

## Project Identification fiche – IPA Multi-beneficiary programme / Component I

### 1 IDENTIFICATION

<b>Project Title</b>	<b>Western Balkans Investment Framework (WBIF) 2013</b>
<b>MIPD Sector Code</b>	3. Private Sector Development
<b>Indicative total cost</b> (VAT excluded) <sup>1</sup>	<b>142 000 000</b>
<b>Indicative EU contribution</b>	<b>EUR 30 000 000</b>
<b>Management mode</b>	Joint management
<b>Implementation management</b>	EIF/EBRD under joint management with the European Commission
<b>Implementing modality</b>	Stand alone project
<b>Zone benefiting from the action(s)</b>	Western Balkans: Albania, Croatia, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, as well as Kosovo*

### 2 RATIONALE

#### 2.1 SUMMARY

In 2008, the European Council called for the creation of a wider framework for coordinated and coherent support by way of grants and loans to the Beneficiaries of the Western Balkans. Consultations took place between the Commission, the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the Council of Europe Bank (CEB), with guidance from a Steering Group of EU Member States actively working in the region.

It was agreed to set up the *Western Balkans Investment Framework* (WBIF) in which grants would be pooled from the EU budget, International Financial Institutions (IFIs) and bilateral donors into a Joint Grant Facility (JGF). Funds can be requested from the JGF to support investments that will need loans co-financing from the IFIs and bilateral financing institutions working together within a Joint Lending Facility. The WBIF is open for all types of investment requiring grants and loans; **not only infrastructure but also access to finance for SMEs and energy efficiency**. The projects with a clear regional dimension are particularly targeted by the WBIF.

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\* 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.

<sup>1</sup> The total project cost should be net of VAT and/or of other taxes. Should this not be the case, clearly indicate the amount of VAT and the reasons why it is considered eligible.

In 2011, Serbia, on behalf of the beneficiaries in the region, submitted to the WBIF a project proposal to create a regional Venture Capital Fund and a Guarantee Facility. This was the first project submission in the area of Private Sector Development through the WBIF. In course of 2011 this proposal was further developed with support of the EIB/European Investment Fund (EIF) and EBRD to become the Western Balkan Enterprise Development and Innovation Facility (WB EDIF). This new regional facility was approved by the WBIF Steering Committee of 7 December 2011 including four components:

- the Enterprise Innovation Fund (ENIF),
- the Enterprise Expansion Fund (ENEF),
- the Guarantee Facility (GF),
- and the Technical Assistance (TA) Facility.

The present project intends to replenish the financing in the area of SME access to finance by contributing to the EDIF project, which has already benefited from the MBP IPA 2011 (EUR 30 million) and IPA 2012 (EUR 2 million, pending decision) financing.

## **2.2 LINK WITH MIPD AND NATIONAL SECTOR STRATEGIES**

The Multi-Beneficiary MIPD 2011-2013 states that in order to support sound recovery and generate future growth beneficiaries need to improve access to finance for SMEs, develop efficient mechanisms to raise competitiveness, including competence of human capital, favourable business environment to attract FDI and trade facilitation. Moreover, the private sector needs to increase efforts to strengthen research and innovation capacity.

Section 3.4 - Support in the area of private sector development and investment aims to raise regional competitiveness, including through increased competence of human capital, investments, trade facilitation and establishment of a business climate conducive to the development of SMEs. As emphasised in the Enlargement Strategy, all enlargement countries are expected to pursue EU-related reforms, and to improve the business environment, thereby helping to overcome the economic crisis, create employment and generate conditions for sustainable growth, and low carbon development, therefore also supporting the targets of the Europe 2020 strategy.

## **2.3 LINK WITH ACCESSION PARTNERSHIP (AP) / EUROPEAN PARTNERSHIP (EP) / STABILISATION AND ASSOCIATION AGREEMENTS (SAA) / ANNUAL PROGRESS REPORT**

The Accession and European Partnerships emphasise that Beneficiaries should implement measures to improve the competitiveness of their economies and to sustain macro-economic stability. These include measures to increase flexibility in the labour market and to promote adaptability and skills of the labour force, the design and application of an integrated research policy and for some Beneficiaries further measures to boost innovation and competitiveness in small companies.

With regard to private sector development and small businesses in particular, the European and Accession Partnerships require the implementation of the SME Charter and of comprehensive industrial policy strategies in key sectors of the economy as well as measures to reduce the share of the grey economy.

## 2.4 PROBLEM ANALYSIS

Under the heading of Private Sector Development, the MIPD identified access to financing for SMEs in the region, competitiveness and competence as the main challenges.

### *Micro, small and medium sized enterprises*

Micro, small and medium sized enterprises constituting over 90% of the private sector, it is crucial that financial institutions are in a position to meet the financing demand from this segment. The continued availability of financing for business activity will further contribute towards re-establishing confidence in the financial markets and will reduce the risks of further deposit withdrawals. It will also help to reassure foreign direct investors and reduce the risk of disruption of foreign direct investment flows in the financial and other sectors of the economy.

In order to be competitive in the future EU single market, companies should continue to upgrade their industrial equipment in line with the EU *acquis* because meeting standards in the field of environmental protection, occupational health and safety, as well as product safety will be a principal factor when competing in the EU and global markets.

Support to the Private Sector should foster economic development in the region through the creation of preconditions for the establishment and growth of innovative and high-growth potential companies.

### *WB EDIF*

Against this background, in 2011 the WBIF decided on a comprehensive Private Sector Development project, based on a proposal put forward by Serbia on behalf of the beneficiaries in the region and supported by the EIB/EIF and EBRD.

The WBIF SC also endorsed a financing plan for the period 2011-2015, foreseeing approximately EUR 142 million of initial capital from the EU, IFIs, beneficiaries and bilateral donors, resulting in estimated leverage for SMEs of more than EUR 300 million. The EU contributions are estimated at EUR 62 million, of which EUR 30 million already approved from IPA 2011, EUR 2 million to launch the TA component, are pending approval under IPA 2012, and another EUR 30 million are sought from IPA 2013 to contribute to all WB EDIF components, as well as to support project fees and expenses.

The project provides for a comprehensive set of complementary measures to improve access to finance for SMEs in the region and to foster economic development through creation of preconditions for establishment and growth of innovative and high-growth potential companies. In doing so, the project also intends to stimulate the emergence of a Venture Capital market in the region by laying the foundations of the venture capital market, as well as disseminating best market practices. Over time, the project can become a flexible channel of attracting and leveraging financing for private sector development in the Western Balkan region.

To this end, the project is expected to:

- provide equity financing at early to development and expansion stages in innovative SMEs,
- provide development and expansion capital to established SMEs with high-growth potential in their respective markets,

- improve small SMEs' access to bank lending and lower the cost of borrowing for expansion stage by providing financial intermediaries the SME loan portfolio guarantees,

- support beneficiary governments in implementation of priority reforms to create a favourable regulatory environment for innovative and high-growth potential SMEs.

The project will thus address the private sector development issues by coupling the enhanced provision of finance with changes in the regulatory environment for targeted SMEs. The set of complementary measures will also allow all beneficiaries to benefit according to their specific needs, market maturity and regulatory environment conditions.

The four project components will come under a single governance structure with an Advisory Board as a highest supervisory body with adequate stakeholder representation, including the EC, whereas the Facility Manager (EIF) will ensure day-to-day management and coordination.

## **2.5 COMPLEMENTARITY OF THE PROJECT**

The project will be implemented in close cooperation between the beneficiaries, EC, IFIs (EIB/EIF and EBRD taking the lead), international organisations, such as OECD, and bilateral donors active in the region to streamline private sector development efforts in the Western Balkan region.

The EU, other donors and IFIs have all been involved in the IPA region for a number of years to support socio-economic development. Several Beneficiaries receive assistance under national programmes. Specific facilities have been developed with the IFIs to support private sector development and access to financing.

In particular, complementarities with the IPA national programmes and the beneficiaries own actions will be sought through the project.

Croatia has already implemented a number of policies to support development of technology transfer, seed, early stage and late-stage venture financing. Croatia has two sets of policies supporting (a) the technology transfer non-grant financing (pre-seed, seed and early stage financing); and (b) development of the venture capital funds. The policies supporting the technology transfer non-grant financing were significantly reinforced by the World Bank sponsored Science & Technology Project (STP). Regarding development of venture capital market, preliminary results include formation of five new venture capital funds expected to tenfold the supply of venture capital in Croatia thanks to effective mobilization of savings from the predominately domestic institutional investors. The key challenge is to ensure continuity of sufficient funding for the technology transfer and innovation.

Serbia is now starting to implement a set of policies focusing on development of science & technology (Scientific and Technology Development of the Republic of Serbia 2010-2015). The new set of policies also focuses on establishing technology transfer non-grant financing (pre-seed, seed, early stage venture capital). The World Bank supports Serbia's reform actions in three policy areas: (i) enhancing the business enabling environment to encourage new private sector investments; (ii) strengthening financial discipline by enforcing hard budget constraints and continued reform of enterprise sector and public utilities; and (iii) building a more efficient and stable financial sector through continued restructuring of state holdings in banking and insurance sectors, enhancing crisis preparedness, and encouraging development of the capital markets.

Other Western Balkan countries do not yet have policies in place to support technology transfer non-grant financing or venture capital financing, although numerous initiatives have been implemented across the region regarding the business and investment environment. These are to be mapped prior to the launching of the EDIF TA component (under IPA 2012).

Apart from the reform commitments the project entails financial contributions from beneficiaries. In particular beneficiaries are to contribute EUR 5 million in total to ENIF. Channelling of individual beneficiary resources through the project, blending them with other IFI and donor means, and finally, coupling the financial support with a reform package has a potential of providing the most cost-efficient way for effective private sector support in the region.

Similarly, synergies could be sought between the Multi-beneficiary and National IPA programmes, especially when it comes to the Guarantee Facility financing (another EUR 10 million sought from IPA 2013), whereas the resources foreseen for similar actions at a national level could rather be directed towards the regional initiative.

## **2.6 LESSONS LEARNED**

For the WBIF to reach its objectives, it is essential that there be proper co-ordination and good communication between key partners. The WBIF Steering Committee is the forum to ensure that projects achieve results in a coordinated, cost-efficient and swift manner. The present project draws on the to-date experience of WBIF, in particular regarding donor coordination and pulling and blending of resources (including beneficiary, donor and IFIs) to obtain synergies and best value for money.

## **2.7 STAKEHOLDERS ANALYSIS**

EDIF has benefited from the consultation processes put in place for all WBIF projects. EDIF stakeholders include: beneficiary governments, private sector in the Western Balkan region, the EC, IFIs and bilateral donors.

Beneficiaries play a central role in the selection of priority projects through the WBIF. Projects are submitted to the Project Financiers Group (PFG) by NIPACs or IFIs for screening, assessment and prioritisation. At this stage it is the IFIs and bilateral donors together with the EC (upon consultation with relevant EC DGs and services) that review the project. Following that, the PFG makes a proposal to the WBIF Steering Committee to allocate funding to the project. Beneficiaries, and in particular NIPACs, are represented at the WBIF SC.

Given the novel nature of the EDIF project, additional consultations were also carried out during a dedicated regional workshop (4 October 2011, Skopje) including beneficiary sectoral representatives, NIPACs and the private sector, along with the EC and IFIs involved.

## **3 DESCRIPTION**

### **3.1 OVERALL OBJECTIVE OF THE PROJECT**

The overall objective of the Project is to support the socio-economic growth of the Western Balkans by implementing the Western Balkans Investment Framework (WBIF).

### **3.2 SPECIFIC OBJECTIVE(S) OF THE PROJECT**

The purpose of the Project is to provide economic actors, i.e. financial institutions and businesses, with the necessary means, allowing them to offer competitive products and services and to support them to recover from the economic crisis, and in particular, to replenish the financing in the area of SME access to finance by contributing to the Western Balkan Enterprise Development and Innovation Facility (WB EDIF), as approved by the WBIF Steering Committee of 7 December 2011.

### **3.3 RESULTS**

Further to the 2011 and 2012 contributions to EDIF, as described in the respective WBIF Project Fiches, the expected result of the project is that continued availability of finance for SMEs is ensured in the short and medium term.

#### **Indicators:**

- Number of capital investments in new, innovative and technology based SMEs;
- Number of expansion capital investments in high-growth potential SMEs;
- Ability of local financial intermediaries to mobilise additional lending, guaranteed by the project;
- Priority reforms implemented to enhance the regulatory framework for innovative and high-growth potential SMEs and stimulate the build-up of the venture capital market.

### **3.4 MAIN ACTIVITIES**

In order to complement the enhanced provision of financing through ENIF, ENEF, GF, as well as to continue the support for the reform processes in the region through the TA component, the financing plan for EDIF, as endorsed by the WBIF SC in December 2011, foresees the following:

- additional EUR 7 million EU contribution to replenish ENIF, to continue equity financing operations in innovative SMEs;
- additional EUR 4 million EU contribution to replenish ENEF, to continue development and expansion capital operations in established SMEs with high growth potential in their respective markets;
- additional EUR 10 million EU contribution to replenish the Guarantee Facility, to continue portfolio guarantee operations with selected financial intermediaries in the region, thus improving possibility for small SMEs to access bank lending and potentially lowering the cost of borrowing for expansion stage;
- additional EUR 3 million EU contribution to the TA component, to continue support to the beneficiary governments in implementation of reforms to enhance the regulatory framework for innovative and high-growth potential SMEs and stimulate the build-up of the venture capital market;
- additional EUR 6 million EU contribution to the overall EDIF operational expenses to ensure appropriate governance and management.

#### **Implementation Mechanism**

The EUR 30 million 2011 WBIF allocation to Private Sector Development caters for ENIF, ENEF, GF and TA and will be disbursed through contribution agreements with partner IFIs (EIF and EBRD). EIF will be in charge of the overall management of the facility for all components. EIF will be guided by, and accountable to, the platform Advisory Board, which will be the main supervisory body for all components. The EC will be represented on the Board.

### **Sources of Verification**

- EDIF Manager reports to the Advisory Board
- EDIF reports to the WBIF

### **3.5 SUSTAINABILITY**

The sustainability of the initiative can be examined at several levels. First, beneficiary ownership and participation in the process is essential to ensure that the political and policy sustainability of the actions is supported through the project. This will be particularly important regarding the beneficiary reform commitments leading to sustainable long-term improvement of business and investment environment in the region and catalisation of the venture capital market.

Second, financial sustainability is guaranteed through the early involvement of IFIs and by carrying out the necessary qualitative and quantitative analysis in the project preparatory phase. In particular, in addition to the regular WBIF checks (internal review by the IFIs, internal review by the EC, review by the Project Financiers Group and by the Steering Committee), EIF prepared the Western Balkans Venture Capital Market Assessment in November 2010, which formed the basis for the EDIF original proposal.

Third, as to the cross-border impact, the project would stimulate the development of a regional venture capital market and encourage cross-border business and investment.

### **3.6 ASSUMPTIONS AND PRECONDITIONS<sup>2</sup>**

This project builds on the success of the two years of operation of the WBIF and in particular the WBIF SC endorsement of EDIF and its financing plan, including two tranches of EU financing under IPA 2011 and 2012, and so the preconditions for continued support are met.

The success of the project will nevertheless depend on the following assumptions:

- Sufficient market demand and capacities of individual SMEs;
- Political stability in the region;
- Continued support by various partners;
- Beneficiary governments sustained commitment for reforms;

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<sup>2</sup> Assumptions are external factors that have the potential to influence (or even determine) the success of a project but lie outside the control of the implementation managers. Such factors are sometimes referred to as risks or assumptions but the Commission requires that all risks shall be expressed as assumptions. Preconditions are requirements that must be met before the sector support can start.

- Stability of the financial sector.

### **3.7 BUDGET**

EUR 30 million, including EUR 7m for ENIF, EUR 4m for ENEF, EUR 10m for GF, EUR 3m for TA and EUR 6m to support the project fees and expenses (as per the financing plan endorsed by WBIF).

### **4 DOCUMENTS TO BE ANNEXED TO THE PROJECT IDENTIFICATION FICHE**

- *Preliminary Log frame*

**ANNEX 1: Logical framework matrix in standard format – to be completed to the extent possible at the project identification stage**

LOGFRAME PLANNING MATRIX FOR Project Fiche		Project: Western Balkans Investment Framework (WBIF) 2013	CRIS No:
		Total budget : 142 million	IPA budget: 30 million
<b>Overall objective</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	
Support the socio-economic growth of the Western Balkans by implementing the WBIF	Public sector investment GDP growth Human development index Stable development in other economic sector employment Corruption index Stable development of private sector lending	National/Central Banks reports National Statistical Offices Eurostat WBIF logframe	
<b>Project purpose</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
To provide economic actors, i.e. financial institutions and businesses, with the necessary means, allowing them to offer competitive products and services and to support them to recover from the economic crisis.	Financial actors able to mobilise additional finance	OECD reports, OECD SME Policy and Investment Reform Indices IFIs information Annual Report of the WBIF Monitoring reports WBIF logframe	Sufficient market demand and capacities of SMEs Political stability in the region Stability of the financial sector
<b>Results</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
Continued availability of finance for SMEs is ensured in the short and medium term	Number of capital investments in new, innovative and technology based SMEs; Number of expansion capital	EIB, EBRD, OECD reports, WBIF Management Information System; Government budgets; Donors databases	Continued support by various partners Beneficiary governments sustained resolve for reforms

	<p>investments in high-growth potential SMEs;          Ability of local financial intermediaries to mobilise additional lending, guaranteed by the project;          Priority reforms implemented to enhance the regulatory framework for innovative and high-growth potential SMEs and stimulate the build-up of the venture capital ecosystem.</p>	<p>EDIF Manager reports to the Advisory Board          EDIF reports to the WBIF</p>	
<b>Activities</b>	<b>Means</b>	<b>Costs</b>	<b>Assumptions</b>
<p>a) equity financing operations in innovative SMEs;          b) development and expansion capital operations in high-growth potential SMEs;          c) portfolio guarantee operations with selected financial intermediaries in the region, improving SME access to lending;          d) support to the beneficiary governments in implementation of reforms;          e) support to EDIF governance and management</p>	<p>a) Replenishment of ENIF          b) Replenishment of ENEF          c) Replenishment of the Guarantee Facility          d) Replenishment of the TA Facility          e) Contribution towards EDIF fee and governance structure</p>	<p>a) EUR 7m          b) EUR 4m          c) EUR 10m          d) EUR 3m          e) EUR 6m</p>	