



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

### **MULTI-COUNTRY**

### **EU support to transport and energy connectivity projects in the Western Balkans 2019-2020**

#### **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.

This action includes the fifth Connectivity Agenda package introduced on the occasion of the Western Balkans Summit in Poznan in July 2019.

With more than EUR 180 million in EU grant supporting 6 transport and 2 energy infrastructure projects the action will contribute to improving transport and energy 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. It is expected that the total investment leveraged through the EU support will amount to EUR 728 million.

<b>Action Identification</b>	
<b>Action Programme Title</b>	IPA II Multi-country Action Programme for Connectivity for the years 2019-2020
<b>Action Title</b>	EU support to transport and energy connectivity projects in the Western Balkans 2019-2020
<b>Action ID</b>	IPA 2019/041-953.01/MC/COFIN CONNECT IPA 2020/042-275.01/MC/COFIN CONNECT
<b>Sector Information</b>	
<b>IPA II Sector</b>	9. Regional and territorial cooperation
<b>DAC Sector</b>	21010 – Transport policy and administrative management 21020 – Road Transport 21030 – Rail Transport 23110 – Energy policy and administrative management 23630 – Electric power transmission and distribution 23640 – Gas Distribution
<b>Budget</b>	
<b>Total cost</b>	EUR 728 086 177 (2019: EUR 721 302 276; 2020: EUR 6 783 902)
<b>EU contribution</b>	<b>EUR 184 600 000</b> ( <b>IPA 2019:</b> EUR 182 880 000; <b>IPA 2020:</b> EUR 1 720 000)
<b>Budget line(s)</b>	22.020401 – Multi-country programmes, regional integration and territorial cooperation
<b>Management and Implementation</b>	
<b>Management mode</b>	Indirect management
<i>Indirect management:</i> <b>Entrusted entity</b>	Indirect management with EIB, EBRD (as EWBJF managers) via Contribution Arrangements to the EWBJF.
<b>Implementation responsibilities</b>	DG NEAR/D.5, EIB, EBRD and KfW, as lead Financial Institutions in charge for the implementation of the listed projects
<b>Location</b>	
<b>Zone benefiting from the action</b>	Western Balkans (Republic of Albania, Bosnia and Herzegovina, Republic of North Macedonia, Kosovo*, Montenegro, Republic of Serbia)
<b>Specific implementation area(s)</b>	N/A
<b>Timeline</b>	
<b>Final date for contracting including the conclusion of delegation agreements</b>	31 December 2020 (for 2019 budget allocations) 31 December 2021 (for 2020 budget allocations)

\* 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.

<b>Final date for operational implementation</b>	108 months from the adoption of the Financing Decision.
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<b>Policy objectives / Markers (DAC form)</b>			
<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
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"/>
<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
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

### *Financial support for the 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 it will bring clear benefits for economies and citizens. The EU has developed a wide **Connectivity Agenda** with many concrete measures that benefit citizens throughout the region with a focus on not only transport, but also energy, trade and digitalisation that will create stronger links within the Western Balkans as well as between the region and the EU citizens.

For example this will create a more secure energy supply, allow for the integration of clean, renewable energy resources, as well as increase trade and economic growth both in the region and with the EU.

The Western Balkans have made the Connectivity Agenda one of their 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 EUR 1 billion for connectivity investment projects for the 2014-2020 period. Under the Connectivity Agenda, the EU has pledged so far EUR 700 million in grants to the transport and energy sector and leveraged more than EUR 2400 million investments.

In February 2018, the Commission adopted a strategy for ‘A credible enlargement perspective for and enhanced EU engagement with the Western Balkans’ (‘Western Balkans Strategy’). Through six flagship initiatives, the Western Balkans Strategy sets out the EU’s unprecedented support to the transformation process in the Western Balkans, targeting specific areas of interest for both the EU and the Western Balkans. The flagship initiatives of the Western Balkans Strategy supports the region’s socio-economic development and transport and energy connectivity within the region and with the EU. Increased funding in the fields is also foreseen and it will further enhance the economic integration within the region and with the EU. Better connections in the region will contribute to increased competitiveness, more sustainable economic growth and the security of supply.

Under the Connectivity Agenda, the EU provided the first EUR 200 million at the Western Balkans Summit in Vienna in August 2015 for ten priority projects, out of which eight were financed from the Multi country IPA allocation. This first financing was known as Round "zero". The 2016 follow-up – Round 1 – included EUR 145.5 million for connectivity projects. Out of the EU support, EUR 90 million was allocated to three rail projects, while around EUR 46 million were reserved for four transport projects from Bosnia and Herzegovina which were technically screened positively, but were in the end not approved due to the lack of a transport strategy.

The 2017 connectivity package – Round 2 – was endorsed at the Trieste Summit in July 2017 for a total grant size of EUR 144.5 million. From the Trieste package, the Commission Decision on Connectivity for the year 2017-2018 provided grant support to projects for a budget of EUR 104.87 million (allocated between 2017 and 2018). In addition, one energy connectivity project in Serbia was endorsed for financing by the bilateral IPA envelope, grant size of EUR 49,6 million leveraging EUR 85,5 million total investment.

In May 2018, the fourth connectivity package – *Round 3* – was introduced at the Western Balkans Summits first in Sofia in May and later in London in July 2018. More than EUR 190 million in EU grant will support 11 transport infrastructure development projects (nine investment projects and two technical assistance grants).

The fifth and most recent connectivity package – *Round 4* – was endorsed in Poznan during the Western Balkans Summit on 4-5 July. The package includes six transport infrastructure projects and two energy infrastructure projects with a total EU contribution of more than EUR 180 million and total investment cost exceeding EUR 728 million.

After the approval by the Steering Committee of the WBIF expected in December 2019, together with the new package **the total EU funds under the connectivity Agenda** will reach **88% of the EUR 1 billion pledged** in 2015. The EU funds are expected to leverage investments with a total project cost exceeding EUR 3.2 billion.

Here below is a list of the Connectivity Agenda packages, year by year as politically endorsed by the different Western Balkans' Summits:

Year	Indicative lists of projects	Decision in the context of the Connectivity Agenda
2015	Albania   Albania – North Macedonia Power Interconnection (I): Grid Section in Albania	Endorsed by the Vienna Summit in August 2015
	North Macedonia   Albania – North Macedonia Power Interconnection (II): Grid Section in North Macedonia	
	Montenegro   Trans-Balkan Electricity Corridor (I): Grid Section in Montenegro	
	Serbia   Trans-Balkan Electricity Corridor (II): Grid Section in Serbia	
	Bosnia and Herzegovina   Mediterranean Corridor (CVc): Road Interconnection, Bosnia and Herzegovina – Croatia	
	Bosnia and Herzegovina   Mediterranean Corridor (R2a): Road Interconnection, Bosnia and Herzegovina – Croatia	
	Kosovo   Orient/East-Med Corridor (R10): Rail Interconnection, North Macedonia – Kosovo – Serbia	
	Montenegro   Orient/East-Med Corridor (R4): Rail Interconnection, Montenegro – Serbia	
2016	Serbia   Orient/East-Med Corridor: Serbia – Bulgaria CXc Rail Interconnection	Endorsed by the Paris Summit in July 2016
	Albania   Mediterranean Corridor: Montenegro – Albania – Greece Rail Interconnection	
	Kosovo   Orient/East-Med Corridor: North Macedonia – Kosovo – Serbia R10 Rail Interconnection	
2017	Bosnia and Herzegovina   Mediterranean Corridor (CVc): Bosnia and Herzegovina – Croatia CVc Road Interconnection I (Ponirak – Vraca/Zenica Tunnel Segment) <sup>1</sup>	Endorsed by the Trieste Summit in July 2017
	Bosnia and Herzegovina   Mediterranean Corridor: Bosnia and Herzegovina – Croatia CVc Road Interconnection II (Tunnel Zenica – Donja Gračanica Segment)* <sup>2</sup>	
	Bosnia and Herzegovina   Mediterranean Corridor: Bosnia and Herzegovina – Croatia CVc Road Interconnection III (Johovac Interchange – Rudanka Interchange)	
	Bosnia and Herzegovina   Rhine/Danube Corridor: Bosnia and Herzegovina – Serbia – Croatia Waterway Interconnection (Port of Brčko)	
	North Macedonia   Orient/East-Med Corridor: North Macedonia – Bulgaria CVIII Rail Interconnection (Beljakovce – Kriva Palanka)	
	Serbia   Orient/East-Med Corridor: Serbia – Bulgaria CXc Rail Interconnection (Nis – Dimitrovgrad – Border with Bulgaria)	
2018	<b>Investment Projects</b>	Endorsed by the Sofia Summit in May 2018
	Albania   Extension of TEN-T Core Network: Reconstruction of Durrës	

<sup>1</sup> These projects, under the 2016 call, had been submitted as one application. The applications have been split under the 2017 call.

<sup>2</sup> These projects, under the 2016 call, had been submitted as one application. The applications have been split under the 2017 call.

	Port, Quays 1 & 2	
	Bosnia and Herzegovina   Mediterranean Corridor: Bosnia and Herzegovina – Croatia CVc Road Interconnection, Tarčin – Ivan Subsection I	
	Bosnia and Herzegovina   Mediterranean Corridor: Bosnia and Herzegovina – Croatia CVc Road Interconnection, Tarčin – Ivan Subsection II	
	Bosnia and Herzegovina   Mediterranean Corridor: Bosnia and Herzegovina – Croatia CVc Road Interconnection, Buna – Počitelj Subsection	
	North Macedonia   Orient/East-Med Corridor: North Macedonia – Bulgaria CVIII Road Interconnection, Kriva Palanka – Deve Bair Section	
	North Macedonia   Orient/East-Med Corridor: North Macedonia – Albania CVIII Road Interconnection, Bukojčani – Kičevo Subsection	
	Montenegro   Mediterranean Corridor: Montenegro – Croatia – Albania R1 Road Interconnection, Budva Bypass	
	Montenegro   Orient/East-Med Corridor: Montenegro - Serbia R4 Rail Interconnection, Bar – Vrbnica Section	
	Serbia   Orient/East-Med Corridor: Serbia – Kosovo R7 Road Interconnection, Niš (Merošina) – Pločnik (Beloljin) Section	
	<b>Technical Assistance</b>	
	Bosnia and Herzegovina   Supervision of Works for Mediterranean Corridor: Bosnia and Herzegovina – Croatia CVc Road Interconnection, Počitelj – Zvirovići Subsection	
	Kosovo   Tender Documents and Supervision of Works for Orient/East-Med Corridor: Kosovo – Serbia R7 Road Interconnection, Pristina - Merdare Section	

The **indicative list of projects endorsed by the Poznan Summit** and subject of this Action Document proposed for co-financing:

2019	North Macedonia   North Macedonia – Greece Gas Interconnection Pipeline	Endorsed by the Poznan Summit in July 2019
	Serbia   Trans-Balkan Electricity Corridor: Obrenovac – Bajina Basta Double Circuit 400 kV Overhead Line <sup>3</sup>	
	Bosnia and Herzegovina   Mediterranean Corridor (CVc): Putnikovo brdo 2 Tunnel (Entity Border Line RS/FBiH) – Medakovo Interchange Motorway Subsection	
	Bosnia and Herzegovina   Mediterranean Corridor (CVc): Poprikuse – Nemila Motorway Subsection	
	Bosnia and Herzegovina   Mediterranean Corridor (CVc): Rudanka Interchange (Kostajnica) – Putnikovo Brdo 2 Tunnel (Entity Border Line RS/FBiH) Motorway Section	
	Kosovo   Orient/East-Med Corridor: General Rehabilitation of Railway Route 10 - Signalling and Telecom for Phase 1 and Phase 2 (Border with North Macedonia – Hani i Elezit – Fushe Kosove – Mitrovica)	
	North Macedonia   Orient/East-Med Corridor (CX): Tabanovce Railway Joint Border Station and Access Road	
	North Macedonia   Orient/East-Med Corridor (R6a): Blace – Skopje	

<sup>3</sup> Financing for this project is dependent on fulfilment of the related reform measure

### *Energy sector*

The acknowledgement of the advantages of coordinated action in the strategic field of energy 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 (with a view to reaching 15% by 2030), which is the minimum necessary for the electricity to flow and be traded between Member States.

The EU clean energy for all Europeans package from 2018 provides a comprehensive update of its energy policy framework to facilitate the transition away from fossil fuels towards cleaner energy and to deliver on the EU's Paris Agreement commitments for reducing greenhouse gas emissions. It contributes to further implementing the Energy union. The Western Balkans Strategy of 6 February 2018 prioritises to expand the Energy Union to the Western Balkans.

With the aim to extend the EU internal energy market to EU neighbouring countries in South East Europe and the Black Sea region, the treaty establishing the **Energy Community (EnC)** was signed 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 the European perspective.

The **PECI list was updated in November 2018** when the Ministerial Council of EnC adopted a list of ten PECI projects, five of which concern Western Balkans, including one project involving also a Member State (Gas Interconnector Bulgaria - Serbia (IBS)).

In addition the Ministerial Council decided that a further fourteen projects receive the status of **Project of Mutual Interest (PMI)**. Each of these projects involves one Member State and at least one EnC Contracting Party; seven of these projects involve at least one IPA II beneficiary. Projects' merits for the regional energy markets have been evaluated with the same methodology and criteria and projects enjoy the same political endorsement in EnC contracting parties and in concerned EU Member States. Hence, the European Commission is considering both PMIs and PECIs eligible for receiving technical assistance and investment grant support.

### *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.

The European Commission and the 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 Western Balkans 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 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 as well as with the EU network. The European Commission will continue to facilitate this process.

Each Beneficiary has established "**National Investment Committees**" and **single project pipelines** which are becoming 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 investment planning and sector strategies.

The European Union and six partners of the Western Balkans signed the **Transport Community Treaty** in 2017. The permanent Secretariat, located in Belgrade, is operational since spring 2019 and the official inauguration will be on September 2019. The Western Balkans Ministers of Transport have decided that Belgrade will be the headquarters of the **Secretariat of the Transport Community**. The Treaty represents the beginning of new era of cooperation between the EU and the Western Balkans. The essence of the Transport Community is to bring the Western Balkans closer to the EU by creating a fully integrated transport network among the Western Balkans partners themselves as well as between the region and the EU, and to reach convergence with the transport operating standards and policies of the EU.

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 people, 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.

#### *Connectivity Reform Measures*

Connectivity is not only about building new infrastructure, but also about getting the best use out of it. Similarly important is the implementation of technical standards and connectivity reform measures such as aligning and simplifying border crossing procedures, railway reforms, information systems, road safety and maintenance schemes, railway unbundling and third party access. The implementation of the regional and local connectivity reform measures will further attract and increase the foreign and domestic investments. The transport accompanying reform measures (formerly so called "soft measures") agreed in Vienna in 2015 and in Paris in 2016 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 sector, the Energy Community prepared a list of **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. Also, the South-East Europe Transport Observatory (SEETO) recently transposed into the Transport Community Secretariat, is specifically supported by Commission funds to help beneficiaries to advance on the Connectivity Reform Measures in the Transport sector.

## OUTLINE OF IPA II ASSISTANCE

### *Co-financing Policy and Connectivity*

Under a new approach, funds from the Instrument for Pre-Accession Assistance (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 to the Connectivity Agenda is reflected in the substantial increase of the available funding: around EUR 100-150 million 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 five WBIF sectors (energy, transport, environment, social, and digital). From 2018 with the launch of the Digital Agenda for the Western Balkans, projects with the objectives of improving digital connectivity became eligible for WBIF TA support.

IPA II regional funds will primarily be used for transport projects on the core transport network, and energy projects on the PECEI and PMI lists.

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. the beneficiaries and other donors).
- The **criteria and conditions** applied for the list of potential projects for **co-financing** are:
  - (1) Projects must be **mature** (technically – preparatory documents, including the Environmental Impact Assessment, at a very advanced stage, financially);
  - (2) Projects must be subject of the **Connectivity Agenda (energy: PECEI and PMI lists; transport: core network)**;
  - (3) **Indicative Strategy Papers for relevant IPA II beneficiaries agreed, and sector strategies for relevant IPA II beneficiaries adopted**;
  - (4) Projects must be confirmed by a prioritised **single project pipeline and discussed by a NIC**.

## ***Connectivity co-financing; overview of the Connectivity packages endorsed and approved during the period 2015-2019***

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 at the **Vienna EU-Western Balkans Summit**.
- The European Commission took its financing decision for EUR 145 million in November 2015 and the first funds were approved at the **13<sup>th</sup> WBIF Steering Committee (WBIF SC) meeting in Paris** in December 2015 for investment grant co-financing.

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

- WBIF received 10 grant applications 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. The projects were then presented at the **Paris EU-Western Balkans Summit** for endorsement.
- The European Commission took its financing decision for EUR 147.5 million in December 2016, and the **15<sup>th</sup> WBIF SC in London** approved the final list of projects from Round 1 in December 2016.

The *third year of co-financing (2017)* is referred to as **Round 2:**

- In the 2017 WBIF application round, 7 connectivity projects were submitted for a total of EUR 182.6 million (6 in transport and 1 in energy sector) from Serbia, Bosnia-Herzegovina and North Macedonia. In addition to 2017 applications, there were also 4 transport projects submitted by Bosnia and Herzegovina in 2016 which were put on hold pending the adoption of a national transport strategy. As Bosnia and Herzegovina adopted the strategy at the end of 2016, those 4 projects amounting to EUR 46 million were included in the overall Trieste package. Furthermore, the Serbia-Bulgaria gas interconnector project (financed by a grant amounting to EUR 50 million from the IPA bilateral envelope) was included in the overall Trieste package, since the project's purpose fully followed the logic of the Connectivity Agenda;
- The technically and financially mature proposals were endorsed at the **Trieste EU-Western Balkans Summit in July 2017** and the European Commission took its financing decision for EUR 104 873 460 in November 2017. **The 17<sup>th</sup> WBIF SC in Frankfurt** approved the final list of projects from Round 2 in December 2016.

The *fourth year of co-financing (2018)* is referred to as **Round 3:**

- In Round 3, 9 transport and energy investment projects were submitted, but only the most mature proposals have been selected. The progress with the implementation and/or transposition of the Connectivity Reform Measures was also taken into account as a selection criterion for EU funding of investments under the WBIF. Seven investment project proposals (from Round 3) and two proposals (from Round 2) were considered mature enough for endorsement at the **Sofia Summit** in May 2018. The connectivity package also included two technical assistance projects with a total amount of EUR 9.6 million EU contributions.
- The Commission took its financing decision for EUR 207 million in November 2018. The final approval was given by the **19<sup>th</sup> WBIF SC in Luxembourg** in December 2018.

The *fifth year of co-financing (2019)* is referred to as **Round 4:**

- In Round 4, Beneficiaries submitted 13 applications (11 transport projects and 2 energy projects). Out of the total submitted, 8 were considered mature enough for endorsement at the **Poznan EU-Western Balkans Summit** in July 2019. Financing of one of the projects is dependent on the fulfilment of the related connectivity reform measure.

It is important that the IPA II funds are used and consumed within the set timeframes, budgets and according to the predefined conditionalities. Progress with the implementation and/or transposition of the Connectivity Reform Measures has to be taken into account as a selection criterion for EU funding of investments under the WBIF. Finally, the budget and the funds limitations obviously represent one of the main parameters affecting the list of projects which will receive EU support.

This action was prepared with a view to be approved at the IPA Committee in November 2019, followed by the Financing Decision beginning of December 2019. The final list of projects from Round 4 will be presented to the 21<sup>st</sup> WBIF SC meeting in London, in December 2019 for approval.

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

The **Multi-country Indicative Strategy Paper 2014-2020** (as revised in 2018 and 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 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 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 is also in line with the EU macro-regional strategies, such as the **EU Strategy for the Danube Region (EUSDR) and the 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. This has also been confirmed and reinforced in the **Western Balkan Strategy** of February 2018. The action contributes to several flagship initiatives of the Strategy; it will enhance the support for socio-economic development in the Western Balkans and it will increase regional connectivity.

WBIF includes central administrations (with the NIPAC and Ministries of Finance playing an important role), the European 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 based on a single project pipeline, based on beneficiary strategies.

The action is in line with the **different beneficiary strategies and the Indicative Strategy Papers for the IPA II beneficiaries** establishing the priorities for bilateral IPA Programmes. WBIF support in any sector requires the existence of **sector strategies**.

In addition, with respect to the **Digital Agenda for the Western Balkans**, introduced in the recent Western Balkans Strategy as one of the flagship initiatives, whenever applicable the projects proposed in this package will take into account the Directive 2014/61/EU on measures to reduce the cost of deploying high-speed electronic communications networks, which aims to facilitate and incentivise the roll-out of high-speed electronic communications networks by promoting the joint use of existing physical infrastructure and by

enabling a more efficient deployment of new physical infrastructure so that such networks can be rolled out at lower cost.

## **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 **since 2015 to co-financing of investments** (construction). WBIF continues to serve as a forum for exchanging 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 beneficiary 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". Starting with the 2015-2016 co-financing, WBIF evolved its previous financial assistance, and included co-financing of construction, which proved to be a positive evolution of EU's assistance to the Western Balkans.

The European Commission 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. The new methodology and co-financing strengthened 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 tried to keep the procedures at the lowest level of complexity as possible, and took into account EU Blending and External Cooperation Platform (EUBEC ) recommendations. Coupled with ensured transparency of the WBIF structures the new methodology enabled 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 the European perspective 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: the **South East Europe Transport Observatory**, the Transport Community and the **Energy Community (EnC)**, support 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 eight **Infrastructure Project Facilities (IPFs)** have supported or are currently supporting beneficiary and regional efforts in the development and upgrading of digital, energy, environment, social and transport infrastructure, promoting the sustainable development in the Western Balkans through the effective and timely preparation of investment projects. IPFs 1 to 4 have ended and IPFs 5 to 8 are currently active. IPF 9 should become operational before the end of 2019. In addition, the Multi-Country Programme 2019 foresees another EUR 25.5 million for IPFs.

The Commission also has a special Connectivity technical assistance facility, the **CONNECTA**, which is currently operational and the objective of which is to complement the IPFs and further speed up project

preparation in the digital, energy and transport sectors, as well as support energy and transport Connectivity reform measures.

When implementing the action, it will be guaranteed that there is no overlap, but **complementarity with the existing instruments** and with bilateral IPA programmes. This is ensured by the participation of **geographical and horizontal units of the Commission and EU Delegations** in the screening process of all WBIF applications. Also, the Commission is systematically communicating and informing the geographical units and EU Delegations through a dedicated WBIF network and regular meetings and/or video conferences.

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. Moreover, for each project application under the current package, the Beneficiaries were required to review the impacts of the envisaged investments on their fiscal space and the sustainability of the public debt.

## 2. INTERVENTION LOGIC

### LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE(S) / (IMPACT(S))	OBJECTIVELY VERIFIABLE INDICATORS <sup>1</sup>				SOURCES & MEANS OF VERIFICATION	
	INDICATOR'S NAME	BASELINES (2017)	MILESTONES (INCL. VALUE & REFERENCE YEAR)	TARGETS (2028)		
To reinforce the sustainable socio-economic development and competitiveness of the Western Balkans	GDP growth rate Value of trade in goods and services (EUR million) Human development index	Eurostat	will be determined later	will be determined later	European Commission Progress Reports National Statistics Institutes National Central Banks SEE 2020 implementation reports Government budget reports Public Finance statistics Eurostat	
SPECIFIC OBJECTIVE(S) / OUTCOME(S)	OBJECTIVELY VERIFIABLE INDICATORS (*)				SOURCES OF VERIFICATION	ASSUMPTIONS
Specific Objective 1: To improve connectivity within the Western Balkans and between the 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	N/A	N/A	Regional energy markets integrated to EU energy markets  TEN-T core network in the Western Balkans extended	WB6 Ministerial meetings conclusions SEE 2020 implementation reports Reports from EnC Reports from Transport Community Secretariat	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 path
OUTPUTS	OBJECTIVELY VERIFIABLE INDICATORS (*)				SOURCES OF VERIFICATION	ASSUMPTIONS
<p><b>Result:</b> Completion of the connectivity projects benefiting from co-financing of the EU;</p> <ul style="list-style-type: none"> <li>- Completion of Greece Gas Interconnection Pipeline;</li> <li>- Completion of the Obrenovac – Bajina Basta Double Circuit 400 kV Overhead Line on the Trans-Balkan Electricity Corridor: <i>(*subject to approval)</i>;</li> <li>- Completion of the of Putnikovo brdo 2 Tunnel (Entity Border Line RS/FBiH) – Medakovo Interchange Motorway Subsection (Mediterranean Corridor CVc);</li> <li>- Completion of Poprikuse – Nemila Motorway Subsection (Mediterranean Corridor CVc);</li> <li>- Completion of the Rudanka Interchange (Kostajnica) – Putnikovo Brdo 2 Tunnel (Entity Border Line RS/FBiH) Motorway Section (Mediterranean Corridor CVc);</li> <li>- Completion of the General Rehabilitation of Railway Route 10 - Signaling and Telecom for Phase 1 and Phase 2 (Border with North Macedonia – Hani i Elezit – Fushe Kosove – Mitrovica) Orient/East-Med Corridor;</li> <li>- Completion of the Tabanovce Railway Joint Border Station and Access Road (Orient/East-Med Corridor CX);</li> <li>- Completion of the Blace – Skopje (Stenkovec Interchange) Motorway Section (Orient/East-Med Corridor R6a)</li> </ul>	Number of energy and transport infrastructures completed (electricity transmission lines, gas pipelines, roads, railways, stations etc.).	0 (none completed)	0 (completion ongoing)	8 (all completed)	<p>Reports from the WBIF's joint fund, WBIF MIS, lead Financial Institutions, IPA II beneficiaries, Contractors</p> <p>Reports from TCT secretariat</p> <p>Reports from EnC</p> <p>WB6 Ministerial meetings conclusions</p>	<p>Political commitment from beneficiaries</p> <p>Agreement of the beneficiaries on the priorities to address (e.g. PECE'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)</p> <p>Sufficient administrative capacity in the beneficiaries</p> <p>Set up of NIC, or similar coordination mechanisms and establishing single project pipelines</p> <p>EIA and possibly SEA carried out and completed</p>



## DESCRIPTION OF ACTIVITIES

The main activity will consist in the construction of energy and transport infrastructure projects, via grant-loan arrangements between the European Commission and the IFIs involved in the WBIF. This will be done through the signature of contribution arrangements with the European Western Balkans Joint Fund Managers, i.e. the EIB and the EBRD. The implementing lead IFIs will be the EIB, the EBRD and KfW. The expected results of the projects included in the indicative list are the following;

- modernisation of a **joint railway border station**;
- installation of **signalling and telecommunications equipment** on more than 100 km of railway lines ;
- building or upgrading over **30 km of motorways** (including bridges, viaducts, tunnels and underpasses);
- construction of **over 100 km electricity transmission line** and reconstruction of connected substations;
- construction of **68 km of interconnection gas pipeline**.

The implementation of the Connectivity Agenda projects will contribute to;

- Reduced travel times;
- Increased transport safety directly benefiting the end-users;
- Secured and competitive energy supply, improved energy efficiency;
- Reduced air pollution, especially in larger and industrially developed cities, more efficient access to the regional markets (in terms of reduced travel time, vehicle operation costs and accidents levels);
- Increased trade flows within the Western Balkans and with the EU;
- Job creation.

The projects proposed for financing have been submitted to the WBIF under the fourth round of the call for proposals procedure. The following energy and 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 and subject to Steering Committee approval. The contributions from IPA II funds (indicated below) do not include the implementation fees paid to the lead IFIs and the administration fees paid to the Fund Managers of the European Western Balkans Joint Fund (2%). The total EU contribution provided to the action will be also used to cover the implementation fees, the administration fees and in special situation and subject to WBIF Steering Committee approval to cover unexpected losses (contingencies).

### Energy Projects:

1) WB-IG04-MKD-ENE-01   North Macedonia   North Macedonia – Greece Gas Interconnection Pipeline
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The objective of this investment project is the construction of a gas pipeline connecting North Macedonia and Greece. The pipeline will run from Gevgelija (at the border with Greece) to Negotino where it will connect to the Shtip - Negotino pipeline and the valve station, which has already been constructed. The project will provide access to various sources of natural gas, which will increase the competitiveness of the natural gas market and ensure a stable energy supply in North Macedonia. This interconnection will allow North Macedonia to connect to the Trans Adriatic Pipeline (TAP) now under construction in Greece and Albania. TAP is part of the EU's Southern Gas Corridor, which also comprises the South Caucasus Pipeline crossing Azerbaijan and Georgia, and the Trans Anatolian Pipeline. TAP will extend across northern Greece, Albania and the Adriatic Sea before reaching Italy's coast where it will connect to the Italian natural gas network.

Estimated total investment: EUR 54.4 million | Lead IFI: EIB | Loan: EUR 39.6 million | Grant from IPA II (excluding fees): EUR 12.4 million | Own Contribution: EUR 1.4 million | Other sources of financing: EUR 1 million |

## 2) WB-IG04-SRB-ENE-01 | Serbia | Trans-Balkan Electricity Corridor: Obrenovac – Bajina Basta Double Circuit 400 kV Overhead Line\*

The objective of this investment project is the upgrade of the transmission network in Serbia, supplying a new double circuit 400 kV overhead line between Obrenovac and Bajina Bašta and reconstructing the existing substations at Obrenovac and Bajina Bašta with an upgrade of substation Bajina Bašta to 400 kV voltage level.

This project represents a strategic energy investment. Serbia lies in the middle of the Balkans and its transmission network forms a vital link between the transmission systems of the region. The project complements a larger EU initiative to establish a Trans-Balkan electricity transmission corridor between central Serbia and its connection with Romania and Bosnia and Herzegovina and Montenegro towards Italy.

Serbia's electricity transmission network needs upgrading and expanding. One section, covering the existing overhead lines and substation equipment at Bajina Bašta and the overhead line to Obrenovac is in an extremely poor condition after 50 years of continuous service. There is also a need to develop a new 400 kV corridor to accommodate future projects and the development of electrical transmission systems not only in Serbia and the Western Balkans, but also those which will connect to North-East and South-East Europe.

*\*Financing for this project is dependent on the fulfilment of the related connectivity reform measure.*

Estimated total investment: EUR 59 million | Lead IFI: KfW | Loan: EUR 39.8 million | Grant from IPA II (excluding fees): EUR 12.8 million | Own Contribution: EUR 4.6 million | Other sources of financing: EUR 1.8 million |

### Transport projects:

## 3) WB-IG04-BIH-TRA-01 | Bosnia and Herzegovina | Mediterranean Corridor (CVc): Putnikovo brdo 2 Tunnel (Entity Border Line RS/FBiH) – Medakovo Interchange Motorway Subsection

The objective of this investment project is the construction of approximately 8.5 km of new motorway on a subsection of the Mediterranean Core Network (Corridor Vc) in Bosnia and Herzegovina. With a total length of 700 km, Corridor Vc connects Central Europe, specifically Hungary and eastern Croatia, to Bosnia and Herzegovina and the Adriatic Sea. The longest part of the route (approximately 335 km) crosses Bosnia and Herzegovina, encountering geomorphologically demanding terrain and often requiring the construction of tunnels and bridges.

The new road between the exit from Putnikovo brdo 2 tunnel and Medakovo interchange will shorten the travel distance within Bosnia and Herzegovina. This will improve overall traffic conditions along Corridor Vc, thus complementing other investments aimed at developing this strategic transport route. More than 95% of the transport of goods and passengers in Bosnia and Herzegovina is carried out by road. Corridor Vc represents the first modern international route crossing the country. In terms of size of works and contribution to economic development, Corridor Vc-related projects represent the most significant investments in the country.

Investment: EUR 81.1 million | Lead IFI: EBRD | Loan: EUR 48 million | Grant from IPA II (excluding fees): EUR 15.6 million | Own Contribution: EUR 16.5 million | Other sources of financing: EUR 1 million |

#### **4) WB-IG04-BIH-TRA-02 | Bosnia and Herzegovina | Mediterranean Corridor (CvC): Poprikuse – Nemila Motorway Subsection**

The objective of this investment project is the construction of approximately 5.5 km of new motorway, including a 3.65 km twin tunnel at Golubinja on a subsection of the Mediterranean Core Network (Corridor Vc) in Bosnia and Herzegovina. With a total length of 700 km, Corridor Vc connects Central Europe, specifically Hungary and eastern Croatia, to Bosnia and Herzegovina and the Adriatic Sea. The longest part of the route (approximately 335 km) crosses Bosnia and Herzegovina, encountering geo-morphologically demanding terrain, which often requires the construction of tunnels and bridges.

The new subsection between Poprikuše and Nemila, including the twin tunnel and the interchange, represents a closing portion of a larger motorway section of more than 23 km in length, connecting the industrial areas and the towns of Zenica and Žepče. The project will establish the link between the subsections already built, complementing other Corridor Vc investments and improving overall traffic conditions along the route.

More than 95% of the transport of goods and passengers in Bosnia and Herzegovina is carried out by road. Corridor Vc is the first modern international route to pass through the country. In terms of size of works and contribution to economic development, Corridor Vc-related projects represent a significant investment in the country.

Estimated total investment: EUR 188.3 million | Lead IFI: EBRD | Loan: EUR 84.3 million (EBRD) 60 million (EIB) | Grant from IPA II (excluding fees): EUR 41.2 million | Other sources of financing: EUR 2.8 million |

#### **5) WB-IG04-BIH-TRA-06 | Bosnia and Herzegovina | Mediterranean Corridor (CvC): Rudanka Interchange (Kostajnica) – Putnikovo Brdo 2 Tunnel (Entity Border Line RS/FBiH) Motorway Section**

The objective of this investment project is the construction of 5.2 km of motorway on a subsection of the Mediterranean Core Network (Corridor Vc) in Bosnia and Herzegovina. With a total length of 700 km, Corridor Vc connects Central Europe, specifically Hungary and eastern Croatia, to Bosnia and Herzegovina and the Adriatic Sea. The longest part of the route (around 335 km) goes through Bosnia and Herzegovina.

The construction of a new subsection from the Rudanka (Kostajnica) interchange to Putnikovo brdo 2 tunnel (entity border) is one of the most important and complex investments on Corridor Vc in Bosnia and Herzegovina as it involves two tunnels and creates a prerequisite for the construction of a bypass around the city of Doboj. This would mean a bypass from Republika Srpska entity to the Federation of Bosnia and Herzegovina entity midway through a tunnel.

More than 95% of the transport of goods and passengers in Bosnia and Herzegovina is carried out by road. Once completed, this subsection will connect two major motorway projects (Corridor Vc and Banja Luka - Doboj motorway on Route 2a - both part of the TEN-T Core network). It is expected that 1 million people in the central and northern parts of Bosnia and Herzegovina will benefit from this investment, of which some 200,000 directly.

Estimated total investment: EUR 164.1 million	Lead IFI: EBRD	Loan: EUR 123.2 million	Grant from IPA II (excluding fees): EUR 37.9 million	Own Contribution: EUR 3 million
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**6) WB-IG04-KOS-TRA-02 | Kosovo | Orient/East-Med Corridor: General Rehabilitation of Railway Route 10 - Signaling and Telecom for Phase 1 and Phase 2 (Border with North Macedonia – Hani i Elezit – Fushe Kosove – Mitrovica)**

The Orient East-Med Corridor crosses 148 km of Kosovo, from North to South and constitutes Kosovo's sole connection to the wider region by rail (R10). Route 10 forms part of the Core Network Corridors of the Trans European Transport Network (TEN-T) extension into the Western Balkans and the South East Europe Transport Observatory's Comprehensive Network. The entire track is in poor condition, with serious structural constraints that limit traffic to 30-70km/h. The rehabilitation and modernisation of the entire route is being implemented in three phases; Hani i Elezit/Đeneral Janković - Fushë Kosovë/Kosovo Polje (Phase 1), Fushë Kosovë/Kosovo Polje - Mitrovicë/Mitrovica (Phase 2) and Mitrovicë/Mitrovica - Leshak/Lešak (Phase 3).

The objective of this investment project is the installation of signalling and telecommunication equipment at Phase 1 and Phase 2 of the route. R10 is Kosovo's only international rail link and the rehabilitation and modernisation of this line is a key priority for its economic growth and future development. The successful implementation of this project will also benefit regional and EU railway operations that will use this line for passenger and freight transport.

Estimated total investment: EUR 56.1 million	Lead IFI: EBRD	Loan: EUR 12.4 million (EBRD), 12.4 million (EIB)	Grant from IPA II (excluding fees): EUR 26.8 million	Own Contribution: EUR 4.5 million
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**7) WB-IG04-MKD-TRA-01 | North Macedonia | Orient/East-Med Corridor (CX): Tabanovce Railway Joint Border Station and Access Road**

The Orient/East-Med Corridor runs between Salzburg in Austria and Thessaloniki in Greece. On its main course, it branches out to Serbia and North Macedonia. The rail route in North Macedonia is 215 km long and operational with several sections already renovated. In February 2015, the Minister for Transport and Communications of North Macedonia and the Minister for Construction, Transport and Infrastructure of Serbia agreed to establish a joint border station in Tabanovce - on the territory of North Macedonia, and facilitate border crossing procedures between the two countries. Subsequently, the European Commission approved EUR 655,000 for the preparation of all project-related documentation.

The objective of this investment project is the construction of a joint railway border station in Tabanovce, including an access road. Strategically, it is one of the most important border crossings for both North Macedonia and Serbia, as well as for transportation from Central Europe to Turkey and Central Asia.

Estimated total investment: EUR 5.7 million | Lead IFI: EBRD | Loan: EUR 2.4 million | Grant from IPA II (excluding fees): EUR 2.7 million | Own Contribution: EUR 0.3 million | Other sources of financing: EUR 0.3 million

**8) WB-IG04-MKD-TRA-02 | North Macedonia | Orient/East-Med Corridor (R6a): Blace – Skopje (Stenkovec Interchange) Motorway Section**

The objective of this investment project is the construction of a 12.5 km motorway subsection from Stenkovec interchange to Blace implemented in two phases of which the first one is in advanced stage and the second one is currently being prepared for the works expected to start next year. This road is part of the indicative extension of the TEN-T Core Network (Orient/East-Med Corridor) in the Western Balkans and it is directly connected to EU Corridor VIII (Bulgaria-North Macedonia-Albania) and to Corridor X (Serbia-North Macedonia-Greece). It is a particular relevant section given the fact that the motorway on Kosovo's side is operational since the end of May 2019.

The overall objective of the project is to upgrade the existing road to a motorway standard and to establish faster and safer connectivity route along state road A4 (Route 6a), improving the backbone network of the country and the overall transport connectivity in the region.

Once this section is completed, the A4 state road will be at the level of a motorway/express road for 130 km (68% of its 190 km).

This investment has a vital role in the economic and social development of the north-western region of North Macedonia. Trade flows in the region are expected to increase significantly. This will indirectly create jobs in many sectors from both sides of the border. Local communities along the upgraded road will also benefit from better access to healthcare, education and social activities.

Estimated total investment: EUR 119.5 million | Lead IFI: EBRD | Loan: EUR 73.1 million | Grant from IPA II (excluding fees): EUR 26.6 million | Own Contribution: EUR 17.8 million | Other sources of financing: EUR 2 million

**OVERVIEW OF FINANCING SOURCES (INDICATIVE)**

Beneficiary	Lead IFI	Short title	EU Grant (EUR)			Loan (EUR)	Loan IFI	Loan status	Own contribution (EUR)	Other Sources (EUR)	TOTAL Investment (EUR)
			EU grant	Imp fee	Admin fee						
North Macedonia	EIB	North Macedonia – Greece Gas Interconnection Pipeline	12.425.000	299.000	259.673	39.600.000	EIB	Est.	1.380.000	1.000.000	<b>54.405.000</b>
Serbia	KfW	Trans-Balkan Electricity Corridor: Obrenovac – Bajina Basta Double Circuit 400 kV Overhead Line	12.800.000	301.800	267.384	39.760.000	KfW	Est.	4.590.000	1.800.000	<b>58.950.000</b>
Bosnia and Herzegovina	EBRD	Mediterranean Corridor (CVc): Putnikovo brdo 2 Tunnel (Entity Border Line RS/FBiH) – Medakovo Interchange Motorway Subsection	15.550.000	382.000	325.143	48.000.000	EBRD	Signed	16.500.000	1.000.000	<b>81.050.000</b>
Bosnia and	EBRD	Mediterranean Corridor (CVc):	41.174.000	925.480	859.173	84.296.000	EBRD	Signed	2.800.000	0	<b>128.270.000</b>

Herzegovina		Poprikuse – Nemila Motorway Subsection				60.000.000	EIB	Est.		0	<b>60.000.000</b>
Bosnia and Herzegovina	EBRD	Mediterranean Corridor (CVc): Rudanka Interchange (Kostajnica) – Putnikovo Brdo 2 Tunnel (Entity Border Line RS/FBiH) Motorway Section	37.870.000	898.800	791.200	123.200.000	EBRD	Signed	3.000.000	0	<b>164.070.000</b>
Kosovo	EBRD	Orient/East-Med Corridor: General Rehabilitation of Railway Route 10 - Signalling and Telecom for Phase 1 and Phase 2 (Border with North Macedonia – Hani i Elezit – Fushe Kosove – Mitrovica)	26.809.762	584.996	559.077	12.404.881	EBRD	Signed	4.465.758	0	<b>43.680.401</b>
						12.404.881	EIB	Signed		0	<b>12.404.881</b>
North Macedonia	EBRD	Orient/East-Med Corridor (CX): Tabanovce Railway Joint Border Station and Access Road	2.705.419	59.808	56.433	2.420.419	EBRD	Signed	315.000	275.000	<b>5.715.837</b>
North Macedonia	EBRD	Orient/East-Med Corridor (R6a): Blace – Skopje (Stenkovec Interchange) Motorway Section	26.578.396	646.732	555.615	73.111.571	EBRD	Est.	17.838.620	2.011.471	<b>119.540.058</b>
<b>TOTAL</b>			<b>175.912.577</b>	<b>4.098.617</b>	<b>3.673.698</b>	495.197.752			50.889.378	6.086.471	728.086.177
<b>FINANCING NEEDS (including grant + fees)</b>			<b>183.684.891</b>								
<b>TOTAL FINANCING NEEDS (including contingencies)</b>			<b>184.600.000</b>								

## **RISKS**

The main assumptions are the following:

- The beneficiaries will remain politically committed – level of risk: low;
- There will be local ownership of the action outputs – level of risk: low;
- Financial sustainability will be guaranteed for an efficient operation and maintenance of the infrastructures – level of risk: low;<sup>5</sup>
- There will be a continued governments' commitment towards the European path – level of risk: low;
- There will be sufficient administrative capacity in the beneficiaries – level of risk: low.

The financing of the infrastructures under the WBIF is subject to the approval and implementation of the necessary institutional and regulatory reform measures in particular linked to connectivity. This is the main existing risk and, as it happened in the past, should a beneficiary delay its progress in the reform process, the European Commission reserves its right to put the relevant project on hold.

## **CONDITIONS FOR IMPLEMENTATION**

The main pre-condition for the implementation are the following:

- There will continue to be an agreement of the beneficiaries on the priorities to address (e.g. PECCI'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);
- Set up of National Investment Committees, or similar coordination mechanisms and establishing single project pipelines;
- EIA and possibly SEA are carried out and completed in line with EU standards.

Failure to comply with the requirements set out above may lead to a recovery of funds under this programme and/or the re-allocation of future funding.

## **3. IMPLEMENTATION ARRANGEMENTS**

### **ROLES AND RESPONSIBILITIES**

IPA funds will be implemented through the European Western Balkans Joint Fund (EWBJF), 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 until 2020.

#### ***European Commission/DG NEAR***

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

#### ***Western Balkans Investment Framework (WBIF)***

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<sup>5</sup> The sustainability of the WBIF investment is guaranteed through the involvement of the beneficiaries in the process, from selecting the projects, through preparing and submitting the applications to implementation. Beneficiaries are engaged in ensuring sustainability, adjusting legislation and procedures, acquiring finances for continuation of investments and maintaining the achieved results.

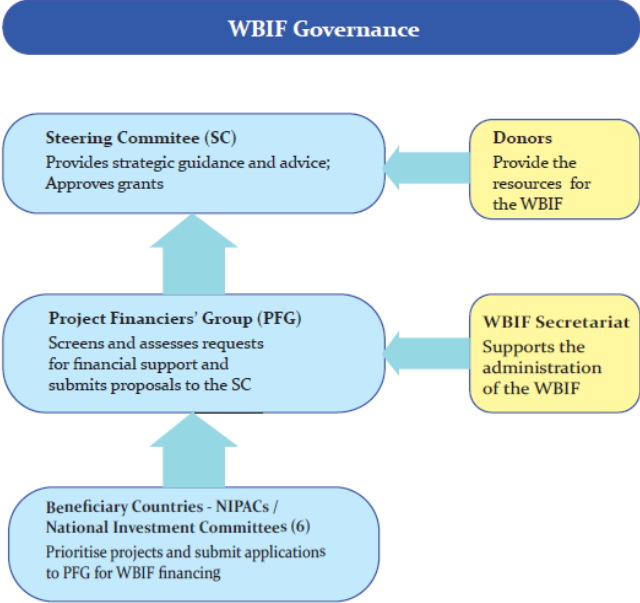
The WBIF is a joint facility, which pools resources from various sources, namely from IPA and bilateral donors, IFIs, and the governments of the Western Balkans. Grant resources are pooled together into a joint fund and used to support operations for which loans are provided by the partner IFIs. The WBIF blends grants and loans through the Joint Grant and Joint Lending Facilities to provide financing and technical assistance to strategic investments. The European Western Balkans Joint Fund (EWBJF) pools most donor funds. By the end of 2018, grants exceeding EUR 1 billion have been allocated for WBIF operations leveraging potential loans of EUR 5.5 billion, with the total estimated project value of EUR 18.3 billion.

The WBIF increases the region’s capacity to finance crucial infrastructure and priority investments, in line with the European perspective, and enhances overall coordination of assistance. It also maximises the impact of grant financing by using it to leverage lending by IFIs on priority strategic investments as they are identified by the Western Balkans.

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 Joint Grant Facility (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. The recent co-chairs include Sweden (2017), France (2018) and currently Germany (2019).

The **Project Financiers’ Group** is the technical arm of the WBIF and is composed of representatives of the Commission, the partner IFIs, bilateral Financial Institutions and development agencies of EWBJF contributors. It 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.



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

This action will be implemented under indirect management with the European Western Balkans Joint Fund (EWBJF) Managers (the EIB and the EBRD) through a Contribution Arrangement (signed between the Commission, the EBRD and the EIB, as Joint Fund Managers), The entrusted entities will implement the action 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 General Conditions of the EWBJF, to which the Commission and the IFIs have formally adhered to, entrusts these IFIs with the tasks necessary to manage the implementation of the projects assigned to them by the WBIF Steering Committee.

The envisaged entities have been selected using the following criteria: demonstrated experience in implementing infrastructure projects and length of cooperation under the WBIF.

The above IFIs have been long-standing partners in the inception, realisation and implementation of the WBIF. Over the 10 years of operation of the WBIF, the EIB, the EBRD and the KfW have in partnership with the Commission successfully prepared and implemented infrastructure projects and demonstrated the capacity to be entrusted with the implementation of the action.

The EIB and the EBRD in particular have undertaken the role of the EWBJF management, while together with the other IFIs, they have been also participating in the operational and decision-making structure of the WBIF and the implementation of technical assistance aimed at the preparation of investment projects.

#### **Short description of the tasks entrusted to the entity**

Under the Contribution Arrangement and the General Conditions of the Joint Fund, the following tasks will be entrusted as described below.

#### ***Tasks entrusted to the Joint Fund Managers:***

The entrusted entities, 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.

In particular, the entrusted entities shall be responsible for the contracting, implementation, information and visibility, monitoring and reporting of IPA II activities, and the evaluation thereof whenever relevant, in accordance with the principle of sound financial management, and for ensuring the legality and regularity of the expenditure incurred in the implementation of the programme.

#### ***Tasks entrusted to the lead IFIs***

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 and the KfW.

Based on the Contribution Arrangement and the General Conditions of the Joint Fund, the Commission delegates to the lead IFIs those tasks that are necessary to manage the implementation of the grants covering projects assigned to them by the WBIF Steering Committee. These entrusted tasks would typically include:

- Managing the implementation of the projects approved by the Steering Committee 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 of the Joint Fund.

## 4. PERFORMANCE MEASUREMENT

### METHODOLOGY FOR MONITORING (AND EVALUATION)

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

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account the innovative aspects of the action to evaluate the implementation of the blending mechanism established with the launching of the Connectivity Agenda and the yearly Connectivity packages for co-financing infrastructure investments.

The European 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 for duly justified reasons either on its own decision or on the initiative of the partner.

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

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

The evaluations should be carried out following DG NEAR guidelines on linking planning/programming, monitoring and evaluation<sup>6</sup>. It is recommended that a Reference Group comprising the key stakeholders of this action be set up to steer the evaluation process and ensure the required quality level of the evaluation outputs as well as the proper follow-up of the recommendations of the evaluation.

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

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.

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<sup>6</sup> [https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/near\\_guidelines.zip](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/near_guidelines.zip)

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, Transport Community Secretariat, and the IPA beneficiaries, in order to monitor the action as closely as possible to its implementation.

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

### **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.

This action will look into possibilities of exploring how transport 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 will be identified and consulted.

### **EQUAL OPPORTUNITIES**

The action will ensure that equal opportunities are given to women, men, people with disabilities, minority groups etc. 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.

### **MINORITIES AND VULNERABLE GROUPS**

Participation in the implementation of the action will be guaranteed on the basis of equal access regardless racial issues or ethnic origin, religion and beliefs, age or sexual orientations.

Besides, investment projects provide benefits to the groups of population without distinction, including people belonging to minorities and vulnerable groups.

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

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

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

Environment, climate change and disaster resilience are systematically considered during the preparation and design of major infrastructure projects, in particular when preparing Environmental Impact Assessments (EIA) but also, for example, when carrying out geophysical investigation to determine seismic classification. The implementation of the transport and energy projects should be done in full respect of the relevant environmental acquis such as the Environmental Impact Assessment Directive (EIA) , the Strategic Environment Assessment Directive (SEA) and Habitats , Birds Directives and the Water Framework Directive . Particular attention should also be paid to cumulative impacts at an early stage. Implementation of

projects in areas of high environmental values, protected areas or Natura 2000 sites (or potential ones) should be avoided, whenever possible.

Among the projects included in the indicative list there are projects aiming to finance the construction and rehabilitation of railway lines and interconnections. Railways and public transport are the backbone of any sustainable transport systems, offering efficient transport built on low environmental impact. Railways are crucial to reducing greenhouse gas emissions and creating sustainable transport systems offering the most energy efficient performance both according to passenger/km and ton/km. In this sense the approach followed, as it is the case in the EU, is to favour the rail over the road transport.

Climate action relevant budget allocation: EUR 29.5 million (calculated as EU contribution provided to railway projects in the indicative list)

## **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 beneficiary 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, (e.g. the Transport Community Treaty Secretariat), 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 funded from the amounts allocated to the action. Since this action is part of the Connectivity Agenda, a five-year programme providing support to transport and energy connectivity investment projects, its communication actions will follow the approach followed by other communication and visibility actions in this same programme, to ensure consistency.

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

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

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

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

Two initiatives are foreseen:

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.

The entrusted entities and the European Commission's actions should ensure enhanced donor visibility, including for EU contributions, and give more visibility to the objectives and results achieved through joint funding.

Furthermore, actions should ensure that all relevant stakeholders, and where possible also final beneficiaries, are informed about donors' involvement, joint actions and their results. Actions should aim to show the link between the funds invested and the policy priorities behind them.

Effectiveness of communication activities will be measured inter alia through public surveys in the IPA II beneficiaries on awareness about the Connectivity Agenda and its objectives, as well as the fact that it is co-funded by the EU.