

Western Balkans Investment Framework

Strategic Orientations – 2021-2027

These Strategic Orientations for Western Balkans present the policy context, legal basis and instruments, guiding principles and description of the WBIF Intervention Areas to be supported through the WBIF Western Balkans Guarantee facility (EFSD+ budgetary guarantees) and WBIF public and private sectors blending.

1. The Economic and Investment Plan for the Western Balkans

The Western Balkans are part of Europe and it is in our shared strategic interest to help these six partners move forward on their European Union path. To support a renewed partnership with the region, the EU has worked on a three-track approach to reinvigorate the enlargement process and to rebuild trust in the region towards the EU.

First, adopting a new enlargement methodology¹ based on the principles of increased credibility, transparency, predictability and political steer. Second, on the basis of the new methodology proposing the opening of accession negotiations with Albania and North Macedonia, endorsed by European Council in March 2020². And third, adopting in October 2020 a major Economic and Investment Plan³ (EIP) which aims to spur the long-term economic recovery of the region, support a green and digital transition, and foster regional integration and convergence with the European Union.

The EIP sets out a substantial investment package mobilising up to €9 billion of funding for the region. It will support sustainable connectivity, human capital, competitiveness and inclusive growth, and the twin green and digital transition.

The Plan identifies ten investment flagships to support major road and railway connections in the region, renewable energy and the transition from coal, renovation of public and private buildings to increase the energy efficiency and reduce greenhouse gas emissions, waste and waste water management infrastructure, the roll out of broadband infrastructure, as well as increased investments in the private sector to boost competitiveness and innovation, in particular of small and medium sized companies.

As part of the Economic Investment plan to support the region, the Commission presented guidelines for implementing the Green Agenda in the Western Balkans⁴, adopted at the Western Balkans Summit in Sofia in November 2020. It foresees actions around five pillars. These are (i) climate action, including decarbonisation, energy and mobility, (ii)

¹ COM(2020) 57 final Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - Enhancing the accession process - A credible EU perspective for the WB.

² General Affairs Council, Council conclusions on Enlargement and Stabilisation and Association Process as adopted by the Council by written procedure on 25 March 2020.

³ COM(2020) 641 final Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - An Economic and Investment Plan for the Western Balkans.

⁴ SWD(2020) 223 final COMMISSION STAFF WORKING DOCUMENT Guidelines for the Implementation of the Green Agenda for the Western Balkans.

circular economy, addressing in particular waste, recycling, sustainable production and efficient use of resources, (iii), biodiversity, aiming to protect and restore the natural wealth of the region, (iv), fighting air, water and soil pollution and (iv) sustainable food systems and rural areas. Digitalisation will be a key enabler for the above five pillars in line with the concept of the dual green and digital transition.

In addition to the EU's significant grant funding to the region in support of the public and private sectors development, the EU will provide guarantees to help reduce the cost of financing and mitigate the risk for investors, hence attracting further public and private capital. Support through the Western Balkans Guarantee facility, under the EU External Action Guarantee and the European Fund for Sustainable Development Plus (EFSD+), is expected to mobilise potentially investments of up to €20 billion in the next decade.

The EIP substantial investment package is expected to leverage public and private investments in the region by attracting EU Member State Development Financial Institutions (DFIs) and International Financial Institutions (IFIs).

The path towards cohesion of the economies of the Western Balkans within the region and convergence with the EU requires of a strong commitment from the Western Balkans toward fundamental reforms, deepen regional economic integration and development of a common regional market, on the basis of the EU *acquis* and with the objective to make the region more attractive to investors.

The Commission has been supporting the region beneficiary economies for the creation of a regional economic area and in the EIP calls upon the Western Balkans governments to develop an ambitious and inclusive roadmap to build the common regional market.

The Western Balkans Investment Framework plays a key role in supporting in partnership with all the platform members the implementation of the EIP and the convergence of the region towards the EU economies and EU values.

2. Global Europe and the Instrument for Pre-Accession assistance.

The Multi-annual Financial Framework 2021-2027 governs the EU support to the Western Balkans region throughout two distinct though complementary regulations, the **Global Europe - Neighbourhood, Development and International Cooperation Instrument** (Global Europe)⁵ and the **Instrument for Pre-accession Assistance** (IPA III)⁶.

The IPA III regulation with its pre-accession assistance is the main financing tool supporting the Western Balkans region with projects and programmes within five thematic windows: (W1) Rule of law, fundamental rights and democracy; (W2) Good governance, *acquis* alignment, good neighbourly relations and strategic communication; (W3) Green

⁵ Regulation (EU) 2021/947 of the European Parliament and of the Council of 9 June 2021 establishing the Neighbourhood, Development and International Cooperation Instrument – Global Europe.

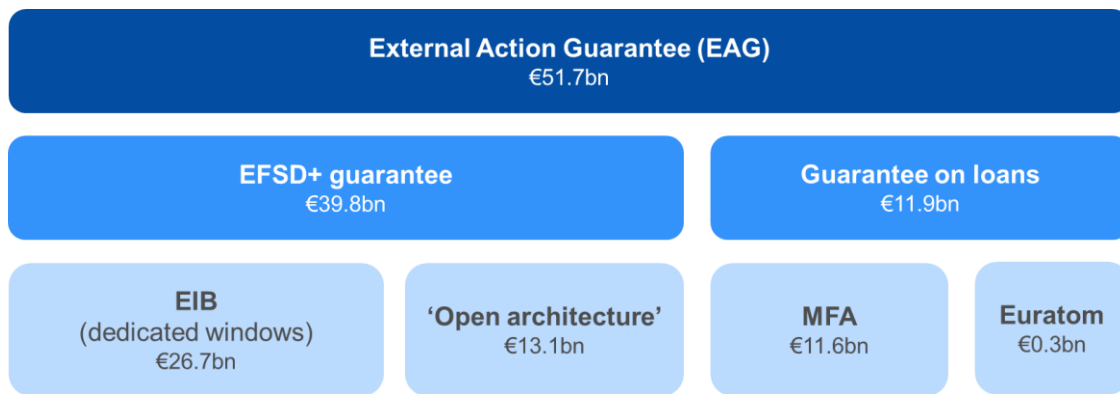
⁶ REGULATION (EU) 2021/1529 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 15 September 2021 establishing the Instrument for Pre-Accession assistance (IPA III).

agenda and sustainable connectivity; (W4) Competitiveness and inclusive growth; and (W5) Territorial and cross border cooperation.

The Global Europe instrument will be the main financial tool of the EU's international cooperation for the period of 2021-2027 to support the EU international cooperation, and for the first time includes the Western Balkans region in the achievement of some of its main objectives. Notably, Global Europe, following the successful implementation of the European Fund for Sustainable Development in Sub Saharan Africa and the EU Southern and Eastern Neighbourhood countries, sets a **new European Fund for Sustainable Development Plus (EFSD+)** extended to the Western Balkans.

EFSD+ is an integrated financial package supplying financing capacity in the form of grants, technical assistance, financial instruments, budgetary guarantees and blending operations. While in the rest of the world it will entail blending and guarantee operations, in the Western Balkans it will be limited to guarantee operations that will be implemented through the Western Balkans Investment Framework (WBIF) and its new Western Balkans Guarantee Facility with financial provisions from IPA III funds.

As regards the EFSD+ budgetary guarantees, they are covered by the broader External Action Guarantee (EAG), for a maximum amount of EUR 53.4 billion, which supports mainly the EFSD+ guarantees, as well as Macro Financial Assistance (MFA) and Euratom⁷.



3. Key guiding principles

3.1. Overarching Priorities

The EU programming process has identified a number of thematic priorities (described in section 4) to be included in the following overarching windows:

- Green Deal;
- Global Gateways; and
- Jobs and sustainable and inclusive Growth.

⁷ Numbers in figure represent indicative figures.

Green Deal

Acknowledging that current international pledges and commitments of the Agenda 2030 and its sustainable development goals as well as the Paris objective to keep global warming to 1.5°C within reach, the European Union will deploy budgetary guarantees and blended finance operations under **EFSD+ to contribute increasing capital flows towards climate investments** in both adaptation and mitigations in emerging and frontier markets, whilst following the “do no harm” principle for non-climate related investments.

As mentioned in the State of the Union address of 15 September 2021, **tackling the climate crisis is a central focus of the European Commission**, the first major economy to present comprehensive legislation to turn climate goals into legal obligations. President von der Leyen mentioned that the EU will double its external funding for biodiversity, and that Team Europe already contributes 25 billion dollars per year to climate finance but will now propose an additional 4 billion euro until 2027 for the overall EU external action. This commitment has been confirmed through the Green Agenda for the Western Balkans included in the Communication on the Economic and Investment Plan for the Western Balkans.

Global Gateways

President von der Leyen laid a particular focus on the next generation of international partnerships, announcing **the new connectivity strategy called Global Gateway**. Recognising the importance of **increasing and improving connections** among Europe and partner economies around the globe, the EFSD+ will be a prominent vehicle for the EU to deliver investments in **infrastructure, exchanging goods and services, connecting people around the world**. This will also include investing in Africa for the establishment of a market for green hydrogen that connects the two shores of the Mediterranean⁸. Investments in **digital, energy, transport and people-to-people** connectivity are needed to support the EU’s strategic interests around the world. EFSD+ financing across these sectors will seek to meet the development needs of our partners whilst strengthening their relations with the European Union and contributing also to our own long-term strategic position and resilience. The EU’s aim with Global Gateways is to become smarter in its investments, ensuring that the EU’s investments create links which make sense both for our partners and for the EU’s own strategic positioning. This strategy is particularly relevant in the EU Enlargement region and shall strengthen the objective of connecting the region within itself and with the EU.

The Global Gateways strategy to enhance connectivity investments and services around the world lays a strong emphasis on adhering to the **EU’s principles of a level playing field, transparency and sustainability**, offering good governance and

⁸ President of the European Commission Ursula von der Leyen State of the Union address on 15 September 2021 https://ec.europa.eu/info/sites/default/files/soteu_2021_address_en_0.pdf

creating links rather than dependencies. The approach is fully aligned with the UN's 2030 agenda and its Sustainable Development Goals.

Jobs and sustainable and inclusive Growth

The EU keeps a continuous central focus on sustainable and inclusive **economic growth and job creation**. Having a decent job is widely recognised as the best way out of poverty. The **private sector** provides some 90 per cent of jobs in developing and in transition economies, and is thus **an essential partner in the fight against poverty and support economic development**. The European Commission works closely with governments outside the EU to help them develop and implement policies in support of private sector development. In the EU Enlargement region, the Economic Reform Programmes (ERPs), play a decisive role in this regard. This policy support is combined with substantial grant funding across a wide range of activities, including regulatory reforms, capacity-building and the provision of business development services, with a particular focus on strengthening local micro, small and medium-sized enterprises.

With regional blending facilities such as the WBIF and innovative financial instruments such as guarantees, the Commission has been developing new tools for implementing private sector development objectives. In particular, the use of **guarantees makes it possible to boost MSME lending** by commercial banks, and risk capital to invest in funds that lend on or invest in small companies. Scaling up of blending in cooperation with development finance institutions also facilitates the involvement of the private sector as a source of finance.

The European Commission is also working with governments to foster better access to education, health, social protection and inclusion. The use of blending and guarantees can enhance the investment capacity in these areas and thereby contribute to human development and inclusive growth.

3.2. European Financial Architecture for Development and the Team Europe Approach

These objectives are all consistent with the **European Council conclusions on enhancing the European financial architecture for development (EFAD)**, which stress the urgent need to increase development impact in partner economies and to address the development challenges reinforced by the COVID-19 pandemic. In order to deliver on this ambitious agenda, the Council conclusions encourage the entire European financial development ecosystem (including multilateral and bilateral development banks as well as public and private financial investors), to work together more effectively and efficiently and to strengthen their cooperation in a Team Europe approach, increasing EU visibility. The European Commission intends to use EFSD+ as a prominent collaboration platform to deliver the objectives of the EFAD agenda.

The Team Europe Approach aims to combine the resources, modalities and tools of EU, its Member States, their agencies and development finance institutions, as well as the European Investment Bank (EIB) and the European Bank for Reconstruction and

Development (EBRD)⁹. In the Western Balkans the Team Europe approach builds on the long-established tradition of close collaboration established by the WBIF members. WBIF brings together multilateral and national financial institutions, EU and non-EU bilateral donors and the Western Balkans beneficiaries, cooperating in an inclusive manner.

WBIF was recognised as a best practice for European financial support for development in the report from the Commission to the Council on the “*Recommendations of the High-level group of Wise persons on the European Financial Architecture for Development*”¹⁰.

This recognition was also acknowledged by the co-legislators that included, in the IPA III regulation, the following recital.

*(44) The new European Fund for Sustainable Development Plus (EFSD+) established by Regulation (EU) 2021/947, which builds on its predecessor, should constitute an integrated financial package supplying financing capacity in the form of grants, budgetary guarantees and other financial instruments worldwide, including to the beneficiaries listed in Annex I. The governance of the EFSD+ operations covering the Western Balkans carried out under this Regulation should be ensured by the Western Balkans Investment Framework (WBIF). **The steering committee of the WBIF includes the beneficiaries from the Western Balkans listed in Annex I, the contributors to the European Western Balkans Joint Fund, relevant financial institutions and relevant regional organisations, as appropriate. The specific strategic board for the EFSD+ operations covering the Western Balkans should continue to be as inclusive***

The WBIF was established in 2009 as a joint initiative of the European Commission, the Council of Europe Development Bank (CEB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank Group (EIB), and several bilateral donors including EU Member States and non-EU countries such as Norway. The World Bank Group, the Kreditanstalt für Wiederaufbau (KfW), and the Agence Française de Développement (AFD) joined the WBIF at a later stage. In addition to bilateral donors and IFIs, key supporters of policy reforms and investments in the region, the WBIF partner economies actively contribute to the WBIF both as project initiators and participating into the governance structures.

Through WBIF, members will continue pulling together their funding to ensure the **EFSD+ Team Europe approach**, showing that the EU collectively is the largest international cooperation partner. On top of EU funds used for blending and guarantee operations, WBIF partners may add their own resources and contributions. The Team Europe implementing partners for the EFSD+ include a range of European DFIs, with other non-European financial institutions that may also become implementing partner as appropriate.

Hence a **coordinated approach among all WBIF members** is actively sought, to maximize capacity to mobilize resources as well as impact in terms of accelerating/globalizing the mainstreaming of sustainable finance, and the use of its related financial products.

⁹ Council Conclusions on Team Europe. April 2021. <https://data.consilium.europa.eu/doc/document/ST-7894-2021-INIT/en/pdf>

¹⁰ COM(2020) 43 final

4. WBIF Intervention Areas, Budgetary Guarantee Investment Windows and Blending Investment Priorities

4.1. WBIF Intervention Areas

As defined in Global Europe and IPA III, **the allocation of funds to be used for EFSD+ operations is based on the relevant programming documents**, in particular the priorities defined therein, and shall take into consideration, inter alia, the specific realities and needs of each partner economy or region.

The ‘policy first’ principle implies that **EFSD+ blending and budgetary guarantee operation will primarily be used to support flagship investments and the main priorities** identified in the policy dialogue with partner economies and reflected in key strategic documents, in particular this are:

- The Economic and Investment Plan for the Western Balkans;
- The Green Agenda for the Western Balkans;
- The Agenda for the Western Balkans on Research, Innovation, Education, Culture, Youth and Sport (hereafter Innovation Agenda)¹¹.

In addition, the Global Europe Regulation requires the European Commission **to set up investment windows for the use of the EFSD+ budgetary guarantee**¹² and that the choice of guarantee investment windows shall be *duly justified by an analysis of the market failure or sub-optimal investment situations*.

In order **to identify strategic areas for investment for the WBIF**, the Commission has combined the priorities stemming from the EIP, including the Green Agenda and the Innovation Agenda with analysis of investment conducted with the support of the EU Delegations, MS DFIs, IFIs, representatives of the IPA Beneficiaries and other relevant stakeholders. The market intelligence gathered has been instrumental in this process.

This approach has **resulted in the identification of an Investment Matrix**, where the different priorities have been preliminarily matched with different type of investments to be supported under EFSD+ Guarantee and to guide on blending investments (see below).

The assessment has been further refined and enriched through dedicated analyses of specific sectors and regions via an *Analysis of market failures in pre-identified areas and sectors*, conducted for the Western Balkans, Neighbourhood East and South for the planning of EFSD+, which allowed to have a deeper understanding of key bottlenecks hampering investments in three areas and explore possible use of budgetary guarantees and guide on blending interventions to address them.

To complement the assessment, WBIF Informal Working Group (IEGs) including relevant WBIF stakeholders (DG NEAR, bilateral donors, EU Delegations, DFIs and IFIs) were

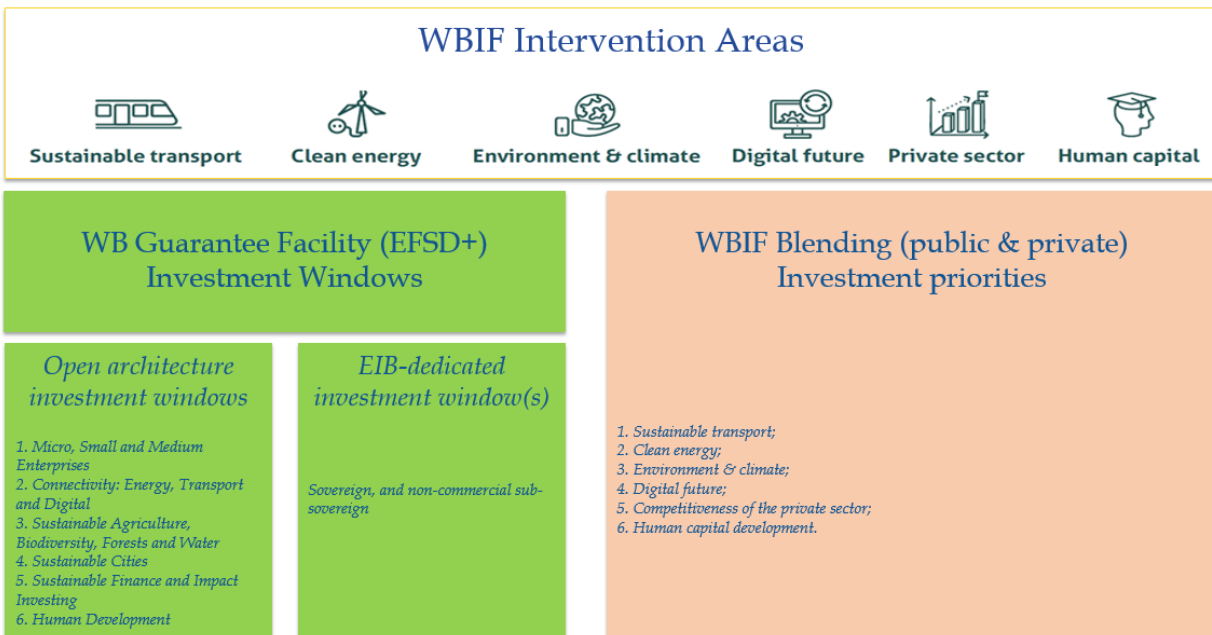
¹¹ Joint Declaration “A Western Balkans Agenda on Innovation, Research, Education, Culture, Youth and Sport” Launched on 6 October 2021 at the EU - Western Balkan Summit in Brdo.

¹² The Regulation also creates an EIB-dedicated investment window for operations with sovereign and non-commercial sub-sovereign counterparts.

brought into life in January 2021, each with specific Terms of Reference. The IEGs focused on i) acceleration of implementation of Technical Assistance and Investment grants; ii) implementation of the Green Agenda; iii) Integrated and Socially Responsible Procurements; iv) Private Sector Competitiveness; v) Effective Capital Investment Planning and Implementation. The process ended with a set of recommendations agreed by the WBIF members that have enriched the analysis.

The EFSD+ shall contribute to address identified market failures by calibrating the level of support provided at concessional terms, avoiding market distortion and contributing to create sustainable and inclusive market dynamics.

The outcomes of this analysis have been reflected in the WBIF Intervention Areas to be supported by the WBIF blending and budgetary guarantees.



Moreover, the EFSD+ will be a vital instrument towards the overall targets on **horizontal objectives of Global Europe and IPA III**, mainstreaming them in all areas supported by the EFSD+.

Against this background, and building on the long-established experience of the WBIF, the Commission has proposed overarching **WBIF Intervention Areas** stemming from the EIP i.e.:

- i) Sustainable transport;
- ii) Clean energy;
- iii) Environment & climate;
- iv) Digital future;
- v) Competitiveness of the private sector; and
- vi) Human capital development.

These WBIF Intervention areas shall directly support the implementation of IPA III Window III “*Green agenda and sustainable connectivity*” and Window IV “*Competitiveness and inclusive growth*”; as well as several EIP priorities.

To pursue these objectives in line with the ‘policy first’ principle, the WBIF will use blending (public and private sector) and budgetary guarantee instruments.

The Western Balkans Guarantee facility (EFSD+ Guarantee) will cover an **ample spectrum of investments across different areas**, encompassing both EIB-dedicated guarantee cover as per Article 36 Global Europe as well as guarantees provided through an “open architecture” on the basis of calls for investment proposals.

The **EIB dedicated window for sovereign and non-commercial sub-sovereign** counterparts will typically have the nature of public goods, often socio-economic infrastructure projects in one or more of the main areas of EFSD+.

Under the “**open architecture**” investment windows, eligible DFIs and IFIs are invited to submit Proposed Investment Programmes (PIPs) on which basis the Commission will select the most relevant ones taking into account the nature of the guarantee product and its envisaged geographical coverage.

It is to be noted that EFSD+ investments windows will be open to all EU External Action regions covered under the Global Europe and IPA III instruments. This shall allow for multi-regional PIPs in areas relevant for more than one region. This approach shall bring economies of scale to ensure a quicker deployment and more efficient use of the European Commission resources..

The policy first principle will continue throughout the implementation of the programme through semi-annual pipeline review meetings, a mid-term review and continuous consultation between the various stakeholders involved.

The WBIF Western Balkans Guarantee facility investment windows and the Blending Investment priorities that will be used to deliver on the WBIF Intervention Areas are outlined below.

4.2. Western Balkans Guarantee facility Investment Windows

(1) Micro, Small and Medium Enterprises (MSMEs)

Micro, small and medium-sized enterprises (MSMEs) play a key role in the development process and contribute to a substantial proportion of total employment and national income. In emerging and frontier markets, MSME generate on average 70% of formal employment and about 40% of value added.

Gaps and deficiencies in the economic structure influence both formal and informal MSMEs capacity to grow and their potential to further contribute to job creation.

Common challenges are:

- (i) lack of access to affordable sources of debt and equity financing, tailored to the needs of different types of businesses.

- (ii) lack of adequate technical, professional and/or managerial skills (an impediment also when trying to meet international environmental and social standards).
- (iii) limited infrastructure and limited market access.
- (iv) non-conducive investment climate and business environment framework and good governance standards.

Additionally, across all regions informality remains present (although varying from region to region) and poses extra barriers and difficulties for the development of enterprises and their access to financial services.

This investment window will support reconciling demand and supply of financial products by covering a wide spectrum of services for different unserved or underserved beneficiaries. It shall unlock opportunities to attract private investments into MSMEs as well as potentially de-risk local financial institutions portfolios, mobilise domestic savings and deposits, finance from the private sector, from foundations and/or remittances, into investments and lending that help reduce existing financing gaps.

EFSD+ guarantee will support access to affordable finance for MSMEs at their various stage of development, with a particular attention to most vulnerable groups of entrepreneurs, including women and young people. EFSD+ will also support the digitalization and greening of SMEs while supporting entrepreneur and development of Startup ecosystems.

EFSD+ will also support access to market, the objective being to foster integration of relevant local companies to European value chains, through compliance to EU standards, and helping them to meet Environmental, Social and Governance (ESG) standards, and the promotions of European Equity investment. This support will help companies to seize opportunities stemming from nearshoring trends and from the raising attention paid to ESG compliance in European value chains.

As a result, it will be enhancing MSMEs financing to generate inclusive growth and stimulate sustainable job creation and develop circular economy in partner economies

(2) Connectivity: Energy, Transport and Digital

2.1 Energy

EFSD+ will support green transition plans in partner economies, de-risking private and public investments that are required to meet National Determined Contributions (NDCs) targets, whilst addressing renewable energy, energy efficiency as well as energy transmission, distribution and storage systems harnessing the potential of the employing digital solution to improve transparency, efficiency and resilience.

A massive deployment of renewable energy generation capacities requires the development of grid interconnectors, in view of balancing intermittence challenges related to renewable energy. EFSD+ will therefore support electricity interconnections.

EFSD+ support would be required to stimulate the private sector investment and funding by reducing risks as well as to mobilise sub-sovereign investments in order to

have a catalytic impact on low-emissions and climate-resilient inclusive economies as well as just energy transition with enhanced energy access and green job creation, leaving no one behind.

Investments supported by the EU guarantees shall respond to the specific situation and needs of a given economy or region, respect social, fiscal, ethical and environmental internationally recognised principles, including gender equality and zero pollution approach, and ensure sustainability.

2.2 Transport

A reliable core network in roads, railways, waterways and other solutions to ensure efficient links within economies, regions and between them, and to further connect the EU with its neighbours, to support the improvement of logistics systems, include digital transport technologies, remove infrastructure and non-infrastructure bottlenecks, and promote greener transport modalities.

EFSD+ will help enhance transport by key air, road, rail and inland waterway and seaports connections and logistics centres to stimulate economic development, market integration and cross-border trade within regions.

Furthermore, the rehabilitation of airports, seaports and smart mobility concepts are measures to stimulate economic development, market integration and cross-border trade within a region and across regions, as well as with the European Union. Measures shall contribute to the greening of the connectivity sector, based on a sustainable transport model.

2.3 Digital for Development

Digital technologies have become indispensable for our societies and our economies. Approximately 4.5 billion people across the globe use the internet and more than half of the world's total population is using social media, with large “divides” between economies.

The European way to a digitalised economy and society is about solidarity, prosperity, and sustainability, anchored in the empowerment of its citizens and businesses, ensuring the security and resilience of its digital ecosystem and supply chains. To this end, closing the various digital divides will be key in unlocking the full potential of digitalisation to bring societies and economies closer together, while fostering an enabling environment for them to thrive in a digital world of the future. In recent times, the COVID-19 pandemic has had a catalysing effect on digital transformation across the globe, prompting its adoption in some parts of the world, but also deepening digital divides in others.

Digital transformation can be a catalyser for a sustainable recovery and development, fostering innovation while bringing economic growth and quality jobs. It can help close the gap between citizens and governments, while creating a digital bridge with the world; equip citizens with digital skills and provide digital services; it can support achieving the objectives of the Paris Agreement on climate change, as fundamental enabler of the green transition; it can promote a more responsible and human-centric digital governance.

The EU will also launch the Global Gateway to increase the connectivity links between Europe and the world, as well as broadband access in partner economies.

Through EFSD+, three key aspects of the digital transition will be addressed: support digital connectivity, foster the digital economy, and improve digital inclusion. On digital connectivity, priorities relate to investments to enhance the availability of ubiquitous and high bandwidth telecommunication infrastructure (and ensuring the take-up of the EU digital connectivity toolbox principles) in view of tackling the digital divide and enhancing digital connectivity between the EU and its partners. On the digital economy, priorities relate to supporting companies active in the digital sectors to realise their growth potential, and to support the digitisation of traditional companies, with a particular focus on e-commerce. On digital inclusion, a priority will be given to promote inclusive access to digital infrastructure domestically, education, access to e-services (i.e. reaching out underserved segments).

The EFSD+ shall also contribute to an ample spectrum of investments, including the improvement of ICT infrastructure, the development of digital services and support to innovative digital solutions for private businesses and start-ups.

(3) Sustainable Agriculture, Biodiversity, Forests and Water

3.1 Sustainable Agriculture, Biodiversity and Forests

According to the UN, around 1.2 billion people are living in extreme poverty, which means that they are living on USD 1.25 or less per day. Three out of four of these people live in rural areas and the vast majority of them make a living from agriculture or occupations linked to agriculture.

The agriculture sector is coming under pressure from growing water scarcity, poor natural resource management and climate change impacts that can affect production. These pressures imply that agricultural production will increasingly need to adopt climate-smart production methods, which make more efficient use of resources and are more resilient to climate change.

Agriculture is not only affected by climate change but has a significant effect on it, as globally agriculture, land-use change and forestry are responsible for 19-29% of greenhouse gas emissions. Furthermore, agricultural expansion is often associated with natural resource depletion, which in some cases leads to desertification and ecosystems degradation. This is an urgent global issue, as more than 1 billion people in some 100 economies face risks related to the effects of desertification. Water scarcity does not only make it difficult for a population to ensure a sustainable food supply, but it is also a major burden for economic growth.

Agriculture is also a leading driver of biodiversity loss, which in turn negatively affects yields and the sustainability of food systems. Forests and woodlands can have a central role in climate change mitigation and adaptation.

Thus, investment seeking to increase production will need to reflect these concerns by focusing on sustainable, climate-smart production systems and methods – such as agro-ecology – as drivers of growth in the agriculture sector. This should include a focus on promoting circular business models within the value chains of agri-food systems.

Resilience to climate change and to adverse weather events also needs to be enhanced, both at the enterprise and economy level. They need to take account not only of climate variability but also of the expected impacts from climate change.

EFSD+ will target the agriculture, fisheries, conservation, forestry and other land use sectors enhancing sustainable development. This will improve food security, address climate risks and contribute to halting and reversing the loss of biodiversity and ecosystem services. It will also help economies deliver on their commitments to implement the Paris Agreement on climate change, the post-2020 Global Biodiversity Framework¹ and to achieve Land Degradation Neutrality.

It will contribute to ending hunger, achieving food security, improved nutrition and promoting sustainable agriculture whilst protecting, restoring and promoting the sustainable use of terrestrial and aquatic eco-systems. EFSD+ will help catalysing investment in sustainable agriculture, biodiversity and forests through the whole value chain, from production, to transformation and logistics, and contribute to addressing the growing issue of water scarcity, poor natural resource management and climate change impacts that can affect production and food security (Food-Water-Energy nexus).

3.2 Irrigation, Water and Sanitation

Combat climate change with investment addressing mitigation, supporting access to water and sanitation for all are fundamental in reducing poverty and foster the transformation to competitive low-carbon and climate-resilient inclusive green economies.

This has been confirmed at global level by the 2030 Agenda and the Paris Agreement, at EU policy level by the European Consensus on Development.

There is also growing recognition of the crucial contribution of water-related investments to climate resilience, to circular economy and to building-back-better in response to the global COVID-19 pandemic. The EFSD+ will enhance universal and equitable access to safe and affordable water, sanitation and hygiene in the main cities as well as peri-urban and rural areas including reducing water losses, strengthening resilience towards climate change as well as opening new renewable water source.

(4) Sustainable Cities

The choices made by municipal authorities about urban infrastructure in the coming decades, either in terms of urban planning, energy efficiency, energy production or transport, will have a decisive impact on poverty alleviation, economic growth and greenhouse gas emissions. The demographic challenge which concur to an effective poverty-aggravating factor as more than half of the world's population (3.9 billion people) currently lives in cities. UN estimates that in 2050 two thirds of people will live in cities.

The economic challenge generated by the concentration of GDP in urban areas (80% of global GDP, 88% by 2025 estimates). In this context, most of the housing and infrastructure needed for an increasingly urbanised world has yet to be built. Supporting investments by municipal authorities in enabling infrastructures is key to economic growth and poverty alleviation. Climate and environmental change have significant collateral effect: whilst cities cover a small part of the world, their physical and ecological footprints

are much larger. Research indicates that they consume more than two-thirds of the energy production and account for up to 70% of energy use and 80% of Greenhouse Gas (GHG) emissions, as well as being significant sources of local air and water pollution and waste generation.

These impacts are set to rise over time as a result of pressure from increasing urbanisation and climate change. At the COP21 in Paris, more than 450 cities with a combined population of nearly 1bn people pledged to reduce emissions by more than 50% in around 15 years, but a small percentage of them have the financing, analytics or capacity for implementing policies fostering a transformative shift towards an effective climate-resilient low-carbon economy and society. Beyond public funds, which remain key to build on the concept of sustainable cities and properly address investment needs and maintenance of municipal infrastructure, the private sector must play a larger role as a technology provider but also as a co financier and municipalities partner.

Results do not meet expectations when it comes to developing Public Private Partnerships (PPP), due to regulatory and also risk related issues. Typically, municipal services tend to lack viability, lack investments and knowledge to optimise operations. On the one hand revenue streams are regularly affected by losses in/illegal connexions to the technical networks. On the other hand, economic models of municipal public services are not attractive for potential private partners as end user tariffs appear to be significantly below cost recovery levels.

There is a broad need to increase municipalities' currently limited capacities to access to sufficient, long-term financing and credit, and to improve its capacity to better operate municipal services. The market for long-term municipal borrowing has a relevant growth potential, banks need an enabling financial and economic environment to improve their potential to offer loans matching the economic life of assets and their acceptance to take sub-sovereign risks. At the same time, debt sustainability concerns need to be addressed. EFSD+ will support sustainable and green urban development as a way of contributing to economic and social development, countering inequalities and promoting inclusivity. EFSD+ will combine support in different areas, from sustainable urban mobility to urban governance and smart cities; urban economic growth and decent work opportunities; broader quality of life for citizens increasing and improving access to basic urban services.

(5) Sustainable Finance and Impact Investing

The Addis Ababa Action Agenda on financing for development was already off track before the pandemic struck. COVID-19 has dramatically increased development needs, with 2020 marking the first increase in poverty since 1998.

At the same time, development finance is under extreme pressure and at risk of decline. The annual EUR 2.1 trillion SDG financing gap in Emerging Markets and Developing Economies (EMDEs) has increased tremendously due to COVID-19, reaching EUR 3.6 trillion.

Given the scale of the financing gap, there is a need to mobilise financing from all sources, including domestic and international private capital. Over EUR 322 trillion of total assets in the system are held by banks, institutional investors and asset managers, but they continue to fuel inequalities and unsustainable investments. Institutional investors

(pension funds, insurers, sovereign wealth funds), asset managers, and others (philanthropic organizations, family offices) have nevertheless shown an increased interest in impact investing in recent years. IFC estimates the market size for total assets of impact investors in 2019 to be USD 505 billion. Adding in other funds and DFIs with impact objectives, the total market size could be slightly over USD 2 trillion.

Capital markets are crucial sources of long-term funding to help close SDG financing gaps and mobilise capital for sustainable development. Several thematic financial instruments have been developed to accelerate sustainable development - broadly defined as “Sustainability-related financial instruments”. Among them, “Green, Social and Sustainability bonds” finance projects that are contributing towards the SDGs, while “Sustainability-linked bonds” are performance-based products where finance raised is for general purposes but the interest rate varies based on the achievement of predetermined sustainability performance objectives.

The EU has become a frontrunner in that regard and the first worldwide green bond issuer and it is uniquely positioned to support sustainable finance and to promote sustainability-related financial instruments across the world and especially in EMDEs.

In this context, Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs) must continue to play an active role in scaling up sustainable finance and catalysing private investors, given their role as market enablers, anchor investors, and standard setters.

EFSD+ will contribute to fill the SDG financing gap by mobilising private investment at scale whilst delivering high quality and measurable impact (climate, environmental, economic and social). It will do so by supporting innovative financial instruments (such as green/blue/social/gender bonds, including other sustainability-related instruments / vehicles / funds such as syndication platforms, SDG structured funds, among others) generating significant flows of capital towards emerging and frontier markets.

(6) Human Development

Promote and support access to health, education, employment, social protection/inclusion and other social services for all, contributing to the eradication of poverty and tackling inequalities.

The notion of human development refers to the physical, cognitive and psychological evolution of human beings throughout their lifespans. It consists of the development from infancy, childhood, and adolescence to adulthood, which is condition sine qua non to achieving all the Sustainable Development Goals (SDGs) and unlocking the next stage of global growth and prosperity. Investments in human development are vital for delivering on people’s human rights and for improving the wellbeing of individuals and societies. The European Pillar of Social Rights, in line with the SDGs, provide an inspiration and guidance for the EU external action, including EFSD+. The Addis Ababa Action Agenda opened new ways to foster additional investment and mobilise private sector energies in complement and synergy with public sectors. The EFSD+ Guarantee can contribute to

these tools, based on strict additionality and non-displacement criteria in relation to services provided by governments.

During the COVID-19 crisis, the EFSD Guarantee made vital contributions to help accelerate the procurement of vaccines for low- and middle-income economies, notably through the COVAX guarantee programme (implemented by the EIB with a full EFSD guarantee). Going forward, it will be essential to enhance partner economies preparedness for future pandemics, for example by enabling local diagnostic and vaccine manufacturing capacity. It is expected that the EFSD+ Guarantee can play an important role also in this effort.

Access to education, health, decent work and social protection are basic rights that the EU wants to promote in its external action. In addition, investment in education and health has been a significant driver of inclusive growth, as expanding access to quality basic education and health services increases the human capital stock and decreases inequality in education and health outcomes. This, in turn, increases productivity and growth and reduces inequality of opportunity and income. Similarly, social protection spending, by redistributing income from higher-income to lower-income groups, directly decreases income inequality, including by making lower-income groups better included in society and more resilient to economic shocks and promoting investments through addressing liquidity constraints. In addition, social protection can be instrumental in promoting growth, helping to build public support for macroeconomic and growth-enhancing structural reforms by protecting vulnerable groups from any adverse short-term impacts of such reforms.

Essential social services are currently delivered worldwide by pluralistic systems mixing formal providers in the government, private for- and not-for-profit sectors, as well as a number of informal providers. In Sub-Saharan Africa, for instance, 51% of health services on average are procured through market mechanisms. Contributing to human development involves a broad array of actors including micro, small and medium size enterprises (MSMEs), large corporations, philanthropic organizations, or global health initiatives. A high degree of inter-connection is observed between local, partner economies and global market actors.

Social sectors experience market failures that crises exacerbate, including inter alia:

- Fragmented approaches and a focus on infrastructures (hospitals, schools, etc.) instead of systemic approaches (incentives to human resources, comprehensive policies, data, integrated supply chains, etc.)
- Limited access for less privileged populations to basic health, social protection, nutrition or education services as compared to other goods and services.
- Decisions based only on individual needs are likely to result in sub-optimal funding patterns, as some services – such as vaccination – have wider societal benefits.
- Information asymmetry between service providers and users that can make them vulnerable to abuse of provider power and/or reduce the level of trust that they have in providers.

- Unequal access to capital and business practices may facilitate anti-competitive behaviour resulting in prohibitive prices.
- Informality, lack of decent working conditions, low social protection coverage, low-skilled populations, etc.

Although governments play a central role in guaranteeing and also in the provision of human development sectors, they cannot realistically be filled in the short to medium term only through increased domestic public resource mobilisation, even if complemented with development assistance grants. Furthermore, addressing market failures will require significant investments by enterprises and actors in the social economy, combined with better planning, regulation capacity and public-private partnerships (PPPs). Combining the opportunities that programming offers, there is a need for a coherent use of all the EU financial instruments to secure adequate funding for human development and ensure private and public investments complementarity.

EFSD+ will support human capital in its partner economies following a three-pronged approach covering

- 1) Social infrastructure will focus on social housing, hospitals, education premises, etc.
- 2) Social services (including health, childcare, elderly care, employment, etc.)
- 3) Social protection (support to finance social protection schemes)

Mobilising impact finance, support to mutualistic organisations, credit unions, cooperatives, associations, CSOs involved in revenue-generating activities, diaspora finance will be considered as well as the support to social impact bonds. This will support the wider involvement of the civil society and the private sector by encouraging innovative solutions, promoting social entrepreneurship to tackle social challenges. Financial instruments will be used to attract private funds that target social needs (impact finance), in close partnership with IFIs.

4.3. Blending Investment priorities

(1) Sustainable Transport

Rationale

The Economic and Investment Plan for Western Balkans sets out that significant investment should be directed towards sustainable transport infrastructure in the Western Balkans.

Investments in transport should be future-proof and sustainable (through climate proofing and mainstreaming) in line with the Guidelines for the Implementation of the Green Agenda for the Western Balkans embedded in the EIP: e.g. rehabilitation of the rail network, deployment of Intelligent Transport Systems, multimodal transport solutions and modal shift. These investments should also be aligned with the SSTS priorities, the “do not significant harm” principles and the Paris Agreements.

Fast and efficient transport links, both within the region and with the neighbouring EU Member States, and sustainable transport with further investments, namely in the rail and inland waterways sectors are crucial.

Progress should be made on both the implementation of technical standards and connectivity reform measures (e.g. aligning/simplifying border crossing procedures, railway reform including unbundling and third party access, information systems, maintenance schemes, road safety), thus speeding up the completion of the indicative extension of the Trans-European Transport network (TEN-T) to the Western Balkans and accelerating full alignment with the EU acquis, namely digital and clean energy technologies.

The regional action plans on Transport Facilitation, Rail, Road and Road Safety rail, road, road safety and transport facilitation shall act as frameworks for investments.

Key areas of intervention

- Rehabilitation and construction of new resilient and smart transport infrastructure, especially rail;
- Deployment of digital transport technologies, such as intelligent transportation systems (ITS) or electronic queuing management systems (eQMS);
- Implementation of sustainable urban mobility, green multimodal transport solutions and investments intended to facilitate cross-border mobility.

(2) Clean Energy

Rationale

The Economic and Investment Plan for Western Balkans together with the Guidelines for the Implementation of the Green Agenda for the Western Balkans set out that support towards energy transition – from highly polluting coal to more sustainable and green energy sources – will be reinforced.

The main focus will be the support to energy efficiency, low carbon transition (e.g. future-proof gas pipelines supportive of the low carbon transition, and transit of decarbonised gas and hydrogen), as well as performant electricity transmission lines and smart grids for increased use of renewable energy sources in line with the region's potential. The contribution of these investments to decarbonise energy production and/or consumption shall be key to deliver on the Green Agenda for the Western Balkans

Progress should be made on energy connectivity reform measures to set up a regional energy market and further integration with the EU energy market working closely with the Energy Community Treaty Secretariat. The mobilization of the private sector would contribute to the nascent industrial clean energy ecosystems and can be a regional economic game changer.

Key areas of intervention

- Decarbonisation and clean energy;
- New digital technologies, increased digitalisation of the system and smart grids;
- Energy efficiency;
- Energy security;
- Enhanced energy connectivity.

(3) Environment and Climate

Rationale

The Economic and Investment Plan for Western Balkans together with the Guidelines for the Implementation of the Green Agenda for the Western Balkans set out that significant investment should be directed towards greening the Western Balkans, by investing in the environment and climate, and mainstreaming it in other sectors.

Main focus will be on decarbonisation, climate change resilience, depollution of air, water and soil, green infrastructure, circular economy, sustainable farming and food production, protecting biodiversity and nature-based solutions.

The region should embrace innovative green technologies.

Key areas of intervention

- Upgrading basic infrastructure, greening the built environment, investments in climate-smart technologies and techniques in the field of solid waste management, water, sanitation, disaster preparedness, establishment of air and water monitoring systems and pollution prevention measures, and strengthening resilience to extreme climate events.
- Upgrading basic infrastructure, greening the built environment, investments in climate-smart technologies and techniques in the field of sustainable transformation of agri-food systems and rural development, and strengthening resilience to extreme climate events.
- Nature-based solutions will be encouraged and supported.

(4) Digital future

Rationale

The Economic and Investment Plan for Western Balkans indicates that digitalisation is an opportunity and that digital solutions have to contribute to a sustainable, climate neutral, climate resilient, and resource efficient economy.

Accelerating the region's digital transformation through investments in digital infrastructures and services for business and governments represent a priority. The Digital Agenda for the Western Balkans is a reference in designing interventions.

We propose to focus main interventions on the connectivity of digital infrastructures in order to address difficulties created by COVID19 emergency restrictions and socio-economic crises.

Key areas of intervention

- Digital connectivity and access to digital infrastructures (including collaborative digital environments for business and education institutions with regional impact or pilot character), with particular focus on remote areas and to lower-income population.
- Investments in digital infrastructures should take into account the need to ensure infrastructure resilience and energy efficiency and the security of digital infrastructures should be improved;
- Access to digital infrastructures for citizens, businesses and for education institutions, (including collaborative digital environments).

(5) Competitiveness of the private sector

Rationale

Crowding-in private capital to leverage additional funds is pursued across all WBIF investment windows to enable enhanced cooperation of all potential donors in the region through scaling-up of investments in all the Economic and Investment Plan for Western Balkans priority areas.

Specifically, the EIP for the Western Balkans focuses on the importance of supporting start-ups, Micro, Small and Medium-sized Enterprises (MSMEs) as means to develop a robust private sector. This is essential for socio-economic development of the individual economies and to underpin the regional integration and, ultimately, to improve the region's competitiveness, job creation and convergence towards the EU. The Plan sets out that significant investment should be directed towards innovation and green growth and contribute to address the policy objectives of the Green Agenda for Western Balkans and the Innovation, Research, Education, Culture, Youth and Sport Agenda ('Innovation Agenda') for Western Balkans.

Investing in the competitiveness of the private sector entails ensuring the availability and reliability of affordable and diversified access to finance for start-ups and MSMEs, which shall support them to grow and expand. It also entail addressing barriers hindering an

adequate business climate development at economies and regional level. Last but not least, investments have to be aligned with reforms priorities, as identified by the Economic Reform Programmes and have to contribute to the implementation of the Common Regional Market.

Key areas of intervention

- Green transition: shall support investment in the private sector focusing on the Green Agenda for the Western Balkans priorities, including energy; decarbonisation; circular economy; and protection of biodiversity.
- Sustainable agriculture: shall support investments in the private sector focusing on the sustainable farming, food production and climate change resilience dimension of Green Agenda for the Western Balkans.
- Digital transition: shall support investments strengthening the digitalisation of the business sector in the region (including start-ups and scale-ups MSMEs), as well as the integration of research and development results, innovation, technology transfer, and enabling digital eco-systems.
- Trade: shall aim at raising the quality standards of companies, the availability of export-oriented investments and facilitate the integration of innovative industrial value chains between the Western Balkans and the EU in order for the region private sector to benefit from market integration and trade within the region and with the EU.
- Financial Inclusion: shall support the labour, social and financial inclusion of those furthest away from the labour market including Roma population. Focus should be put on unlocking adequate diversified finance instrument; build the capacity to develop entrepreneurial undertakings and social enterprises; crowding-in private capital to tackle social challenges and support socially responsible public procurement.
- Financial and financing diversification: shall aim at supporting the development of innovative financial instruments (including bonds and equity) and at unlocking alternative sources of funding (including pension funds; insurance funds) across all priorities identified above.
- Business climate development: shall support the development or advances of an adequate business climate in the regions.

(6) Human capital development

Rationale

The Economic and Investment Plan for Western Balkans shifts focus from social infrastructures to investments on human capital recognising the importance of education and skills, health and social protection to unleash economic growth potential. Investing in human capital entails investing in reforms, services and infrastructures.

It is important that new interventions are sufficiently grounded with the necessary feasibility and sectoral studies and/or that interventions are part of human development broader strategies at regional and or partner economy level.

Investments have to contribute to the reforms priorities as identified by the Economic Reform Programmes and contribute to the implementation of the Common Regional Market, digital and green agenda objectives.

We propose to focus main interventions in human capital in the fields of education and skills, health. Bearing in mind that the final objective is to equip the private sector to be more competitive (mostly formed by micro, small and medium enterprises in Western Balkans), to mitigate brain drain and support innovation. Investments should contribute to the digital and green transition of the region.

Key areas of intervention

- Investments in the field of education and skills (from early childhood education to high-level education), and health have to comply with clean energy, energy efficiency environmental protection, disaster resilience, including to climate change impacts, sustainable infrastructures and digitalization. Recognised international standards in the fields need to be recognised. Investments in infrastructures have to be instrumental to the achievement of the objectives of existing education and skills, health strategies and plans;
- Investments have to incorporate and /or address the priorities of the digital and green agenda for the Western Balkans. In case of infrastructures, investments should prioritize the deployment of digital infrastructures, fulfil with renewable energy and energy efficiency requirements, needed sector reforms and standards adaptation;
- Investments have to be part of a partner economy or regional education and skills, health strategies and target explicitly inclusion of disadvantaged groups, including minorities and marginalised communities, explicitly but not exclusively support Roma labour market integration. Gender considerations also need to be taken into account.

Strategic Board opinion

The Strategic Board is invited to provide its opinion on the above strategic orientations, including the six WBIF guarantee investment windows and the six WBIF blending investment priorities.