**Action summary**

The action is 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.

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

This action will be instrumental in 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.
<table>
<thead>
<tr>
<th><strong>Action Identification</strong></th>
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<tr>
<td><strong>Action Programme Title</strong></td>
<td>IPA II Multi-country Action Programme for Connectivity 2015-2016</td>
</tr>
<tr>
<td><strong>Action Title</strong></td>
<td>Co-financing of Connectivity Projects in the Western Balkans</td>
</tr>
</tbody>
</table>
| **Action ID** | IPA 2015/038-055.01/MC/COFIN CONNECT  
IPA 2016/038-727.01/MC/COFIN CONNECT |
| **Sector Information** |  |
| **IPA II Sector** | 9. Regional and territorial cooperation |
| **DAC Sector** | 43010 |
| **Budget** |  |
| **Total cost** | EUR 504 million |
| **EU contribution** | EUR 144.9 million |
| **Management and Implementation** |  |
| **Method of implementation** | Indirect management:  
Co-Delegation Agreement; Contribution Arrangement |
| **Implementation responsibilities** | DG NEAR/D.5, EIB, EBRD, KfW, CEB, World Bank Group |
| **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** | For the budgetary commitment of year 2015  
at the latest by 31 December 2016  
For the budgetary commitment of year 2016  
at the latest by 31 December 2017 |
| **End of operational implementation period** | 31/12/2024 |
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 soft measures such as aligning and simplifying border crossing procedures, railway reforms, information systems (ITS), road safety and maintenance schemes, unbundling and third party access.

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.

In close cooperation with the South East Europe Transport Observatory (SEETO) and with the support of their instruments, the coordinators will set up corridor platforms where national authorities will work with transport operators and infrastructure managers, International Financial Institutions (IFIs) and other interested parties to identify priority regulatory changes, operational measures and infrastructure investments, as well as the most appropriate sources of financing to support the implementation of the transport corridor work plans. It will allow short term improvements while facilitating the preparation and implementation of major infrastructure works.

The regional core transport network, including road, railway, inland waterways as well as port infrastructure, shall be implemented through specific infrastructure projects as well as through soft measures implementing EU standards.

The soft measures will require limited funding but a strong political commitment. A study from the SEETO has analysed, amongst other measures, concrete border crossing and corridor management issues, which could be used as an input for a list of short term soft measures.

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 (PECIs) 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.

In parallel, the EnC prepared a list of national soft 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 WB6 Ministerial meeting in Vienna on 2 July 2015 focused on the energy dimension of the connectivity agenda and agreed on the high priority deliverables in this sector.

**Co-financing Policy and Connectivity**

Under the new approach, funds from the Instrument for Pre-Accession (IPA II) will support 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 € 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. Initially, IPA II regional funds will be only available for projects under the connectivity agenda for co-financing, while the technical assistance (TA) will continue 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 PECI list.

In October 2014 IPA Steering Committee approved the new **WBIF methodology**, including:

- **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%). One should prevent “crowding out” loan financing for already viable projects by too high IPA grant co-financing rates;

- Establishment of National Investment Committee frameworks (NICs) in the IPA II beneficiaries. The NICs 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).

- New implementation structure of IPA regional funds through the WBIF, following the new financial regulation (FR) as well as the impact of co-financing of investments to the WBIF.

- The criteria and conditions applied for the list of potential projects for co-financing under 2015 IPA are:
  (1) Projects must be mature (technically, financially);
(2) Projects must be subject of the Connecticity Agenda (TRA: core network, ENE: PECI list);

(3) Country strategy papers agreed, and a country sector policy in line with EU standards;

(4) Projects must be confirmed by a first draft prioritised Single Project Pipeline and discussed by a NIC (or similar body), before summer.

WBIF Programming and Identification of Connecticity Projects for 2015

The year 2015 is 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.

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, undertook programming missions in all six capitals (Podgorica, Tirana, Skopje, Pristina, Belgrade, Sarajevo), to determine whether the draft list of potential co-financing projects reflected the six governments' priorities and whether they were in line with the relevant sector strategies and planning frameworks. 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.

The WBIF team tried to identify whether the financial assumptions for each project are valid and if the IPA II beneficiaries had the necessary fiscal space to take up the corresponding loans. 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.

Timeline of four parallel processes
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 candidate countries, 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.

¹ C(2014) 4293, 30.06.2014
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 Papers\(^2\) 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. With the understanding that it is the basis for a sector strategy to be now developed, two transport projects with a direct cross-border impact were exceptionally included for support under this action. Future WBIF investment support will require the 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), now expanded with the 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 this action, WBIF evolves its previous financial assistance, to include co-financing of construction, starting in 2015. Co-financing actions already exist in the 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 enabled 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 soft 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

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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**

<table>
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<tr>
<th><strong>Overall Objective</strong></th>
<th><strong>Objectively Verifiable Indicators (*)</strong></th>
<th><strong>Sources of Verification</strong></th>
</tr>
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<tbody>
<tr>
<td>To contribute to enhancing the socio-economic development and competitiveness of the Western Balkans</td>
<td>GDP growth</td>
<td>European Commission Progress Reports</td>
</tr>
<tr>
<td></td>
<td>Increase of trade in goods and services</td>
<td>National Statistics Institutes</td>
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<td>Human development index</td>
<td>National Central Banks</td>
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<td>SEE 2020 implementation reports</td>
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<td>Government budget reports</td>
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<td>Public Finance statistics</td>
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<td>Eurostat</td>
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<tr>
<th><strong>Specific Objective</strong></th>
<th><strong>Objectively Verifiable Indicators (*)</strong></th>
<th><strong>Sources of Verification</strong></th>
<th><strong>Assumptions</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>To improve connectivity within the Western Balkans and between Western Balkans and the EU</td>
<td>Development of a regional energy market in the Western Balkans, integrated to EU energy market</td>
<td>WB6 Ministerial meetings conclusions</td>
<td>Political commitment from beneficiaries</td>
</tr>
<tr>
<td></td>
<td>Implementation of the extension of the TEN-T core network in the Western Balkans</td>
<td>SEE 2020 implementation reports</td>
<td>Sufficient administrative capacity in the beneficiaries</td>
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<tr>
<td></td>
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<td>Reports from SEE-2010</td>
<td>Local ownership of action outputs</td>
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<td></td>
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<td>Financial sustainability for an efficient operation and maintenance of the infrastructure</td>
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<td>Continued government commitment towards EU integration process</td>
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<thead>
<tr>
<th><strong>Results</strong></th>
<th><strong>Objectively Verifiable Indicators (*)</strong></th>
<th><strong>Sources of Verification</strong></th>
<th><strong>Assumptions</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Result: Completion of the connectivity projects benefiting from co-financing of the EU.</td>
<td>Completion of the construction of energy and transport infrastructure projects, as specified in the project list (electricity transmission lines, gas pipelines, roads, railways etc.).</td>
<td>Reports from the WBIF’s joint fund, lead Financial Institutions, IPA II beneficiaries, Contractors</td>
<td>Political commitment from beneficiaries</td>
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<tr>
<td></td>
<td></td>
<td>Reports from SEE-2010</td>
<td>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)</td>
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<tr>
<td></td>
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<td>Reports from EnC</td>
<td>Sufficient administrative capacity in the beneficiaries</td>
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<tr>
<td></td>
<td></td>
<td>WB6 Ministerial meetings conclusions</td>
<td>Set up of National Investment Committees, or similar coordination mechanisms and establishing single project pipelines</td>
</tr>
</tbody>
</table>

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<tr>
<th><strong>Activities</strong></th>
<th><strong>Means</strong></th>
<th><strong>Overall Cost</strong></th>
<th><strong>Assumptions</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>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 (EBRD, KfW, EIB, WBG)</td>
<td>Codelegation Agreement; Contribution Arrangements</td>
<td>EUR 144.9 million from IPA total investments.</td>
<td>Maturity of projects</td>
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<td>Beneficiaries capacity to absorb assistance</td>
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</table>
ADDITIONAL DESCRIPTION

After an intensive programming exercise, described in the first part of the action Document, the following seven projects were identified for co-financing in 2015³. Please note that all projects are subject to a final decision by the budgetary authorities. Figures on total investment, loan amounts, other sources of financing and grant percentage are indicative only.

1) Albania  │  Albania – the former Yugoslav Republic of Macedonia Power Interconnection (I): Grid Section in Albania

The project shall implement the Albanian part of the 400 kV transmission line Albania – the former Yugoslav Republic of Macedonia (Elbasan - Bitola), the 400 kV transmission line Elbasan - Fier as part of the East-West power transmission corridor and the new substation Elbasan 3 to interconnect the new infrastructure with the existing transmission system of Albania. The transmission line from Elbasan to Fier is an integral part of the future Albanian transmission network and essential for the technical operation of the whole line under most efficient conditions.

This project is on the list of priority investment projects of the Energy Community Ministerial Council (PECI project), in the national development plans of OST and MEPSO (Former Yugoslav Republic of Macedonia’s TSO) and also in the regional development plan of ENTSO-E.

Investment: EUR 70 million  │  lead IFI: KfW  │  Loan: EUR 50 million  │  Grant from IPA II Connectivity 2015-2016: EUR 14.294 million  │  Grant percentage: 20.5 % (including technical assistance and implementation fees)

2) The former Yugoslav Republic of Macedonia  │  Albania – the former Yugoslav Republic of Macedonia Power Interconnection (II): Grid Section in the former Yugoslav Republic of Macedonia

Construction of a new single circuit 400kV overhead transmission line from the Bitola 2 Substation to Ohrid Substation (both in the former Yugoslav Republic of Macedonia); construction of a new single circuit 400kV overhead line from Ohrid substation to the connection point at the Albanian border; construction of a 400kV/110 kV substation in Ohrid; extension of the Bitola 2 Substation.

The Project will ensure the interconnection of the grid with the Albanian grid, thus enhancing regional trading opportunities.

Investment: EUR 49 million  │  lead IFI: EBRD  │  Loan: EUR 37 million  │  Grant from IPA II Connectivity 2015-2016: EUR 12.245 million  │  Grant percentage: 25% (including technical assistance and implementation fees)

³ The loan amount can be higher than the amount of the total investment, since the loan often covers other projects/investments too. WBIF grant is a percentage of the total investment. See Project Passports in Annex for sources and uses of funds, and other information.
3) Montenegro  | Trans-Balkan Electricity Corridor (I): Grid Section in Montenegro

The 220kV system which connects Western Serbia to Montenegro has been in service for more than 50 years and is nearing the end of its useful life. In addition, the 220 kV connection from Bosnia and Herzegovina to Serbia (in the direction of Montenegro) will be insufficient to support projected future electricity trading between these three countries. The Montenegro part of the project consists of:

1. Construction of new Substation 400/110kV Lastva
2. Construction of a new 400kV overhead transmission line from Lastva to Pljevlja
3. Reconstruction existing Substation 400/220/110 kV Pljevlja
4. Construction of a new 400kV overhead transmission line from Pljevlja to Montenegro /Serbia state border

The Project will thus facilitate trade across the whole of the region and with Italy via an undersea cable; it will contribute to the stability and security of the electricity system across the region. It is a PECI priority project. The proposed grant relates only to the Montenegro part of the project.

Investment: EUR 127 million  | lead IFI: EBRD, Loan IFI: KfW  | Loan: EUR 25 million  | Grant from IPA II Connectivity 2015-2016: EUR 25.54 million  | Grant percentage: 20% (including technical assistance and implementation fees)

4) Serbia  | Trans-Balkan Electricity Corridor (II): Grid Section in Serbia

The project Transbalkan corridor - Internal line - New 400 kV OHL between SS Kragujevac (Serbia) - SS Kraljevo (Serbia) with the upgrade of SS Kraljevo (Serbia) to 400 kV voltage level is part of a wider project to further transition to 400 kV voltage in central and western Serbia. Feasibility studies have shown that the construction of new 400 kV lines in the area proves to be more cost effective than investing in the rehabilitation of existing and construction of new 220 kV lines in the area. Investment in the transmission grid is necessary as the existing network is largely consisting of 50 year-old or more lines.

This project will improve the security of supply of electricity for approximately 1.05 million domestic customers, it will also reduce network losses with an expected annual saving of EUR 380,000 approximately.

Investment: EUR 28 million  | lead IFI: KfW  | Loan: EUR 14.27 million  | Grant from IPA II Connectivity 2015-2016: EUR 6.7546 million  | Grant percentage: 24% (including technical assistance and implementation fees)

5) Bosnia and Herzegovina  | Mediterranean Corridor (CVc): Road Interconnection, Bosnia and Herzegovina – Croatia

The border crossing and the cross-border bridge are the missing link in the existing motorway construction project, which is currently underway in both Bosnia and Herzegovina and Croatia. The application for a WBIF Grant from the side of Bosnia and Herzegovina is supplementary to the corresponding financing on the Croatian side, envisaged from the Regional Funds (Cohesion Fund (European Structural and Investment (ESI) Funds).

The motorway section Svilaj - Odžak is a part of Corridor Vc on the northern Bosnia and Herzegovina border. The length of the section on Bosnia and Herzegovina territory is ca. 11.3 km. This section includes the border crossing and the bridge Svilaj, as well as 10 km of motorway. The section starts in the middle of the river Sava, which also represents the border between Croatia and Bosnia and Herzegovina, continues towards the south near Svilaj and ends in Odžak. The Section has two interchanges: Svilaj and Odžak. The detailed
design was adopted for a 660 m long bridge across the River Sava, of which 330 m is located in Bosnia and Herzegovina. Estimated value of the bridge is 15 million, border crossing 7 million, and the 10 km motorway 87 million.

Investment: EUR 109 million
lead IFI: EIB
Loan: EUR 45 million
Grant from IPA II Connectivity 2015-2016: EUR 25.0966 million
Grant percentage: 23%
(including technical assistance and implementation fees)

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

The EBRD is considering providing a sovereign loan to Kosovo to be on-lent to Infrastructure of Kosovo Railways JSC. The loan would finance the urgent rehabilitation and upgrading of SEETO’s Rail Route 10 within Kosovo. The route is 148 km long and spans from the border/boundary with Serbia in the north of Kosovo (Leshak station) to the border/boundary with the former Yugoslav Republic of Macedonia (Hani i Elezit station).

The project will be implemented in three phases with the rehabilitation and upgrading of the following sections: section Fushe Kosova / the Former Yugoslav Republic of Macedonia border (phase 1); section Fushe Kosova / Mitrovica (phase 2); and section Mitrovica / Serbian border (phase 3).

This railway line is the only operational railway link connecting Kosovo’s domestic network to the international network. The line is part of the "core network corridor" and the Comprehensive Network of the South East Europe Transport Observatory (SEETO) and the project will support Kosovo’s integration to the regional and European markets.

The proposed loan and grant relate to phase 1 only.

Investment: EUR 80.9 million
lead IFI: EBRD, EIB
Loans: EUR 19.2 million x 2
Grant from IPA II Connectivity 2015-2016: EUR 39.3116 million
Grant percentage: 48.6% (including technical assistance and implementation fees)

7) Montenegro
Orient/East-Med Corridor (R4): Rail Interconnection, Montenegro – Serbia

Rehabilitation of structures and signalling modernisation on 2 sections of the railway line between the port of Bar and the Serbian border at Vrbnica:

• Phase 1 (2015-2017) Replacement of signalling covering about 9 km of line, in the station Podgorica, as well as reconstruction of about 5.3 km of concrete bridges.
• Phase 2 (2016-2019) Replacement of signalling covering about 11 km of line, in the station Bar

These sections are part of the 167 km of electrified single track railway line between the port of Bar and the Serbian border at Vrbnica, forming the Montenegrin part of SEETO Rail Route 4. Bar-Vrbnica is the most important railway line of the Montenegrin rail network, carrying about 20% of all passenger volume and about 60% of all freight. The Beneficiary should confirm the need for the grant that would complement its own funds, and the project component that would receive the grant. The loan and grant amounts below only regard Phase 1.

Investment: EUR 40 million
lead IFI: EIB
Loan: EUR 20 million
Grant from IPA II Connectivity 2015-2016: EUR 20.4 million
Grant percentage: 50% (including implementation fees)

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*4 This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.
The funds under this action will equally be used to cover the management fees for the tasks entrusted to the Joint Fund Managers described below (up to an amount of EUR 1,258,200).
3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

IPA funds will be implemented through the WBIF, via a long term contractual arrangement 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 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 an agreement with all IFIs involved in the WBIF (EBRD, EIB, KfW, CEB, WBG). 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 EWBJF. 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 2014, Germany co-chaired the Steering Committee. Italy will co-chair during 2015.

The Project Financiers’ Group, composed of representatives of the Commission, the partner IFIs, bilateral Financial Institutions and development agencies of EWBJF 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.

WBIF Governance

Steering Committee (SC) provides strategic guidance and advice; approves grants.

Project Financiers’ Group (PF): screens and assesses requests for financial support and submits proposals to the SC.

Beneficiary Countries - NIPACs / National Investment Committees (6): prioritise projects and submit applications to PF for WBIF financing.

Donors provide the resources for the WBIF.

WBIF Secretariat supports the administration of the WBIF.
**IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING**

This action will be implemented under indirect management through the signature of a co-delegation agreement between the Commission and the five International Financing Institutions (IFIs) participating in the WBIF:

- European Investment Bank (EIB)
- European Bank for Reconstruction and Development (EBRD),
- Council of Europe Development Bank (CEB),
- Kreditanstalt für Wiederaufbau (KfW), and
- World Bank Group (WBG).

All the above IFIs have been long standing partners in the inception, realisation and implementation of the WBIF. Over the five years of operation of the WBIF, the EIB, the EBRD, the CEB, KfW and the World Bank Group have demonstrated the availability and capacity to be entrusted with the implementation of the action. The EIB and the EBRD in particular have undertaken the role of the WBIF joint fund management, while together with the other IFIs have been participating in the operational and decision making structure of the WBIF and the implementation of Technical Assistance, whose aim has been the preparation of investment projects.

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 Co-delegation Agreement 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. The lead IFIs are the EIB, the EBRD, the CEB, the KfW, and the World Bank Group.

Under the co-delegation agreement 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 co-delegation agreement.

**Commission Decision on programming and selection of projects within the WBIF**

The Financing Decision would include an indicative list of projects, which would demonstrate that the amount allocated in the Financing Decision is based on a pipeline of mature infrastructure projects (such an indicative list is not necessary for TA projects). The Financing Decision together with the indicative list of projects will be subject to opinion of the IPA Committee (Member States).

Nevertheless, as the final selection of the projects is only known at the WBIF Steering Committee meeting, the Commission should be in a position to confirm or not this final selection as soon as possible after the Steering Committee meeting.

In order to simplify and accelerate this approval process, it is proposed to organise a sub-delegation to the competent Director who can, in his capacity as permanent chairperson of the Steering Committee, confirm the final selection agreed by all Steering Committee members. There is no further involvement of the IPA Committee required.

**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 co-delegation agreement sets all terms and conditions for this delegation (equivalent to the general conditions for all indirect management agreements, based on the PAGODA template), 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 co-delegation agreement would apply to each contribution arrangement too.

The managers of the co-delegation agreement 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. See infographics on previous page for the visualization of reporting relationships.

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

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Baseline (2)</th>
<th>Milestone 2017(3)</th>
<th>Target 2020 (4)</th>
<th>Final Target 2023 (5)</th>
<th>Source of information</th>
</tr>
</thead>
<tbody>
<tr>
<td>OUTPUT - Completion of the construction of energy and transport infrastructure projects, as specified in the project list (electricity transmission lines, gas pipelines, roads, railways etc.).</td>
<td>0 (none completed)</td>
<td>N/A</td>
<td>N/A</td>
<td>7 (all completed).</td>
<td>Reports from the WBIF's joint fund, lead Financial Institutions, IPA II beneficiaries, Contractors Reports from SEETO Reports from EnC</td>
</tr>
</tbody>
</table>

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: Project Passports, Transport Map, Energy Map
LIST OF ANNEXES (for EC internal use only*)

ANNEX I: Indicative action budget breakdown and planning for contracting procedures

Indicative action budget breakdown and planning for contracting procedures

<table>
<thead>
<tr>
<th>IMPLEMENTATION MODALITIES</th>
<th>BUDGET (€)</th>
<th>TIME LINE&lt;sup&gt;5&lt;/sup&gt;</th>
<th>TIMELINE&lt;sup&gt;6&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>EU contribution</td>
<td>Launch of procedure</td>
</tr>
<tr>
<td>INDIRECT MANAGEMENT (CO-DELEGATION AGREEMENT)</td>
<td>504,000,000</td>
<td>144,900,000</td>
<td>N/A</td>
</tr>
<tr>
<td>TOTAL</td>
<td>504,000,000</td>
<td>144,900,000</td>
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*This table should be removed before the Action Document is circulated to external stakeholders

ANNEX II: Amounts (in EUR) disbursed over the full duration of project

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Co-Delegation / Contribution Arrangements</td>
<td>-</td>
<td>14,000,000</td>
<td>3,000,000</td>
<td>20,000,000</td>
<td>30,000,000</td>
<td>30,000,000</td>
<td>30,000,000</td>
<td>17,900,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cumulated</td>
<td>-</td>
<td>14,000,000</td>
<td>14,000,000</td>
<td>17,000,000</td>
<td>17,000,000</td>
<td>37,000,000</td>
<td>67,000,000</td>
<td>97,000,000</td>
<td>127,000,000</td>
<td>144,900,000</td>
<td></td>
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</tr>
</tbody>
</table>

<sup>5</sup> Timeline: QUARTER (Q1, Q2, Q3, Q4) YEAR
<sup>6</sup> Contract signature date: if relevant; i.e. for Direct Grants mainly