

Project Fiche No. 9

Municipal Window of the Infrastructure Project Facility

1. Basic information

1.1 CRIS Number:	2010/xxx-xxx
1.2 Title:	Municipal Window of the Infrastructure Project Facility
1.3 ELARG Statistical code:	02.27 – Environment/ others
1.4 Location / Beneficiaries:	Western Balkans: Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia as well as Kosovo under UNSCR 1244 Turkey

Implementing arrangements:

1.5 Contracting Authority (EC):	European Commission represented by the Commission of the European Communities on behalf of the Beneficiaries.
1.6 Implementing Agency:	Not applicable
1.7 Beneficiary:	Municipalities including public and private companies running public utilities

Financing:

1.8 Overall cost (VAT excluded) ¹ :	EUR 120 000 000
1.9 EU contribution:	EUR 25 000 000
1.10 Final date for contracting ² :	30 November 2012
1.11 Final date for execution of contracts ³ :	31 December 2017
1.12 Final date for disbursement ⁴ :	31 December 2018

2. Overall Objective and Project Purpose

2.1 Overall Objective:

The overall objective of the project is the financing of a wide range of infrastructure in co-operation with International Financial Institutions (IFIs) to contribute to economic growth and stability in the IPA countries.

2.2 Project purpose:

To support financially the infrastructure investments of municipalities in the field of environment, transport, energy and social sector by providing a financing mechanism blending grants with loans extended by International Financial Institutions. This co-financing mechanism contributes to support projects having a certain level of economic sustainability,

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

² Date for contracting is the date of signature of the Contribution Agreements related to individual Municipal Projects (as defined in §3.5) established in accordance with the template dedicated to International Organisations.

³ Date for execution of contracts is the date by which the Municipal Project is fully implemented, loans and grants disbursed.

⁴ Date on which the EC releases the last payment to the IFIs

increases the number of projects receiving support, and makes investments more affordable for municipalities.

Investments in municipal infrastructure are essential to ensure that basic services such as water and sanitation, waste management, electricity supply, connection to the core transport network, healthcare and education are provided to the population living in remote areas, in order to improve their living conditions and national cohesion. In addition, pre-conditions for such investments is the compliance with the EU acquis and regional priorities.

2.3 Link with AP/NPAA / EP/ SAA⁵

The Accession Partnerships and European Partnerships have set the financing of waste and water investments as short or medium-term priorities. These investments are principally carried out by municipalities.

In addition, all key documents on the Enlargement Strategy and the European Perspective of candidate countries and potential candidates underline the importance of infrastructure remediation and upgrading as critical factor for sustained socio-economic development in the region and for its progress towards the European Perspective.

2.4 Link with MIPD

The Multi-beneficiary MIPD 2009-2011⁶ (Section 2.3.2.2.) foresees promotion of infrastructure investments: Support the development and upgrading of transport, environment, and energy infrastructure and in the social field, so as to contribute to the creation of conditions favourable to sustainable development in the region as well as in the IPA beneficiaries; Support preparation of projects that may be financed by grants and/or loans provided by the IPA beneficiaries, the IFIs, IPA resources, and/or other sponsors/donors.

2.5 Link with National Development Plan

An overall description is provided in the project fiche "IPF- Support to Infrastructure Investments".

2.6 Link with national/ sectoral investment plans

An overall description is provided in the project fiche "IPF- Support to Infrastructure Investments".

This project will target municipal investments, as detailed in annex IV, paragraph 5, most of the beneficiaries have to adopt waste and water management plans. The adoption of such plans and related regulations, and their translation in infrastructure investments are set as short or medium-term priorities.

In addition, there are regional initiatives implemented in close co-operation with the IFIS and which identify priority environmental or transport projects:

- The Priority Environmental Investment programme for Southeast Europe under the Regional Environmental Reconstruction Programme for South-East Europe (REReP), which enables effective co-ordination of international assistance and initiatives on environmental issues in order to complement the Stabilisation and Association Process. It maintains a pipeline of projects in the field of water management, waste management and air quality;

⁵ AP = Accession Partnership; NPAA = National Programme for the Adoption of the Acquis (for Candidate Countries), National Action Plan (for Potential Candidates); EP= European Partnership; SAA = Stabilisation and Association Agreement

⁶ COM (2009) 4518

- The Danube and Black Sea (DABLAS) task force, which brings together many stakeholders such as the waterside countries, the IFIs, the European Commission and other bilateral donors to facilitate communication and co-ordination and result in a more focused approach to the protection of water. The task force maintains a pipeline of priority investment projects in the water fields in the Danube and Black Sea water basins.
- The South Eastern European transport Observatory (SEETO), which brings together bordering countries of the Region to prioritize transport activities in the main corridors and result in a more coordinated development of transport infrastructure.

3 Description of project

3.1 Background and justification:

The Enlargement Strategy and main challenges 2007-2008⁷ has stressed that maximum leverage of grant support to infrastructure investment will be sought through intensified co-operation with the EIB, the EBRD and other IFIs.

Discussion have started with the IFIs and all stakeholders since November 2006 with a view to finding the best way to address the infrastructure needs of the Beneficiaries, and to meet the EU requirements in the prospect of EU Accession. From preliminary talks, it was agreed that municipalities will deserve special actions in this field.

The Infrastructure Project Facility was launched in 2007, providing an initial EUR 16 000 000 for technical assistance to project preparation. The aim was building and consolidating a project pipeline to support and facilitate infrastructure investments in the areas of environment, energy, transport and the social sector.

On 5 March 2008, on the occasion of the Steering Committee⁸ of the IFI Facilities, it was decided to launch a complementary window to the IPF, the Municipal Window combining grants for capacity building and co-financing, with loans. This blending mechanism had a three-fold effect: a) it increased the capacity of low-income Beneficiaries to finance infrastructure projects; b) it streamlined assistance request and provision on a regional level, while expanding the number of projects receiving a share of Community Contribution; c) it pre-selected projects on a sustainability criterion, calculated through a similar cost-benefit analysis to that used to allocate structural funds in member states

The project was implemented under joint-management with the EIB, the EBRD and CEB/KfW, -the partner IFIs-, to maximise the leverage effect of grants and loans and to benefit from their expertise in international finance and skill in implementing the European Community objectives in relation to Enlargement.

In particular, these three partner IFIs agreed on the "European Principles for Environment" (EPE) consisting of the guiding environment principles enshrined in the EC treaty and the project-specific practices and standards incorporated in EU secondary legislation on the environment. They committed, subject to their respective environmental policies, to applying EU principles, practices and standards to all projects financed. The structure of the overall project has been jointly elaborated owing to their comprehensive experience in the financing of infrastructure projects and their true commitment to Community policy objectives as recalled in the *"Memorandum of Understanding between the European Commission, in*

⁷ COM(2007) 663 of 6.11.2007

⁸ The Steering Committee of the IFI Facilities is a structure set up to manage the Facility programmes SMEFF, MFF, MIF and EEFF combining EU grants with credit lines from the EIB, the EBRD and CEB in association with KfW. The members of the Steering Committee are the Commission and representatives of the IFIs participating in the Facilities.

liaison with the European Investment Bank, the European Bank for Reconstruction and Development, the International Bank for Reconstruction and Development, the International Financial Corporation, the Nordic Investment Bank, the Nordic Environment Finance Corporation, the Council of Europe Development Bank and the Black Sea Trade and Development Bank on co-operation in (i) economic development of the new EU member states of Central and Eastern Europe, Cyprus, Malta, and (ii) accession preparation in the EU candidate and potential candidate countries" signed in June 2006.

3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact

Project impact:

The outcome of the first round of the IPF Municipal Window (EUR 23 000 000) was threefold:

- Financing of 12 projects proposed as priorities by the Beneficiaries, evaluated sustainable and ready for implementation by the IFIs, in compliance with EC *acquis*.
- Coordination within DG Enlargement leveraged National IPA funds through Multi-Beneficiary IPA and triplicate the amount of grant available for project co-financing (EUR 84 000 000).
- The IPF-MW outperformed initial expectations by achieving a grant to loan ratio of 1 to 7 through the strong involvement of the IFIs.

Continuation of the IPF Municipal Window will enhance further the initial project impact:

- Improvement of living conditions and national cohesion;
- Efficient allocation of resources via the adoption of tariffs of public utilities based on an economic approach;
- Positive effect on environment especially as regards the quality of water and soils;

Catalytic effect:

Municipal infrastructure projects in the region tend to be small or medium (EUR 5 000 000), with some exceptional large projects that are often scheduled in several tranches. The financing and the implementation of the IPF-MW has proven to trigger additional investments generating a considerable leverage effect. The median project size in the first year of activity of the Municipal Window has been EUR 22 600 000 proving that the IPF-MW financing mechanism has achieved the aimed catalytic effect.

Sustainability

Among project objectives and indicators of achievement there is the improvement of the Municipalities or their affiliates' capability to manage infrastructure assets. Individual projects can assist in building capacity of municipalities in improving infrastructure management and regulation.

Sustainability of municipal infrastructure investments will also depend on the revision of public utility tariffs and collection rates, of distribution volumes and schemes, of the improvement of national coverage and ultimately, on the achievement of universal service obligations.

Cross-border impact

Improvement of network infrastructure (energy and transport) has an indirect and cross-border impact even when developed at the municipal level. For water and environment, there will be a direct cross-border impact where the Beneficiary is close to a border or along a major

waterway and an indirect cross-border impact generated through positive externalities of environmental improvement (reduction of pollution in regional water, air, soil). A similar indirect impact will be exerted through improvement of social infrastructure (reduced disease transmission, rural migration). Overall, municipal infrastructure investments developed under the IPF-MW will have an overall positive impact in the region.

3.3 Results and measurable indicators:

Social result	<ul style="list-style-type: none"> - Health and Education conditions of living of population are improved - Indicators: <ul style="list-style-type: none"> (i) access to public services: increased connection rates; (ii) increased hours of uninterrupted drinking water supply per day
Economic result	<ul style="list-style-type: none"> - Tariff policy of public services is oriented on cost-recovery and targets ensuring the economic and possibly financial sustainability of the investment, - Collection rates are improved on a yearly basis - Service distribution volumes and schemes are improved, reaching increasing shares of the population ultimately achieving universal service obligations. - Indicators: <ul style="list-style-type: none"> (i) increase in revenue collection of utility companies and movement towards full cost recovery; (ii) a plan for timely improvement of collection rates is adopted specifying quantitative targets; (iii) Service distribution is oriented towards achieving universal service obligations.
Environmental result	<ul style="list-style-type: none"> - EU acquis is implemented in the environmental field even in the absence of national legislative framework - Indicator: reduction of the level of pollution as measured by indicators defined in the relevant EU Directives, particularly the Council Directive 98/83/EC⁹ <ul style="list-style-type: none"> (i) amount of coliform bacteria (ii) colony count 22°C

3.4 Activities:

The main activity will be the diversification of financing sources for municipal infrastructure projects implemented by the partner IFIs. This will be done by combining IPA grants with national or local resources, grants from IFI's own resources or from other donors with IFI loans.

⁹ OJ L 330/32 of 5.12.98.

The IPA grants could be used for the following purpose:

- Investment support to municipal infrastructure projects through joint co-financing with the partner IFIs: IFIs will provide a repayable loan and the Commission a non-repayable grant. Investment support will be only available for Potential Candidates.
- Consultancy Services (CS): depending on the structure of the project and the needs for capacity building of the Beneficiaries, IPA grants may be used to finance technical assistance directly contracted by the IFIs. Where Consultancy Services only strengthen the administrative capacity of the municipalities, all Beneficiaries are eligible. Where Consultancy Services are linked to a municipal infrastructure investment, rules governing Investment support apply.

To that end, a contribution and or delegation agreement will be signed between the IFI and the EC. The agreement will specify each project activities, financing package (including the IFI's contribution) and grant component, the use and disbursement of IPA grants and the project progress indicators.

3.5 Conditionality and sequencing:

Conditionality

Eligibility criteria

- Eligible beneficiaries of the IPF-MW are municipalities, private or public companies delivering municipal services, who are directly responsible for the implementation of the investment.
- Eligible investments relate to all types of municipal infrastructure in the field of environment, transport, energy and social sector. In a first stage, priority will be given to environmental investments especially in the water sector and the solid waste management, where the focus is on the protection of public health and safety.
- Eligible investments shall be open to co-financing by the IFIs.
- Eligible investment will be on projects having achieved a level of preparation equal of beyond a reliable feasibility study.

Financial criteria

The IPA grants used within a Municipal Project are capped at 20% of the total eligible expenditures¹⁰.

The loan or credit line extended by the IFIs shall be at least double the IPA grants earmarked for a given Municipal Project or compatible with the fiscal sustainability for the beneficiary.

The justification for IPA grants shall be assessed through an analysis of operational sustainability and affordability indicators, based on the due diligence performed or overseen by the partner IFI. The Municipal Project shall demonstrate its economic and possibly financial viability over time.

In case of project size greater than EUR 10 000 000, the Municipal Project (MP) shall also comply with the minimum requirements set by the Cost Benefit Analysis¹¹ of Major Projects used in the context of the EU Regional Policy and based on the funding-gap method.

¹⁰ Article 34 (3) in conjunction with Article 66 and Article 67 of Commission Regulation (EC) No 718/2007 of 12 June 2007 implementing Council Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance OJ L 170/1 of 29.06.2007.

¹¹ Working document n°4: guidance on the methodology for carrying out Cost-Benefit Analysis (DG REGIO website).

Structure of the Municipal Project proposal submitted by the IFIs through the IPF contact point from the national authorities to the IPF Secretariat in case of direct lending

- The MP proposal shall include a feasibility study financed either from the IPF-TA or by another source (other donor funds). This feasibility study should demonstrate the economic viability of the project and the sustainability of the investment. The MP proposal should also detail:
 - the financing plan
 - the implementation and disbursement schedule until completion of the project.
- The Municipal Project proposal shall include an assessment of the capacity of the beneficiary(ies) to manage the project in the implementation and operational phases. To that end, should be detailed:
 - Technical Assistance provided in the past and the source of funding;
 - Technical Assistance to be financed either from the IPF-MW or other sources.
- The municipal project may cover one municipality or several municipalities.

Overall financing structure of a Municipal Project

Municipal Project					
Mandatory components		Optional components			
IPA grants for - co-financing and/or - TA at project level	IFI loan or credit line	Grants for investment from the IFI, other donors or IPA national programmes	TA financed from the IFI or other sources	Loans financed by other actors	National own resources

Sequencing

Before the Commission Decision

1.	List of potential municipal investments ready for implementation. These Municipal Projects are prepared by the IFIs and shall comply with the beneficiary priorities. A minimum of three Municipal Projects per IFIs are expected.
2.	List of potential infrastructure investments programmed at National IPA level and identification of synergies or duplications.

After the adoption of the Commission Decision

1.	A priority list of Municipal Projects proposed by the beneficiaries and IFIs sent to ELARG task manager by the NIPAC - IPF contact point
2.	Distribution of Municipal Projects to the IPF Secretariat Members and/or equivalent body under the Western Balkan Investment Framework for review (Municipal Projects shall include feasibility study, financial viability study)
3.	Recommendations made by the Steering Committee

4.	Following SC recommendations, ELARG decides which Municipal Projects to finance and to which extent. The Contribution Agreements with the IFIs are signed by ELARG or by the EC Delegation of the beneficiary country. One Contribution Agreement per IFI will comprise the approved Municipal Projects to be implemented in partnership with that IFI.
5.	Release of the first tranches of IPA Community Contribution to the IPF-MW special account created by each IFI.
6.	Implementation of the project by the partner IFIs: - Signature of the Municipal Project agreements (including the loan contract and the grant element) with the promoters of the municipal infrastructure investments. The loan contract could also be signed with an intermediary (public institution), when it is justified for guarantee or credit-worthiness reasons, provided that beneficiary municipalities are identified from the outset; - Release of the EU contribution in proportion to the project progress, the IFI loan disbursement and the annual project investment cost; - Completion check, monitoring and reporting performed by the partner IFIs.
7.	After completion, release of the final payment to the IFIs ' accounts

3.6 Linked activities

The IPF-MW is linked to Technical Assistance provided through IPF (IPF-TA) since it is developed under the same umbrella. Infrastructure projects for which preparation and feasibility studies would have been financed from the IPF-TA may benefit from the IPF-MW.

Municipal Projects financed the IPF-MW will be selected either by the decisional structures of the IPF comprising the Secretariat and the Steering Committee or by those of the Western Balkan Investment Framework, with IFI participation.

3.7 Lessons learned

In Phare countries, two programmes (the Cross Border Facility and the Municipal Finance Facility) supporting municipal lending were launched by the Commission. Since the main objective was to develop the municipal lending market in extending banking loans to small and medium-sized municipalities, municipal infrastructure projects were implemented through financial intermediaries.

The EU grants have benefited

- the financial intermediaries to set up municipal lending departments and develop their expertise in this field,
- municipalities through:
 - Technical Assistance to help them prepare bankable projects;
 - Direct investment support to decrease the total cost of investment borne by the municipal borrower.

Under the Cross Border Facility¹² implemented with the EIB under the 2002 and 2003 budgetary year, EUR 40 000 000 of EU grants were allocated in 24 projects with Financial Intermediaries in combination with EIB credit lines amounting to EUR 200 000 000.

¹² All data at end-2007

The number of infrastructure projects financed was 225 for a total cost of EUR 287 000 000, that is to say a sub-project cost of EUR 1 200 000 million on average. As of today, 161 sub-projects are completed.

Jobs created in connection to these municipal investments were 1,474.

Under the Municipal Finance Facility (MFF), the 3 partner IFIs, namely the EIB, the EBRD, and CEB/KfW were involved in the 2002, 2003, 2005 and 2006 programmes.

The EIB has been the leader under the MFF programme. 28 projects with participating banks were approved for a total amount of EU grants of EUR 31 250 000 in combination with EIB credit lines totalling EUR 250 000 000. The number of municipal infrastructure projects financed was 306 for a total cost of EUR 331 000 000, that is to say a sub-project cost of EUR 1 080 000 million on average.

CEB/KfW concluded 13 projects with financial intermediaries for a total amount of EU grants of EUR 18 000 000 in combination with CEB/KfW loans totalling EUR 185 000 000. 154 infrastructure projects were financed in mobilising EUR 84 000 000 of CEB/KfW financing.

The EBRD only succeeded in extending 6 projects with financial intermediaries totalling EUR 10.5 000 000 of EU grants in combination with EUR 50 000 000 of EBRD loans and EUR 8 000 000 of risk-sharing agreement. 25 municipal projects were financed for a total amount of EUR 24 300 000.

The ongoing MFF programme has been very challenging to implement due to the weak attractiveness of municipal lending for financial intermediaries. Municipal lending is a very specific business where interest margins are very low owing to the low credit risk profile of municipalities, which cannot go bankrupt in most Phare countries. The weight of the past is strong and newcomers in the municipal lending cannot compete on a level playing field with the historical operators, which are often the account managers of municipalities and affiliates. Considering this experience, the IPF-MW will privilege direct lending to municipalities to have an effective and rapid impact in the field of infrastructure investment. This option will allow financing of large environmental investment needs for the bigger cities.

Both the Cross Border programme and the MFF targeted the small and medium-sized municipalities with relatively small investment projects (below EUR 5 000 000). Needs of larger municipalities were already addressed and the best means to reach small investments projects was through financial intermediaries. The context is different in the IPA region and the direct lending option will be supported under the IPF-MW. However, in case of Municipal Projects including several identified municipalities, as it could be the case in construction of water and sewage networks, lending through financial intermediaries will not be excluded, especially for credit worthiness reasons.

4. Indicative Budget (amounts in EUR)

			SOURCES OF FUNDING									
			TOTAL EXP.RE	IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	%(2)	Total EUR (c)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/ Local EUR (y)	IFIs loans EUR (z)	EUR (d)	% (2)
Activity 1 (3)												
contract 1.1	X	X	38 000 000	8 000 000	21.05	30 000 000	78.95			30 000 000		–
contract 1.2	X	X	38 000 000	8 000 000	21.05	30 000 000	78.95			30 000 000		–
contract 1.3	X	X	44 000 000	9 000 000	20.45	35 000 000	79.55			35 000 000		
Of which:												
TOTAL IB			5 000 000	5 000 000								
TOTAL INV			115 000 000	20 000 000		95 000 000				95 000 000		
TOTAL PROJECT			120 000 000	25 000 000	20.83	95 000 000	79.17			95 000 000		

Amounts net of VAT

- (1) In the Activity row use "X" to identify whether IB or INV
- (2) Expressed in % of the **Total** Expenditure (column (a))
- (3) IB and INV are mixed in this Activity 1 because this programme is implemented under joint management. The amount contracted with the IFIs will include a share for Institution Building that will be contracted directly by the IFIs with the Consultants and this share is not yet precisely known.

5. Indicative Implementation Schedule (periods broken down per quarter)

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract EIB	n.a	2010 Q2	2017 Q4
Contract EBRD	n.a	2010 Q2	2017 Q4
Contract CEB/KfW	n.a	2010 Q2	2017 Q4

The execution period of the Municipal Projects implemented by the IFIs exceeds the average length normally allowed. The length of the execution period is justified due to the number of steps involved in the financing of municipal infrastructure investments until their completion. After the signature of the Contribution Agreements with the IFIs, tenders should be organised and contracts should be signed with the suppliers of works and services and after that, works will start.

6. Cross cutting issues (where applicable)

6.1 Equal Opportunity

Both men and women will benefit from improved municipal infrastructure.

6.2 Environment

Municipal Infrastructure investments implemented through this mechanism will have a considerable impact on environment: directly because some of them will focus on the water and waste management sectors, but also indirectly because all infrastructure projects co-financed will need to comply with the environmental checklist provided to ensure compliance with the main environmental Directives. Implementation of these infrastructure projects will have a direct and positive effect on environment all the more that some of them will target medium and large municipalities to reach a great number of inhabitants.

6.3 Minorities

Non applicable.

ANNEXES

- I- Logical framework matrix in standard format
- II- Amounts contracted and disbursed per quarter for the project
- III- *Description of Institutional Framework: non applicable*
- IV - Reference to laws, regulations and strategic documents
- V - *Details per EU funded contract where applicable: non applicable*

ANNEX I: Logical framework matrix in standard format

LOG FRAME PLANNING MATRIX FOR Project Fiche	Municipal Window under the IPF	CRIS number: 2010/xxx-xxx
	Contracting period expires: 30/11/20012	Disbursement period expires: 31/12/2016
	Total budget : EUR 120 000 000	IPA budget: EUR 25 000 000

Overall objective	Objectively verifiable indicators	Sources of Verification	
Supporting infrastructure investments to create the conditions for sustainable development in the IPA countries in the prospect of EU accession	Degree of compliance of public utilities with EU requirements in the environmental field	Progress reports, existence of National Action Plans, Multi-beneficiary Working groups	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
Co-operation with IFIS to support financing of municipal infrastructure investments both in the field of environment, transport, energy and social through direct lending to municipalities.	<ul style="list-style-type: none"> - Streamlined programming of support (consistent pipeline of projects from year to year) - Number of projects financed and implemented - Volume and breakdown of investment capital mobilized - Number of inhabitants reached by infrastructure projects 	<ul style="list-style-type: none"> - Monitoring implementation/ progress and financial reports from the IFIs - Feedback form the National authorities and the Delegations - Year on year increase in the volume of financial support provided 	<ul style="list-style-type: none"> - Accuracy of the list of potential projects discussed with IFIs before launching the programme - Advanced level of preparation of the project - Correct estimate of achievable infrastructure projects;
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
(R1) Realisation of infrastructure investments leading to: - (R2) Social result - (R3) Economic result - (R4) Environmental result	<ul style="list-style-type: none"> - (R1) Full disbursement of EU grants and IFI loans, completion check of investment, Commissioning certificate (R2) Collection rates are improved on a yearly basis (R3) Service distribution volumes and schemes is improved reaching increasing 	<ul style="list-style-type: none"> - IFI reports - Monitoring visits by the EC - Feedback from beneficiaries 	<ul style="list-style-type: none"> - Feasibility studies accurate enough to avoid gaps between expectations and achievements - Capacity of the municipality to manage the investment with the supervision of the IFI - Achievement of a simultaneous tariff

	shares of the population ultimately achieving universal service obligations. (R4) EU acquis is implemented in the environmental field even in the absence of national legislative framework		policy rebalancing strategy
Activities	Means	Costs	Assumptions
- Assessment of projects - Approval of projects - Signature of contribution agreements with the partner IFIs	- Elarg human resources - IFI human resources	Internal cost	- Contribution agreements signed by end of March 2010; - Submission of projects meeting the eligibility criteria and including all components necessary to assess it - Secretariat prepared to assess the project proposals - Decisional structure ready to approve projects submitted under the IPF-MW

Pre-conditions

- Identification by the IFIs of municipal infrastructure investments ready for implementation
- Under the direct lending option: availability of feasibility studies financed either from the IPF TA window or by other sources
- Under the direct lending option: the feasibility study should demonstrate the financial viability of the project and its sustainability

ANNEX II: amounts (in EUR) contracted and disbursed per quarter for the project

Contracted	2010 Q2	2011 Q2	2012 Q3	2017 Q2
Contract 1.1	8 000 000			
Contract 1.2	8 000 000			
Contract 1.3	9 000 000			
Cumulated	25 000 000			
Disbursed				
Contract 1.1	1 000 000	2 000 000	3 000 000	2 000 000
Contract 1.2	1 000 000	2 000 000	3 000 000	2 000 000
Contract 1.3	1 000 000	2 000 000	3 000 000	3 000 000
Cumulated	3 000 000	9 000 000	18 000 000	25 000 000

ANNEX III: Description of the institutional framework

The IPF covers the following countries of the Western Balkans: Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia as well as Kosovo under UNSCR 1244, Turkey, and four infrastructure sectors: transport, energy, environment and social. The decisional structure is composed by a Secretariat/ Project Committee (PC) and a Steering Committee (SC), and brings together NIPAC representatives, the Commission (at various levels of technical and political competence) and the IFIs.

In the Municipal window, the National IPA Coordinator has to endorse projects submitted by the IFIs, and to indicate their level of priority in respect to the national strategy. Project submitted must be compatible with a loan agreement and ready for swift implementation. Their proposal must indicate the financing package required to realize the works, breaking it down by type (grant, loan, local contribution) and source (donor, IFI, municipal or national budget). The level of grant-to-loan required takes into account the sustainability of the project and is calculated through a cost-benefit analysis in line with the method used for allocation of structural funds.

This submission supports coordination and prioritization on the demand side in the beneficiary countries.

Once the lists of submissions have been received, the IPF has a decisional structure which analyzes each proposal and submits its recommendations to the Steering Committee (SC). The SC decides which projects to accept, reject or put on a reserve list for future consideration. The policy synchronization is led by DG Enlargement by consulting different sectoral DGs: Economic and Financial (ECFIN), Transport and Energy (TREN), Environment (ENV), Employment (EMPL), and DG Regional policy. Priority projects list provided by Regional initiatives such as DG TREN's South-East Europe Transport Observatory (SEETO) and DG ENV's Priority Environmental Infrastructure Program (PEIP) help to ensure consistency in the identification of priorities. The coordination with DG Regio is particularly important in the complex procedural environment to access structural funds when a state becomes EU candidate or EU member. It aims at to ensure consistency in the indications provided to pre-accession countries regarding the attribution, management and implementation of EU pre-accession (IPA) funds. Here the institutional capacity building is embedded in the infrastructure project financing mechanism.

The Project Committee receives project submissions (bi-annually) and, under the coordination of DG Elarg's regional unit starts the screening process:

- By the IFIs country and loan officers for eligibility and lending potential
- By sector and technical DGs for consistence and compliance with EU sector policies and priorities
- By DG Elarg National Desks for consistence, non-duplication and compliance with national accession strategies and IPA programming

The screening process ends with the Project Committee proposing a list of recommended, reserved and refused projects for presentation and approval by the Steering Committee, which includes the NIPAC representatives of all beneficiary countries.

The selection process supports coordination on the supply side, both from a policy and an economic perspective. It also enhances the transparency and visibility of projects among countries of the region and promotes exchange of experiences, constraints and best practices in project presentation on a truly regional basis.

ANNEX IV: Reference to laws, regulations and strategic documents

1. Reference list of relevant laws and regulations

- Water protection and management

- Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy. IN particular the EU promotes sustainable water use;
- COM(2000)477: Communication from the Commission to the Council, European Parliament and Economic and social committee: Pricing and sustainable management of water resources;
- Council Directive 98/83/EC of 3 November 1998 on the quality of water intended for human consumption;
- Council Directive 91/271/EEC of 21 May 1991 concerning urban waste water treatment.

- Waste management

- Directive 2006/12/EC of the European Parliament and of the Council of 5 April 2006 on waste;
- Directive 75/442/EEC on waste;
- Directive 86/278/EEC on sewage sludge;
- Directive 2000/76/EC of the European Parliament and of the Council of 4 December 2000 on the incineration of waste;
- Council Directive 1999/31/EC of 26 April 1999 on the landfill of waste;
- Commission Communication of 21 December 2005 "taking sustainable use of resources forward: a Thematic Strategy on the prevention and recycling of waste" COM(2005)666.

2. Reference to AP /NPAA / EP / SAA

Reference to Accession Partnership

Croatia

The key priorities in the environmental field include increasing investments in environmental infrastructure, with particular emphasis on waste water collection and treatment, drinking water supply and waste management.

The former Yugoslav Republic of Macedonia

In the short term priorities, it is foreseen to increase investments in environmental infrastructure, with particular emphasis on waste water collection and treatment, drinking water supply, tackling air pollution and waste management.

The medium term priorities include the same list of environmental investments.

Turkey

In the short term priorities, Turkey is expected to adopt a comprehensive strategy for the gradual transposition, implementation and enforcement of the *acquis*, including plans for building up the necessary administrative capacity at national, regional and local level and

required financial resources, with an indication of milestones and timetables; continue transposition, implementation and enforcement of the *acquis*, in particular horizontal and framework legislation, such as the environmental impact assessment, including transboundary aspects, as well as strengthening of administrative capacity, and adopt the National Waste Management Plan.

Reference to European Partnerships

Albania

The short term priorities mention the development and the implementation of the national water and sanitation strategy and the rural strategy for water supply and sewerage.

Bosnia and Herzegovina

The medium term priorities mention the implementation of strategic plans including investment strategies and the increase of investments in environmental infrastructure, with particular emphasis on waste water collection and treatment, drinking water supply and solid waste management.

Montenegro:

In the short and medium term priorities, it is foreseen that Montenegro continues approximating its legislation to EU legislation and standards, notably environmental protection framework legislation; develops the administrative capacity to implement and enforce adopted legislation; develops an overall environment protection strategy (water, waste, air); adopts the land use plan and sectoral strategies (integrated coastal zone management, biodiversity, climate change); and strengthens environmental management administrative capacity.

Serbia

The short term priorities in the field of environment consist in putting in force the EU *acquis* legislation and starting the implementation of waste management plans. In the medium term, the country will implement the water strategy fully and annual plan for financing the environmental protection policy including for investments.

Kosovo

The short-term priorities are focused on environmental measures connected to public health issues: investments in water and sanitation have direct consequences on public health improvement.

3. Reference to MIPD

See paragraph 2.4 of the main text of the Project Fiche.

4. Reference to National Development Plan

See paragraph 5 below.

5. Reference to national/sectoral investment plans

(sources: progress reports)

Candidate countries

Croatia

Water management: little progress is reported in this field. The Water Management Strategy has not yet been adopted

Waste management: a national waste management plan was adopted and the activities to develop the regional waste management centres to be organised under the waste management plan are advancing in every county. Co-financing of investments is provided by the Environmental Protection and Efficiency Fund.

The conclusion outlines that a comprehensive plan for putting in place the necessary capacity at national, regional and local level, as well as financial resources to implement and enforce the acquis needs to be developed.

The former Yugoslav Republic of Macedonia

Water management: progress has been limited.

Waste management: legislation implementing the law on waste management has been adopted, however, the national strategy for waste management and the national waste management plan have still to be drafted.

The general conclusion of this chapter is that progress is limited in all fields requiring major investments. It is outlined that financial resources remain inadequate specially at local level.

Turkey

Turkey has adopted a Strategy for EU integration for environment in February 2007, which estimates EUR 60 billion for compliance with the environmental acquis until 2023. Furthermore, the Operation Programme for Environment lists priority environmental investments to be financed under IPA, Component III.

Water management: the overall alignment is low as water framework directive has not been transposed.

Waste management: Turkey has no national waste management plan. There is no progress regarding the directives on landfill, waste incineration.

Potential Candidate Countries

Albania

Water management: the Water Supply and Waste Water Sector Strategy targets, fixed in 2003, have not been attained. Water supply and waste water remain problematic, particularly in coastal areas. Water supply and sanitations remain outdated. A comprehensive water management strategy is still needed, including approximation with European legislative standards, determining investment needs, and improving the capacity to manage water and sewerage issues.

Waste management: there has been little progress in the area of waste management. There is no clear strategy for the disposal of municipal solid waste. Uncontrolled dumping and burning of waste continue to pose environmental and health risks.

Bosnia and Herzegovina

Water management: little progress can be reported. Implementation of the Water Law in the Entities has been delayed until the implementing legislation is in place. Insufficient waste water treatment remains a key environmental challenge.

Waste management: no progress has been made on legislative support for recycling and recovery of priority waste products which can no longer be disposed of at landfill.

In conclusion, preparation of the country in the field of environment is at an early stage and the country lacks of experts and has very limited financial resources for the necessary environmental investments. In addition, the country suffers from limited absorption capacity.

Montenegro

Water management: a new Law on water was adopted in May 2007 transposing some of the obligations under the Water Framework Directive, but the level of alignment with the European standards remains low.

Waste management: the national Waste Management Plan has not yet been adopted and alignment with the EU standards is low.

Further efforts are needed in the environmental field knowing that implementation and enforcement pose a significant challenge.

There is no environmental investment strategy at the moment, however, the Government of Montenegro has adopted in 2005:

- the Strategic Master Plan for Solid Waste Management on the Republic Level, which envisages the investment of approximately EUR 120 million in the area of waste management in Montenegro for the construction of seven regional sanitary landfills;
- Strategic master plan for sewage and wastewaters for central and northern region of Montenegro, which envisages EUR 278,7 million for the specific investments in this area;
- Strategic Master plan of discharging and purification of wastewaters of Montenegrin Littoral and municipality of Cetinje, which projected EUR 280.8 million for the realisation of all the activities in the following 25 years.

Furthermore, the Government of Montenegro adopted, in the middle of 2007, the list of priority projects in the area of communal infrastructure for 2008, while the activities for preparation of the proposal of priority activities for 2009 are underway.

Serbia

Water management: a challenge is the upgrading of the waste water treatment infrastructure throughout the country. There is an issue about the sustainability of further investments given the low price of water.

Waste management: strategic plans on waste management, both at national and local level are still under development.

In conclusion, the report outlines that institutional capacity is insufficient at local level. Co-operation between the central level and municipalities needs to be enhanced. The Fund for Environmental Protection is active in the co-financing of projects, especially in the field of waste management, sanitation and air quality monitoring. Financing plans have still to be developed especially for water, solid waste and pollution hot spots.

Kosovo

Water management and Waste management: Progress has been made in both areas. However, the utilities face problem with revenue collections. Structures are still fragile and the current arrangements for management of the waste sector are in need of improvement.

Annex V- Details per EC-funded contracts

Municipal infrastructure projects will be implemented in joint management with the partner IFIs through co-financing agreements aimed at combining IPA grants with national or local resources, grants from IFI's own resources or from other donors with IFI loans.

The IPA grants could be used for the following purpose:

- Investment support to municipal infrastructure projects through joint co-financing with the partner IFIs: IFIs will provide a repayable loan and the Commission a non-repayable grant. Investment support will be only available for Potential Candidates.
- Consultancy Services (CS): depending on the structure of the project and the needs for capacity building of the Beneficiaries, IPA grants may be used to finance technical assistance directly contracted by the IFIs. Where Consultancy Services only strengthen the administrative capacity of the municipalities, all Beneficiaries are eligible. Where Consultancy Services are linked to a municipal infrastructure investment, rules governing Investment support apply.

To that end, a contribution and or delegation agreement will be signed between the IFI and the EC. The agreement will specify each project activities, financing package (including the IFI's contribution) and grant component, the use and disbursement of IPA grants and the project progress indicators.
