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INFRASTRUCTURE PROJECT FACILITY (IPF) FOR WESTERN BALKANS

CONCEPT PAPER

1. Policy context

Financing a wide range of investments needs in the Western Balkans is a prerequisite for sustainable socio-economic development and stability. Adequate investments in infrastructures are essential to ensure many indispensable services such as water and sanitation, heating, transport, health and education in order to improve the living conditions of people, particularly of the poorer and more vulnerable strata of the population. In a situation of limited financial resources, complementarities between grants (of which the EC is the major provider to the region) and loans can not be overemphasized

Several initiatives have been taken since the late 1990s to enhance cooperation with International Financial Institutions (IFIs) and to mobilise investment including for infrastructure remediation and upgrading. Within the EU pre-accession process, the Commission, as the major provider of grant assistance to the region, has taken steps to strengthen the effectiveness of its assistance and to increase synergies between grants and loans. This is clearly reflected in the IPA regulation.

To acknowledge this progress and further encourage it, the Austrian Presidency Conclusions of 15/16 June 2006 welcomed the intention of the Commission to extend and to intensify its cooperation with the European Investment Bank and the other IFIs in the Western Balkans, with a view to taking appropriate measures aiming at a finance facility for the Western Balkans.

The IPA regulation attaches the highest importance to enhanced coordination, coherence and complementarity with Member States, IFIs and other donors (Article 20 of IPA Framework Regulation). Furthermore, with the MoU signed in 2006 the Commission confirmed its commitment to enhancing cooperation with the EIB and other IFIs supporting the pre-accession process of candidate and potential candidate countries.

The need for consistency with EU external policies is clearly embedded in the Council Decision 2006/1016/EC of 19 December 2006 on the Community guarantee to the EIB for external lending (Article 3). For the Western Balkans, the EIB financing should be consistent with the priorities established in the Accession and European Partnerships and in the Stabilisation and Association Agreements. Where appropriate, cooperation and coordination between the Commission, the EIB and the main IFIs and European Bilateral Institutions shall be carried out and facilitated notably through memoranda of understanding (Article 4).

Against this background, the Commission intends to further enhance cooperation with IFIs. Under the three strands approach agreed in 2006 between the Commission and the IFIs for cooperation in the Western Balkans substantial progress has been achieved in the region since 2006, namely:

1. Private investment (promotion of micro-enterprises and SMEs)

In June 2006 the European Fund for Southeast Europe (EFSE) was launched, with the objective to promote the creation of micro enterprises and SMEs in the Western Balkans. The present SME Facility, operational for former candidate countries, is currently subject to an independent evaluation. Based on this, further consideration will be given to the possibility of a similar facility for the Western Balkans.

2. Energy efficiency

An Energy Efficiency Facility (EEF) for the promotion of energy efficiency investments was launched in 2006. This is already operating successfully in Bulgaria and Romania. From 2007 onwards, the EEF will be introduced in the Western Balkans.

3. Infrastructures

The existing Project Preparation Facilities (PPFs) under CARDS, mainly in transport, energy and for the Danube, are mostly limited to providing feasibility studies for investment projects. Although these facilities created significant financial leverage, they do not match the needs in the Western Balkans.

It is agreed between the European Commission, the EIB, the ERBD and the Council of Europe Development Bank (CEB) that an **Infrastructure Projects Facility (IPF)** will be developed for the Western Balkans. This facility will be multi-annual, in line with the IPA programming cycle and will imply a long-term engagement from the Commission, the EIB, the EBRD and the CEB to commit adequate grants and loans resources to facilitate the needed investments in the region. Overtime, the Facility would provide the possibility for enhanced cooperation with other interested donors.

2. Objectives and scope of the IPF

The **main objective** of the IPF is to support the development and upgrading of infrastructures in transport, energy, environment and social sectors, contributing to sustainable development in the region.

The **specific objective** is to support the preparation of projects that may be financed by grants and loans provided by beneficiaries themselves, IPA funds, the IFIs and/or other sponsors/donors.

All IPA **beneficiaries** are in principle eligible for the IPF. Priority will be given to potential candidate countries as they are in highest need for support, and also considering their non-eligibility for the third component of IPA.

For potential candidate countries, the IPF will aim at enhancing the complementarity between IPA grants and IFI loans. Therefore, a clear link will be established between the facility and the programming of infrastructure investments under the institution building component of the IPA annual national programmes. This should allow identifying investment projects that can be funded by IPA grants combined with IFI loans to increase leverage of assistance and tackle issues related to the limited fiscal space characterising the economies of some countries in the region. For candidate countries, the IPF may be engaged insofar the need is felt by the beneficiaries and the Commission (ELARG and REGIO) and IPF support is complementary to measures under component 3 and 4 of IPA.

The Commission will **launch the IPF in close cooperation with the EIB, EBRD and CEB**. The Facility would be designed on a multi-annual base, in line with the IPA programming. IPF partners will commit from the outset to providing grants and loans for infrastructure investments in the region.

Possibilities for extending and enhancing cooperation within the Facility will be further explored with interested IFIs and donors.

The launch of the Facility will be the subject of a political commitment through a Memorandum of Understanding (MoU) in which each party would commit itself through the provision of grants (Commission) and loans (EIB, EBRD and CEB). The MoU will establish the precise modalities of cooperation among partners

based on the management and implementation structure agreed in this concept paper.

At operational level, the IPF will be open to other IFIs and Bilateral Financial Institutions, insofar as they are willing to accept co-financing individual investment projects by one of the three partner IFI of the Facility. If none of the three partner IFIs is interested, and provided all eligibility criteria are met, these projects can benefit from the IPF support.

3. Eligibility conditions, selection criteria and types of projects

National, regional and local entities, including municipalities will be **eligible** for assistance from the IPF.

While detailed criteria are being elaborated, the **selection** of projects for the IPF support should follow some general criteria, notably:

- A balanced use of resources among the four sectors (between a minimum of 10% and a maximum of 40% of the IPF resources should be devoted to each sector).
- Within each sector an equitable distribution of resources among sub-sectors in line with socio-economic needs of the beneficiaries should be pursued.
- A geographical spread of the resources among countries.
- Priority will be given to projects with high regional impact and/or a strong social and environmental dimension and to projects identified in the context of regional networks (SEETP, ReREP, PEIP, ECS etc.)¹

A broad range of **projects** could be supported by the IPF. A non exhaustive list of type of projects includes the following:

Environment: waste water treatment, sewage systems, solid and hazardous waste management, emission control, etc.

Energy: renewable energy, interconnection systems, transmission, energy efficiency and savings, co-generation, hydro, gas pipelines, etc.

Transport: roads, railways, inland waterways, airports.

Social: schools, hospitals and health centers, housing, reclusion centers, etc.

¹ South Eastern Europe Transport Observatory; Regional Environment Reconstruction Program; Priority Environmental Investment Projects, Energy Community Secretariat.

4. Technical assistance, expected results, risks and assumptions

Technical assistance from the IPF will be provided by a contractor following the modalities described in point 5. Technical Assistance services may include support to beneficiaries for carrying out identification, pre-feasibility and feasibility studies, environmental and social impact assessment, as well as financial affordability analysis and budgetary planning, complete design, assistance to tendering process, and supervision of implementation works.

The **main expected result** is the provision of support to quality investment for infrastructures.

In implementing the Facility, it will be of utmost importance to ensure that beneficiaries are fully involved in every stage of the process, so as to enhance their **ownership** and thus their responsibility for investments, including co-financing aspects.

A smooth implementation of the IPF will need a careful consideration of main **assumptions** and **risks** like the willingness and financial capability to borrow financial resources as well as the budgetary and co-financing limitations of the beneficiaries. The absorption capacity and limited fiscal space of beneficiaries will thus need to be taken into careful consideration. Also, for some projects, the need for some IFI to obtain a sovereign guarantee may represent a hindering factor for mobilising investment financing (e.g. see the case of Kosovo). Other important issues are related to the maintenance of infrastructure facilities and the affordability for final users to pay for services at ever higher tariffs.

5. Management and implementation of the Facility

The **management** of the Facility will be provided by the Commission through DG ELARG, acting as Contracting Authority on behalf of the **beneficiaries**.

A **Steering Committee** (SC) will be created including the Commission, the EIB, the EBRD and the CEB and the beneficiaries. The SC will be chaired by DG ELARG and will meet at least every six months. The SC will have to give consensual advice on the priority and reserve list of projects to be supported and on the type of services to be provided by the contractor for each project through the IPF. The Steering Committee will ensure that the proposed pipeline of projects is consistent with the IPA annual national programmes. Other IFIs will be invited to attend meetings whenever projects that they would be interested to co-finance will be discussed.

At operational level, a **Secretariat** group will be set up and will be chaired by DG ELARG. The Secretariat will be composed of a focal point within DG ECFIN and the EIB, EBRD and CEB. The Secretariat will have two major functions:

- Prepare the meetings of the Steering Committee, determining the agenda and preparing the necessary information on the priority and reserve projects and the related type of services to be provided through the IPF;
- Monitor the implementation of the technical assistance to be provided by the contractor for the eligible projects as endorsed by the Steering Committee.

The Secretariat will be supported by available technical expertise within partner IFIs and the Commission. The Secretariat will meet on a monthly basis to discuss eligible priority projects in each sector on a rotating basis, providing technical advice on specific projects as required. Throughout the implementation of the Facility, the Secretariat will ensure regular liaison with relevant Commission DGs (TREN, ENV, REGIO) .

A **contractor**, selected through tender and contracted by the Commission, will provide the technical assistance services described under point 3 for the priority investment projects endorsed by the Steering Committee. For these projects, the IFIs envisaging to co-finance will agree on the terms of reference and the technical expertise to be mobilised by the contractor for the implementation of the requested services.

All stakeholders will be regularly **informed** directly and through the IFI Advisory Group, and its four working groups, on the implementation of the facility.

6. Needed resources and time schedule

To start with, the Commission will provide €16 million available under CARDS. A tender for the technical assistance services will be launched in November 2007 and the contract is scheduled to be signed in first half of 2008.

Overtime and as agreed in the Memorandum of Understanding on the IPF, more resources (grants and loans) may become available from the participating institutions, IFIs and bilateral donors.