangement with the WBIF Joint Fund Managers; implementing lead IFIs are EIB, EBRD and KfW	EUR 145.5 million from IPA total investments (including management fees for WBIF Joint Fund Managers).	Maturity of projects Beneficiaries capacity to absorb assistance
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ADDITIONAL DESCRIPTION

The projects proposed for financing have been submitted to the WBIF under the first round of the call for proposals procedure. This list of projects is however only indicative and non-exhaustive. Other mature projects in the sectors of energy and transport which meet the relevant criteria may also be considered for co-financing.

The following **energy** project is indicatively proposed for financing under this Financing Decision. Figures on total investment, loan amount and other sources of financing are also indicative.

1) Serbia Transbalkan Electricity corridor – Grid Section in Serbia
<p>The project covers: a) Section III - Upgrade of transmission network in Western Serbia at 400 kV voltage level between SS Obrenovac and SS Bajina Basta, i.e. new double 400 kV OHL SS Obrenovac – SS Bajina Basta, reconstruction of existing SS Obrenovac and SS Bajina Basta, 111 km; b) Section IV - New 400 kV interconnection between Serbia, Bosnia and Hercegovina and Montenegro, i.e. double 400 kV OHL between SS Bajina Basta, SS Visegrad (BiH), and SS Pljevlja (Montenegro), 84 km.</p> <p>Trans-Balkan Corridor will improve the functioning, reliability, and security of supply of the electricity markets in Serbia, Montenegro, Bosnia and Herzegovina, Romania and Italy, facilitate further integration and expansion of the 400kV network in the region, facilitate higher level of integration of renewable energy sources in the SEE region, and alleviate the congestion on the transmission system present in the flow direction from East to West in Serbia that restricts trade across the region and with Italy.</p>
Investment: EUR 100.8 million Lead IFI: KfW Loan: EUR 75.8 million Grant from IPA II 2016: EUR 25 million (including TA) / EUR 22 million (excluding TA) Other sources of financing: tbd Grant percentage: 22.7% (including TA) / 20% (excluding TA)

The following **transport** projects are indicatively proposed for financing under this Financing Decision. Figures on total investment, loan amounts and other sources of financing are also indicative.

2) Serbia | Orient/East-Med Corridor: Serbia – Bulgaria CXc Rail Interconnection

The project covers the rehabilitation of the Sicevo to Dimitrovgrad railway track, including preparatory works for electrification and signalling and telecommunication systems. The project is complemented by two other investments: (i) Construction of the railway deviation around the City of Niš to the station in Sicevo, undertaken with assistance from 2011 IPA (EU) funding; (ii) Completion of electrification and signalling and communication works on the route from Niš to Sicevo and from there to Stanicenje and Dimitrovgrad, for which additional financial assistance will be sought from the Western Balkans Investment Framework in 2017.

This project will upgrade 80 km of CXc railway track to TEN-T standards, including preparatory works for electrification and signalling and telecommunication systems. It will increase passenger and freight travel speed from 30 km/h to 120 km/h, as well as in freight capacity to 22.9 tonnes axle load, throughout the CXc Sicevo to Dimitrovgrad section.

Investment: EUR 84.4 million | Lead IFI: EIB | Loan: EUR 36.7 million | Grant from IPA II 2016: EUR 43.6 million (including TA) | Other sources of financing: EUR 4.1 million | Grant percentage: 52%

3) Albania | Mediterranean Corridor: Montenegro - Albania - Greece Rail Interconnection

This investment project concerns the rehabilitation of the Tirana - Durrës railway section and the construction of a new railway link to the international airport in the capital, including signalling and telecommunication systems. The project complements two other planned improvements on CVIII and R2 sections on the Mediterranean Corridor: (i) R2 Durrës – Vora – Shkodra – Hani Hotit/border with Montenegro section (140 km); (ii) CVIII Durrës – Vlore –Pogradec/border with the former Yugoslav Republic of Macedonia section (137 km). Once complete, these two additional sections will ensure interoperable and multimodal transport connections between Albania and the former Yugoslav Republic of Macedonia and Montenegro, as well further transport links with Greece and Bulgaria, along the Mediterranean Corridor.

The project will result in 34.5 km of railway track, from Tirana to Durrës, partly rehabilitated to modern, TEN-T standards, including signalling and telecommunication (but excluding electrification). New 7.4 km of railway track will be built between Tirana and Rinas international airport. The passenger and freight travel speed will increase from 60 km/h to 120 km/h, as well as in freight axle load to 22.9 tonnes, throughout the Tirana - Durrës section.

Investment: EUR 81.5 million | Lead IFI: EBRD | Loan: EUR 32.9 million | Grant from IPA II 2016: EUR 35.4 million (including TA) | Other sources of financing: EUR 13.2 million | Grant percentage: 43%

4) Kosovo* | Orient/East-Med Corridor: the former Yugoslav Republic of Macedonia – Kosovo – Serbia R10 Rail Interconnection

This investment project will cover the rehabilitation of the Fushë Kosovë/ Kosovo Polje - Mitrovicë/Mitrovica rail section and associated railway stations to modern, TEN-T standards. Whereas it includes modern signalling and telecommunications, the project excludes electrification.

The project is being implemented in three phases with the rehabilitation and upgrading of the following sections: section Fushe Kosova / the former Yugoslav Republic of Macedonia border/boundary (phase 1); section Fushe Kosova / Mitrovica (phase 2); and section Mitrovica / Serbian border/boundary (phase 3). Phase 1 benefited from WBIF investment grant in 2015, while the 2016 allocation refers to phase 2.

The phase 2 project will result in 35 km of railway track and 5 railway stations upgraded to modern, TEN-T standards, on the Fushë Kosovë/Kosovo Polje to Mitrovicë/Mitrovica R10 route. The passenger and freight travel speed will increase from 20 km/h to 100 km/h as well as freight axle load to 22.5 tonnes.

Investment: EUR 42.3 million | Lead IFI: EBRD, EIB | Loans: EUR 8.6 million (EBRD); EUR 9.2 million (EIB) | Grant from IPA II 2016: EUR 18.2 million (including TA) | Other sources of financing: EUR 6.3 million | Grant percentage: 43%

5) The former Yugoslav Republic of Macedonia | Corridor VIII: the former Yugoslav Republic of Macedonia – Bulgaria Rail Interconnection

* 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

The project concerns the construction of 34 km rail line between Beljakovce to Kriva Palanka, which is a second section of the eastern part of the Rail Corridor VIII. It is part of the “missing link” of around 89 km rail on Corridor VIII in between Skopje and the border with Bulgaria. The new railway lines, both first and second section, will be electrified and meet the EU technical specifications for interoperability. The design speed of the line is 100km/h.

The project will reduce regional travel time between Kumanovo and Kriva Palanka by rail to approximately 35 minutes against current travel time of approximately 50 minutes by road, and increase the transport volume of freight and passengers against road. Once the third and last section of the rail towards Bulgaria is completed, the railway link to the Black Sea would be shorter by approximately 200 km, and to Istanbul by approximately 150 km.

Investment: EUR 153.77 million | Lead IFI: EBRD | Loan: EUR 78.94 million | Grant from IPA II 2016: EUR 69 million (including TA) | Other sources of financing: EUR 5.83 million | Grant percentage: 45%

6) Bosnia and Herzegovina | Mediterranean Corridor (CVc): Bosnia and Herzegovina – Croatia Road Interconnection (I)

The Project involves the construction of a 6.9 km motorway subsection on Corridor Vc between settlements Ponirak and Donja Gracanica. This subsection is divided into two parts taking into consideration the commitment of EIB and EBRD.

Part I: Ponirak – exit of Tunnel Zenica, length 2.8 km of road including one bridge and one Tunnel length 2.4 km

Part II: Exit Tunnel Zenica – Donja Gracanica (entrance to Tunnel Pecuj), length 4.1 km of road including 2 tunnels, 4 viaducts, and access road to the Zenica town with bridge.

The construction of this subsection will reduce travel time, introduce savings in vehicle operation costs and increase road safety. It will increase accessibility and promote regional as well as local economic development by increasing the average annual daily traffic to more than 23% and connect the existing state road M17 with Corridor Vc.

Investment: EUR 149 million | Lead IFI: EBRD, EIB | Loans: EUR 50 million (EBRD); EUR 76 million (EIB) | Grant from IPA II 2016: EUR 19 million (including TA) | Other sources of financing: EUR 4 million | Grant percentage: 13%

7) Bosnia and Herzegovina | Mediterranean Corridor (CVc): Bosnia and Herzegovina – Croatia Road Interconnection (II)

This project concerns the 6 km of Corridor Vc – Johovac - Doboj jug from Interchange Johovac to Interchange Rudanka (including both interchanges). Interchange Johovac is T-type interchange which will connect two major motorways: Banja Luka-Doboj and Corridor Vc. Motorway Johovac-Doboj jug (south) is designed with two, divided by central median, single carriageways each consisting of two-lane width of 3.75 m and an emergency lane width of 2.50 m. The road will also cross the railway line in one part by a bridge. Johovac interchange connects two motorways, whereby interchange Rudanka facilitates the access between the main road network, motorway and the city of Doboj.

Construction of the motorway in Corridor Vc is supported by the analysis for the existing road network, bottlenecks, road accidents, high operation costs and forecast of traffic growth. Estimated increase of the AADT to up to 50% in this project will contribute to the objective of the economic development.

Investment: EUR 420 million | Lead IFI: EBRD, EIB | Loans: EUR 185 million (EBRD); EUR 160 million (EIB) | Grant from IPA II 2016: EUR 69 million (including TA) | Other sources of financing: EUR 6 million | Grant percentage: 16%

8) Bosnia and Herzegovina | Reconstruction and Modernisation of the River Port of Brcko

This project concerns several segments to be executed under Phase 1: a) Construction of railway track to Brcko harbour on the section of harbour crane path; b) Reconstruction of industrial railway track on the line from the Port of Brcko to the Train station Brcko Novo and reconstruction of connections to industrial zone; c) Construction of the asphalt plateau with drainage of rainfall; d) Reconstruction of the access road from Bijeljinska cesta to the Port of Brcko; e) Supply and installation of portal (harbour) crane.

The Port of Brcko will play a central role in providing interconnectivity with the land-based transport modes (road, rail) and is an essential transit point for cargo traffic flows to and from the heavy industries in Bosnia and Herzegovina. With an expected increase in cargo volume by 25% after the rehabilitation of the Port of Brcko, the project will have a significant positive influence on regional economic growth and trade facilitation.

Investment: EUR 10.5 million | Lead IFI: EBRD | Loan: EUR 7 million | Grant from IPA II 2016: EUR 3.5 million (including TA) | Grant percentage: 33%

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

IPA funds will be implemented through the WBIF's Joint Fund, via a long term contractual arrangement, namely the General Conditions, between the Commission and all IFIs which allows a programmatic (not at project level) and integral (using the established structures rather than creating a parallel structure) approach while respecting all obligations under the Financial Regulation and insisting on adequate payment procedures and reporting requirements. This proposal represents a major and stable construct which is intended to absorb on average around EUR 100-150 million of IPA funds per year for a long term duration.

European Commission/DG NEAR

The action will be managed by DG NEAR/D.5, which will sign a Contribution Arrangement with the Joint Fund managers (EBRD, EIB). See Implementation Methods for further information.

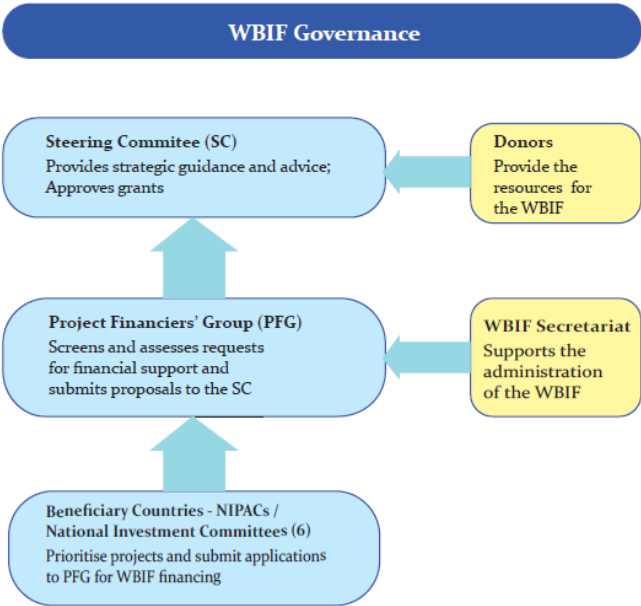
Western Balkans Investment Framework (WBIF)

The WBIF is a joint blending facility of the European Commission, participating financial institutions, bilateral donors, and Western Balkans, to deliver funding for strategic investment projects in IPA II beneficiaries. The WBIF promotes a harmonised approach in the identification, prioritisation, development, and financing of these projects.

The WBIF is governed by a **Steering Committee** composed of representatives of the European Commission, partner IFIs, and the Contributors to the EWBIF. The Steering Committee decides on the JGF grant allocations, takes all decisions related to the JGF, and provides strategic orientation to the WBIF. The Steering Committee is co-chaired by the Commission and a donor country on an annual rotating basis. In 2016 Norway is co-chairing the Steering Committee.

The **Project Financiers' Group**, composed of representatives of the Commission, the partner IFIs, bilateral Financial Institutions and development agencies of EWBIF contributors, provides a 'single entry point' for requests and is responsible for the process of screening (by the Commission) and financial appraisal (by the Financial Institutions) of grant requests. The Project Financiers' Group recommends positively assessed requests to the Steering Committee for grant approval and monitors their subsequent implementation.

The **WBIF Secretariat**, a light structure, housed within DG NEAR, supports the administration and daily operations of the WBIF.



IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING

This action will be implemented under indirect management with the WBIF's European Western Balkans Joint Fund (EWBJF) through a Contribution Arrangement, in close coordination with the lead IFIs of the projects:

- European Investment Bank (EIB),
- European Bank for Reconstruction and Development (EBRD), and
- Kreditanstalt für Wiederaufbau (KfW),

The grant funds (Commission and bilateral donors) are pooled in a joint fund and are managed by the EBRD and the EIB, who are the joint fund managers. The grant funds are then disbursed to the lead IFIs, which are responsible for the management of the implementation of the individual projects. The lead IFIs sign agreements with the IPA II beneficiaries for the grant from the joint fund. They also sign separate loan agreements. The IPA II beneficiaries add the national contribution and start with the implementation of the investment project. This means carrying out procurement award procedures for the total project amount; signing procurement contracts with final contractors and implementing the contracts under the supervision and responsibility of the respective lead IFI.

Under the Contribution Arrangement the following tasks will be entrusted:

Tasks entrusted to the joint fund Managers:

The EBRD and the EIB will be the managers of the joint fund. They will be responsible for the same tasks as already identified in the General Conditions of the joint fund, in particular:

- Managing IPA Funds through the joint fund;
- Disbursing funds from the joint fund to the lead IFIs;
- Channelling funds recovered from lead IFIs;
- Compiling reports on the joint fund;
- Collecting reports from lead IFIs and submitting these reports to Commission/PFG/SC.

Tasks entrusted to the lead IFIs:

The co-financing of major infrastructure projects includes loan(s) signed between the IPA II beneficiary and a lead IFI.

Under the contribution arrangement the Commission delegates those tasks to the lead IFIs which are necessary to manage the implementation of the grants covering projects assigned to them by the Steering Committee (SC). These entrusted tasks would typically include:

- Managing the implementation of the projects approved by the SC under the lead IFIs own rules and procedures;
- Assuming responsibility and accountability for the funds disbursed to them by the joint fund Managers including recovery;
- Providing reporting according to the requirements defined in the General Conditions.

4. PERFORMANCE MEASUREMENT

METHODOLOGY FOR MONITORING (AND EVALUATION)

The Commission may carry out a mid-term, a final or an ex-post evaluation for this action or its components via independent consultants, through a joint mission or via an implementing partner. In case a mid-term or final evaluation is not foreseen, the Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner. The evaluations will be carried out as prescribed by the DG NEAR guidelines for evaluations. In addition, the action might be subject to external monitoring in line with the EC rules and procedures set in the Financing Agreement.

The General Conditions and the Contribution Arrangement set all terms and conditions for this delegation, plus ad hoc terms including reporting requirements, with a precise description of the roles and responsibilities of the entrusted entities. The reporting requirements agreed in the General Conditions would apply to the contribution arrangement too.

The managers of the contribution arrangement are the managers of the joint fund (EBRD/EIB). They will compile reports on the joint fund, as well as collect reports from lead IFIs and submit these reports to Commission/PFG/SC. lead IFIs will provide reporting according to the requirements defined in the co-delegation agreement.

The expansion of the WBIF as a blending platform that provides financing for large investment projects, comes with increased needs for transparency on activities and reporting requirements. The WBIF Management Information System (MIS) is a tool that serves both the purposes of information on activities but also financial and operational reporting. Reporting requirements under the co-delegation will be met in a consistent manner, in order to allow the Commission to arrive to accrued accounted reports every year. The MIS is a tool that has the capacity to produce the reports, and will continue to be adapted as much as possible to the procedures used by the IFIs.

The day-to-day monitoring of the action will be carried out by the relevant Task Manager in DG NEAR, in coordination with the WBIF Secretariat. In the perspective of this exercise, s/he will use the reports produced by the above mentioned entities. When relevant, s/he will also have contacts with DG NEAR geographical desks, EUDs, Energy Community Secretariat, SEETO Secretariat, and the IPA beneficiaries, in order to monitor the action as closely as possible to its implementation.

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

INDICATOR MEASUREMENT

Indicator	Baseline (2)	Milestone 2017(3)	Target 2020 (4)	Final Target 2024 (5)	Source of information
OUTPUT - Completion of the construction of transport and energy infrastructure projects, as specified in the indicative project list (electricity transmission lines, gas pipelines, roads, railways etc.).	0 (none completed).	N/A	N/A	Maximum projects completed.	Reports from the WBIF's joint fund, lead Financial Institutions, IPA II beneficiaries, Contractors Reports from SEETO Reports from EnC

(1) This is the related indicator as included in the Indicative Strategy Paper (for reference only)

(2) The agreed baseline year is 2010 (to be inserted in brackets in the top row). If for the chosen indicator, there are no available data for 2010, it is advisable to refer to the following years – 2011, 2012. The year of reference may not be the same either for all indicators selected due to a lack of data availability; in this case, the year should then be inserted in each cell in brackets. The baseline value may be "0" (i.e. no reference values are available as the action represents a novelty for the beneficiary) but cannot be left empty or include references such as "N/A" or "will be determined later".

(3) The milestone year CANNOT be modified: it refers to the mid-term review of IPA II.

(4) The target year CANNOT be modified.

(5) This will be a useful reference to continue measuring the outcome of IPA II support beyond the 2014-2020 multi-annual financial period. If the action is completed before 2020 (year for the performance reward), this value and that in the 2020 target column must be the same.

5. CROSS-CUTTING ISSUES

EQUAL OPPORTUNITIES AND GENDER MAINSTREAMING

Improved transport can increase both women's and men's productivity and in so doing promote gender equality. Except for contributing to economic growth, transport plays a crucial role in broadening access to health and education services, employment, improving the exchange of information, and promoting social cohesion. However, transport needs can differ between women and men, for example differences in access to private transport, in patterns of commuting and employment, in child-care and elder-care responsibilities, in basic attitudes to private and public transport. A gendered analysis could therefore bring important information. Likewise a gendered analysis of energy provision and consumption could give information about how the whole population can benefit from interventions.

This action will look into possibilities of exploring how transport and energy interventions can be responsive to the needs of both women and men knowing that it will require the development of a structured approach. A crucial step is to make sure that both women and men are represented at each step of the planning and design process of transport investments. Government agencies and NGOs, community-based organisations, and women's groups that can be used in planning and implementation should be identified and consulted.

The action will ensure that equal opportunities are given to women, men, people with disabilities, minority groups etc. who all have an interest in the development of transport and energy sectors. Participants and experts should have an appropriate gender balance given the specific competences and expertise needed in the project. As transport and energy are male-dominated sectors, women's participation will be encouraged.

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 but also, for example, when carrying out geophysical investigation to determine seismic classification.

ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)

The preparation of investment projects is always accompanied by public consultation which requirements are set by national planning regulations and EU Directives, in particular the Environmental Impact Assessment Directive (2011/92/EU amended 2014/52/EU).

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.

6. SUSTAINABILITY

A key aspect in ensuring the sustainability of the action's results will be a strict focus on the projects imbedded in the national transport and energy sector strategies and sector work programmes.

The political commitment from the beneficiaries to keep developing and maintaining transport and energy networks connecting them between themselves but also to the EU as well as a strong involvement of the existing structures, that is the EnC and the SEETO, will be decisive to attain and sustain the action's objective.

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 the responsibility of the beneficiary, and 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 Communication and Visibility Manual for EU External Actions. Additional Visibility Guidelines developed by the Commission (DG NEAR) will have to be followed.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process. 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.

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:

First, joint efforts for **enhanced donor visibility**, including for the EU contributions, ensuring that all relevant stakeholders and where possible also final beneficiaries are informed about donors' involvement, joint actions and their results. This will be achieved by mainstreaming visibility requirements, capacity building, clarifying responsibilities and enhancing relevant tools of external communication.

Second, further improvement of cooperation and coordination to ensure communication and visibility requirements are respected. The aim is to give **more visibility to the objectives and results achieved** through joint funding and show the link between the funds invested and the policy priorities behind them.

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

LIST OF ANNEXES

Connectivity Agenda 2016: Project Passports, Transport Project Map