The European Investment Bank in the Western Balkans

EI8 Group financing and advisory services in Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Kosovo*, Montenegro and Serbia

**Western Balkans**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>Total GDP</td>
<td>EUR 85.5</td>
</tr>
<tr>
<td>Population</td>
<td>19 million</td>
</tr>
<tr>
<td>Surface</td>
<td>218,750 km²</td>
</tr>
</tbody>
</table>

**Candidate Countries**

Albania
The former Yugoslav Republic of Macedonia
Montenegro
Serbia

**Potential Candidate Countries**

Bosnia and Herzegovina
Kosovo*

*This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Independence Declaration.
Foreword

**EIB President Werner Hoyer and Vice-President Dario Scannapieco**

From ancient times to the recent past, the Western Balkans has been an essential part of European history. Its culture, arts and economy have contributed to shaping the face of Europe.

The European Investment Bank, which is the financial arm of the European Union, has been active in the Western Balkans since 1977. It is the largest international financier in the region. After the tumultuous 1990s in the Balkans, the EIB intensified its effort to steer the area towards European integration.

In the late 1990s, financing focused on urgent reconstruction and repairs to damaged bridges and railways, ports, airports and roads. Year after year, we have been working with state governments, municipalities and companies in the region, as well as with the European Commission and other financing partners. We want to improve people’s lives by rebuilding infrastructure and helping the region become more modern and self-sufficient.

Over the last decade, the EIB has expanded its lending into sectors such as health care and education while also addressing the global migration crisis. We want to foster a skilled workforce, with talented developers, scientists, economists, engineers, lawyers and teachers.

To fight the global economic and financial crisis and to continue encouraging the recovery, the EIB has increased its support for small businesses and local authorities through lines of credit with local banks and leasing companies. Small businesses are the backbone of the economy. Making sure they have access to credit is essential for their prosperity.

Recognising the magnitude of the challenges, the EIB launched the Economic Resilience Initiative (ERI), a programme that helps countries in the EU neighbourhood improve their economies and respond to the migration crisis. This new programme encourages small business development and helps countries improve infrastructure.

We are committed to improving living conditions and economic standards in the region. We will ensure that the future of the Western Balkans is part of the future of Europe.
Introduction

Since 2010, the EIB has expanded its work in the Western Balkans into many new areas, such as health care, education, research and development.

We also have started helping the private sector, making foreign direct investments and offering assistance to small and medium-sized enterprises (SMEs).

Small companies are important drivers of investment, economic growth, and job creation. In 2017, we signed deals in the region worth €330 million, bringing the total amount financed since 2007 to €7 billion.

EIB Activity in the Western Balkans (2007-2017)

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<tbody>
<tr>
<td>Albania</td>
<td>26.3</td>
<td>10</td>
<td>50.8</td>
<td>35</td>
<td>5.3</td>
<td>18</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>145.4</td>
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<tr>
<td>Bosnia &amp; H.</td>
<td>251.7</td>
<td>280</td>
<td>150</td>
<td>72</td>
<td>180</td>
<td>206</td>
<td>212.7</td>
<td>172.5</td>
<td>130</td>
<td></td>
<td></td>
<td>1654.9</td>
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<tr>
<td>FYROM</td>
<td>1.4</td>
<td>10</td>
<td>100</td>
<td>52.34</td>
<td>125</td>
<td>110</td>
<td>103</td>
<td></td>
<td>45</td>
<td></td>
<td></td>
<td>546.74</td>
</tr>
<tr>
<td>Kosovo</td>
<td>10</td>
<td>87</td>
<td></td>
<td></td>
<td>10</td>
<td>42</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>149</td>
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<tr>
<td>Montenegro</td>
<td>3.2</td>
<td>50</td>
<td>108</td>
<td>49.2</td>
<td>18</td>
<td>45</td>
<td>7</td>
<td>75</td>
<td>50</td>
<td>55.5</td>
<td>120</td>
<td>580.9</td>
</tr>
<tr>
<td>Serbia</td>
<td>133.6</td>
<td>170</td>
<td>887.9</td>
<td>760.2</td>
<td>710.6</td>
<td>275</td>
<td>317.8</td>
<td>115</td>
<td>130</td>
<td>196</td>
<td>210</td>
<td>3906.1</td>
</tr>
<tr>
<td>TOTAL (€m)</td>
<td>426.2</td>
<td>597</td>
<td>1255.9</td>
<td>984.54</td>
<td>1033.6</td>
<td>671</td>
<td>655.8</td>
<td>380.5</td>
<td>222</td>
<td>426.5</td>
<td>330</td>
<td>6983</td>
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The EIB’s regional activity follows the EU’s objective of helping the Western Balkans towards accession and rapid integration into the European Union.

Despite a challenging economic environment, GDP growth in the Western Balkans is gradually stabilizing, driven by investment and private consumption. GDP growth in the region is expected to rise from 3.1% in 2016 to around 3.6% in 2019.¹

The strengthening economy is creating more jobs in the private sector. Employment has been growing more than 2% yearly and the unemployment rate has come down from 20.9% in 2015 to 16.7% in 2017.

¹ EIB Staff calculations based on WIW database, EC forecast and IHS forecast.
There are still a number of challenges in the region. Investment as a share of GDP has not recovered to the pre-crisis level and is not sufficient for the Western Balkans countries to graduate to higher-income status. Transport infrastructure is better, but it still needs a lot of improvement. Better connections to neighbouring countries and the EU transport network still need to be established to reduce transport costs and improve trade. There has been some progress in energy infrastructure, but inadequate electricity supply remains a key challenge, increasing costs to businesses.

The education sector is not aligned with labour market needs, which leads to low employability. In terms of competitiveness and innovation, the Western Balkans is significantly behind the EU. Over the last few decades, the region’s growth has largely relied on foreign investment in sectors with low labour costs and low to medium economic value added.

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2 Among the main recent achievements, the construction of the Trans Adriatic Pipeline in Albania and the Bar-Boljare highway are worth mentioning. The modernisation of the port of Bar is also underway in Montenegro.

3 Such as the construction of hydro power plants on the river Devoll in Albania and the first wind energy project, a 72-megawatt wind farm in Montenegro.

Sources: EIB Staff calculations based on WIW database and National Statistical Offices.
**Structural strengths and weaknesses**

**Distance from EU average in standard deviations**

**Albania**

- Rail Density
- Mobile Subscriptions
- Health Expenditure
- Renewable Energy Consumption
- Energy Dependence**
- Energy Loss**
- PISA score
- University-Industry Collaboration
- High Tech Exports
- Competitive advantage
- Value Chain Sophistication
- CO₂ Emissions**

**Bosnia and Herzegovina**

- Rail Density
- Mobile Subscriptions
- Health Expenditure
- Renewable Energy Consumption
- Energy Dependence**
- Energy Loss**
- PISA score
- University-Industry Collaboration
- High Tech Exports
- Competitive advantage
- Value Chain Sophistication
- CO₂ Emissions**

**Montenegro**

- Rail Density
- Mobile Subscriptions
- Health Expenditure
- Renewable Energy Consumption
- Energy Dependence**
- Energy Loss**
- PISA score
- University-Industry Collaboration
- High Tech Exports
- Competitive advantage
- Value Chain Sophistication
- CO₂ Emissions**

**The Former Yugoslav Republic of Macedonia**

- Rail Density
- Mobile Subscriptions
- Health Expenditure
- Renewable Energy Consumption
- Energy Dependence**
- Energy Loss**
- PISA score
- University-Industry Collaboration
- High Tech Exports
- Competitive advantage
- Value Chain Sophistication
- CO₂ Emissions**

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Sources: EIB Staff calculations based on Eurostat, OECD, WEF Global competitiveness index and World Bank data.

4 Sources: Eurostat data used for secondary education (calculated as a reverse of early leavers from education and training of persons aged 18 to 24), tertiary education (% of population with completed university), R&D investment (% of GDP), high-tech employment (as % of total employment), high-tech export (as % from total export). OECD data used for PISA score, WEF Global competitiveness index for uni-industry collaboration (survey based index), competitive advantage (survey based index), value chain sophistication (survey based index). World Bank data used for CO₂ emission (kg per 2011 PPP $ of GDP), energy loss (% of output), energy dependence (% of energy use), renewable energy consumption (% of total energy consumption), health expenditure (constant 2011 international $, mobile subscription (per 100 people) and rail density (km of rail per 100 sq. km of land area).
Baker breaks out on his own and turns bread firm into a top national brand

Back in January 1986, Ilija Pavlickovski took out a lease on a small bakery in Suto Orizari, the second-smallest municipality of Skopje, the Former Yugoslav Republic of Macedonia’s capital. Both his grandfather and father had spent most of their lives working for the biggest Macedonian producer of bread and flour, Zito Luks. But Ilija felt like it was time to start his own business. “The bakery had a simple wood-fired oven and in the beginning we could only bake around 500 loaves of bread per day,” he says. Today, Ilija manages a chain of over 20 large and 200 small bakeries across the country. His company, Bakery Dime, has become a nationally recognised brand.

An EIB-funded loan helped Bakery Dime grow and diversify. The company employs 202 people today, compared with 82 about 10 years ago. Ilija and his bakery received three loans backed by the EIB worth €1.45 million through the Macedonian Bank for Development Promotion (MBDP).

The EIB and the MBDP have cooperated on four operations aimed at supporting small and medium-sized enterprises, as well as industrial investments in the fields of the knowledge economy, energy, environmental protection and services. These loans total €350 million. This is significant, considering that almost 280,000 people work in more than 54,000 small businesses in the country.

Aleksandar Stanojkovski, who works at MBDP, says the reason for Ilija’s success is that he was ambitious enough to take control of the entire production process. “Macedonia doesn’t produce enough wheat, so it has to import lower quality wheat from abroad,” says Stanojkovski, “which is why Ilija decided to produce his own.”

Ilija first started producing flour in 1996. “When we started making our own flour, I asked myself: ‘Why should I even buy wheat?’” he says. Today he owns 1,600 hectares of land, where he produces his own grain in collaboration with Skopje University. “When we first started with the cultivation of wheat, we worked together with the experts at the Faculty of Agricultural Science and Food to decide which type of wheat grain to use, how to treat it and how to fertilise the land,” says Ilija.

This integrated production chain allowed the company to expand and introduce new products. Now the company supplies around 30,000 loaves of bread to over 500 locations all over the former Yugoslav republic. “My wife and I buy Ilija’s bread every day,” says Stanojkovski. “She loves it because it’s the only one in which she knows where all of the ingredients come from.”

EIB and the MBDP

**Total loans**

| EUR million | 350 |

**Impacting**

- **280,000 people**
- **54,000 SMEs**
Case study

Increasing electricity reliability in Bosnia

The project reduced power distribution losses, improved energy efficiency, reduced operation and maintenance costs, and raised dam safety by upgrading the hydropower facilities.

The project is part of the wider development of the regional power market in Southeast Europe and the integration into the European Union power market, involving works across Bosnia and Herzegovina. The project was implemented by three power utilities: EPRS in the Republic of Srpska, and EPBiH and EPHZHB in the Federation. The EIB provided co-financing with other international institutions, including the World Bank, the European Bank for Reconstruction and Development and KfW, the German development bank. The EIB financed 100% of the components, which represented about 48% of the total project cost.

The EIB’s part of the project was largely carried out according to plan, with the addition of more electricity distribution works. The project’s timeframe was extended by three years to improve the implementation of the distribution and hydropower works. Most of the project components financed by the other institutions also were successfully completed. The project included technical assistance through a consultant to support the hydropower plants.

Rehabilitation of the Visegrad Dam was a key part of the project. Studies indicated a high rate of water seepage. The project substantially reduced this seepage.

Case study

Renovating electricity substations in Serbia

The project with EMS, the electricity operator in Serbia, helped build and rehabilitate six power substations. Five short, high-voltage lines with a total length of 45 kilometres tied the substations into the grid.

The project comprised the design, construction and operation of the substations. To use money that was saved during this project, the planners extended the work to include the protection and control systems of five more substations.

The Beograd 3 substation project, for example, is important because this substation supplies electricity to a large part of Belgrade. This substation is located in Rakovica, about 10 kilometres south of Belgrade. This substation, which began operation in 1953, is one of the oldest 220/110 kV substations in the Serbian network. The rehabilitation involved the replacement of the 110 and 220 kV switchgears that have reached the end of their technical life. The rehabilitation was completed in July 2014 and was carried out while the substation was in operation. EIB financing supported the 110/220 kV switchgears and the control and protection system.
As outlined by the European Commission’s Vice-President Federica Mogherini in September 2017, the region needs to improve the rule of law in areas such as security, fundamental rights, organised crime, democratic institutions, public administration reform, economic development and competitiveness.

The recent migration crisis highlighted the need for close regional cooperation to stabilise and transform the region. The EIB remains committed to the Western Balkans and wants to increase its activity in key infrastructures and the private sector.

The EIB fully supports the implementation of the European Commission’s new enlargement strategy announced in February 2018.

This will increase support to the region in socio-economic development, connectivity and the digital agenda.

What we do

The EIB improves people’s lives in the Western Balkans by providing finance and expertise in four main areas: innovation, small businesses, infrastructure and the climate.

Lending

Lending is our main activity. We support operations that make a significant contribution to growth, employment, regional cohesion and environmental sustainability in the Western Balkans.

EIB operations signed in the Western Balkans (2007-2017)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Credit lines</td>
<td>44.25%</td>
</tr>
<tr>
<td>Transport</td>
<td>29.53%</td>
</tr>
<tr>
<td>Industry</td>
<td>7.16%</td>
</tr>
<tr>
<td>Services</td>
<td>4.73%</td>
</tr>
<tr>
<td>Water, sewerage</td>
<td>3.95%</td>
</tr>
<tr>
<td>Energy</td>
<td>3.59%</td>
</tr>
<tr>
<td>Health</td>
<td>3.37%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>1.25%</td>
</tr>
<tr>
<td>Urban development</td>
<td>1.07%</td>
</tr>
<tr>
<td>Education</td>
<td>0.72%</td>
</tr>
<tr>
<td>Solid waste</td>
<td>0.39%</td>
</tr>
</tbody>
</table>

Sources: EIB Staff calculations based on WIW database and National Statistical Offices.

Three pillars of EIB activity

Lending

We use our financial strength to borrow at good rates. We pass on the savings to economically viable projects that promote key regional objectives.

Blending

Our smart tools, used in collaboration with partners such as the European Commission, help clients in the region combine our financing with investments from other sources.

Advisory

We provide a wide range of technical assistance to support infrastructure projects as well as private sector investments.
The European Investment Bank in the Western Balkans

There is a big need for investment in transport infrastructure. Western Balkans countries have on average 54 kilometres of roads per 100 square kilometres of land, compared with about 126 kilometres of roads per 100 square kilometres in the Central and Southeast European countries in the EU, not including Romania and Bulgaria. Western Balkans governments and the European Commission have made it a priority to improve transport connections by 2020. The goal is to improve connections among Western Balkans countries and with the EU.

**Case study**

**Route 6, Kijeve to Peja (Kosovo*)**

The project involves the construction, on a new alignment, of a 30-kilometre section of a dual two-lane motorway using European standards. The section is on the extended TEN-T comprehensive network between the capital of Kosovo*, Prishti, and the fourth largest city of Pejë.

This section of highway is the only one that has not been improved between the two cities, which are about 85 kilometres apart. The project will serve local, regional, and international traffic and will improve long-distance driving across the country. With 95% of freight and passenger transportation in the country taking place on the road, the network is crucial for the economic development of Kosovo* and for the country’s regional integration.

There has been a steady and significant traffic increase over recent years on the road, which now serves around 15,000 vehicles a day, including a significant number of heavy vehicles. The project will move the majority of this traffic away from the existing road, improving speeds, safety and the environment for the many settlements next to the current highway. The EIB will contribute up to €80 million in loans. The project has received €3.2 million in Western Balkans Investment Framework grants, and the road is expected to be completed by the end of 2021.

The EIB is using its financing to support these priorities. The EIB is financing motorways and roads on the so-called priority corridors in Serbia and the Former Yugoslav Republic of Macedonia, and in Bosnia and Herzegovina. The EIB has provided a substantial amount of lending for roads, reflecting the political funding priorities. To develop a more sustainable and diverse transport system in the region, several new rail operations have been signed or are under appraisal.
The European Investment Bank in the
Western Balkans

Case study

Montenegro railways

The EIB has been working with the rail infrastructure manager in Montenegro since 2002. This is the third operation financed by the EIB to rehabilitate rail works across southern, central and northern Montenegro along the Bar - Podgorica - Vrbnica railway line forming part of the Orient/East Mediterranean Extended TEN-T core corridor. The line passes through mountainous terrain, with an elevation of approximately 1,000 metres between the port of Bar and the high point at Kolasin. Because of the difficult terrain, the line has a large number of support structures, including 15 steel bridges, 91 concrete bridges and 106 tunnels.

The harsh terrain and wide range of weather conditions put a heavy burden on maintenance. This is among the most technically demanding lines in Europe to maintain.

Energy

Power generation in the Western Balkans mostly comes from lignite coal power plants (over 55%) and hydro-power (over 35%). While domestically mined lignite gives the region security in terms of supply, this form of coal emits significant levels of greenhouse gas and other pollutants.

Wind, solar and other energy efficiency projects are largely untapped in the region.

EIB lending in the energy sector represents a small share of the Bank’s work in the Western Balkans (about 4%, compared to 15% within the EU and 25% outside the EU). The EIB is actively exploring opportunities in energy efficiency and would like to help develop renewable energy projects.

The EIB is participating in the European Commission-led pilot programme to boost energy efficiency in Serbia and is appraising potential investments in wind farms.
Skilled workforce

The Western Balkans suffer from gaps in several major areas, including skilled workers, innovation, energy and strategic infrastructure. In terms of a skilled workforce, there is a lack of adequate research funds and training institutions.

Case study

Public sector research and development in Serbia

Innovation in Serbia is being held back because the public research infrastructure is obsolete and does not conform to European standards. There is a lack of industrial demand for public sector research, and leading academics have moved to other countries for better salaries, creating a brain drain. In its first major investment in public research infrastructure, the EIB provided €200 million of financing to revitalise public research and investment in Serbia. These investments, spread across the country, will upgrade research facilities and infrastructure, offering a new science centre open to the public to promote science literacy, new construction to accommodate students and young scientists, and improved infrastructure in the field of medical science.
Despite a rising awareness of the critical investment needs, development has been slow in environmental infrastructure in the Western Balkans. Many sectors are still fragmented and weak governance has left infrastructure poorly maintained and highly inefficient. Laws that enforce limits on pollution and improve service standards are either inadequate or are not being fully followed.

There are clear limits to the Western Balkans’ ability to respond to environmental challenges.

Case study

Flood protection in Bosnia and Herzegovina

In Bosnia and Herzegovina, the 2010 floods in the Sava River basin caused widespread damage. Numerous dykes, channels, riverbeds and pumping stations that remained in place after the floods are amongst the most vulnerable points. Another flood could put people, houses, industries and farms at great risk. Under the Economic Resilience Initiative, the EIB will provide €19 million to build flood protection facilities along the Sava River and its tributaries.
Manufacturing is a crucial hotbed of innovation and productivity in the Western Balkans. Manufacturing industries often help draw significant foreign direct investment into the region. However, rapid advances in technology are changing the landscape of global manufacturing and engineering. The EIB is committed to investing in regional manufacturing to ensure that the Western Balkans remain competitive in advanced manufacturing and technology.

The EIB provided €500 million of investments to Fiat Chrysler Automobiles (FCA) to refurbish, modernise and expand the company’s automotive plant in Kragujevac, Serbia. This increased production capacity from 30,000 to over 180,000 vehicles. The EIB’s financing has made it possible to produce a new family of B-segment cars at this plant.

This investment is by far the largest in the history of Serbian industry and it has helped transform an aging industrial site into one of FCA’s most modern factories. The project was started to develop a competitive manufacturing platform in a country with prospects for EU accession and to instil a strong industrial culture, with a qualified, well-educated and competitive workforce.

The project has contributed to an increase of foreign direct investment in Serbia and has helped develop the country’s automotive industry and technological advancement. This has increased local productivity and exports, and strengthened Serbia’s economic development. The project has supported FCA’s local suppliers and helped preserve jobs at the Kragujevac plant, and it has increased the local direct employment by 2,400 people and created an additional 500 indirect jobs.
In the Western Balkans, countries have not reached their full potential in digitalisation, because they lack adequate fixed broadband infrastructure.

Mobile networks have improved in nearly all Western Balkans countries, but fixed broadband infrastructure is far from the average level in most EU countries. While 83% of EU households have access to the internet, with the rate growing by 13% from 2010 to 2015, the number of households with access to fixed broadband is lower in the Western Balkans. In the former Yugoslav Republic of Macedonia, Montenegro, the Republic of Serbia and Kosovo*, 60% to 70% of households have access to fixed broadband.

In Bosnia and Herzegovina and Albania, the broadband coverage is thought to be much lower. The subscription rates in the Western Balkans for fixed broadband vary among the countries. In 2016, the fixed broadband subscription rate based on population was only 8% in Albania, while in other Western Balkans countries the rate was 17% to 19%. In the EU, the average rate is 32%.\(^5\)

The EIB is helping expand fixed broadband infrastructure in the region. The EIB especially supports broadband installation in rural and remote areas, where it isn’t economically feasible for telecommunications companies to set up their networks.

Western Balkan countries have fewer SMEs than the EU, according to population size (30 SMEs per 1,000 people compared with 47 SMEs per 1,000).

However, the SMEs’ higher contribution to employment, turnover or value added services in most countries suggests that small firms are even more important for economic growth in the Western Balkans than in the EU. The region’s economic prospects largely depend on the success of SMEs.

These small businesses, while generally finding access to short-term loans, need more support for longer-term financing where impediments are often related to high collateral requirements. There is also a need for better funding options for microenterprises and start-ups.
Banks are the main source of funding for SMEs but tend to have conservative lending practices as they are still dealing with high non-performing loan levels (13% on average; 15.6% in Albania and Serbia).

The EIB’s Central Eastern and South-Eastern Europe (CESEE) Bank Lending Survey shows that credit demand has been rising the past 18 months in the region.

Credit supply conditions, although slightly improved during 2017, are lagging behind.

5 World Bank: World Development Indicators: Fixed broadband subscriptions (per 100 people)

Credit demand and supply conditions in the Western Balkans

Investment acceleration, the major driver of the recent economic growth

The EIB Group, consisting of the European Investment Bank and European Investment Fund, offers a number of financial instruments to help support SMEs across the Western Balkans.

First, the EIB lends to local banks and other intermediaries, which subsequently “on-lend” to the final beneficiaries such as SMEs and midcaps. Since 2007, the EIB has provided over €3.1 billion of financing to intermediaries in the region.

Secondly, the EIF specialises in providing risk finance for the benefit of SMEs. For this purpose, the EIF provides guarantees to credit intermediaries with the aim of stimulating on-lending to SMEs, and commits financial resources to private equity funds focusing on SME investment.

The EIF is active across Albania, Serbia, Kosovo*, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and Montenegro. It works in the region in partnership with banks using lending facilities such as COSME, InnovFin, WB EDIF and EaSI.

In the Western Balkans, the EIF has had a stable presence since 2012 with the establishment of the Western Balkans Enterprise Development and Innovation Facility (WB EDIF), which aims to improve access to finance for SMEs. Under WB EDIF, the EIF operates a Guarantee Facility that offers first-loss protection to financial intermediaries in relation to expected and unexpected losses incurred in a secluded SME lending portfolio.

This has so far stimulated about €225 million of SME lending in the region, at conditions more advantageous than those available in the market. In February 2018, the EIF launched a call for intermediaries to offer another window of the facility dedicated only to Serbia. This facility is expected to start in the summer 2018 and generate more than €110 million of new SME lending. Other windows are in preparation, such as a guarantee targeting youth unemployment in the region, expected to be operational by early 2019.

Starting in 2016, most Western Balkan countries have become eligible for EU-28 financial instruments supporting SMEs, such as the Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME), InnovFin, and the Employment and Social Innovation (EaSI), which provide resources for risky, innovative and micro-SMEs respectively. In approximately two years, the EIF has entered into 19 guarantees under these programs, stimulating more than €900 million of new SME lending in the region.

The EIF has also pioneered the establishment of private equity funds in the region, by selecting the first fund manager fully focused on the region and investing through the WB EDIF platform in its first fund, the “Enterprise Innovation Fund” – ENIF. ENIF has a size of about €40 million and focuses on innovative and technology companies in their early stage of growth.
The European Investment Bank in the Western Balkans

275 EUR million invested in WB EDIF, including 150 EUR million from the EU. This could leverage up to 650 EUR million of financing and support measures available to SMEs in the Western Balkans.

4,600 SMEs to be supported, half of which have already been supported in the first 5 years of WB EDIF.

Also, under the WB EDIF platform, the EIF is invested in a later-stage fund sponsored by the EBRD, the “Enterprise Expansion Fund” – ENEF, which has an overall size of about €100 million. ENEF seeks to make equity, quasi-equity and hybrid investments to established SMEs with high growth potential in the region across all sectors.

The EIF is actively seeking to support further private equity funds with a focus on the region, helping them overcome the severe fundraising difficulties in a region perceived as risky by private investors. Alongside financial instruments, an essential part of WB EDIF is the Technical Assistance (TA) projects. The TA pillar of the EDIF is coordinated by the EIB with a budget of approximately €20.5 million. Within WB EDIF, the TA EDIF enhances the development and implementation of projects and can improve their institutional or regulatory set-up.
Lucija Filipović takes the train almost every weekend back to her hometown of Nikšić from Podgorica, Montenegro’s capital, where she works. “I love taking the train. I take my family to the seaside every summer. But, unfortunately, you can see that there are fewer people on the trains. The Montenegrins have lost trust in railway transport.”

Montenegro’s railway used to be one of its big accomplishments. It was the largest and most expensive infrastructure project in the former Yugoslav federation. But now it has fallen into decay. With the European Investment Bank’s help, the railway plans a comeback. Last year, the EIB approved a €20 million loan to rehabilitate the line from Bar to Vrbnica on Serbia’s border. The loan will be combined with the first investment grant from EU funds and the Western Balkans Investment Framework (WBIF) in Montenegro.

Restarting a state-of-the-art network

When it opened in 1976, it was a state-of-the-art railway, as modern and comfortable as any other rail network in the world. It’s also one of the most beautiful trips in Europe, connecting Serbia’s capital Belgrade with Montenegro’s main seaport, Bar in the southwest.

The first train to make the 167 kilometre journey was the Blue Train, the luxury transport of then Yugoslav leader Josip Broz Tito, who entertained foreign dignitaries and royalty on board, including Queen Elizabeth II and the former Ethiopian emperor Haile Selassie.

Constant underfunding left the railway with big problems, as early as the 1990s. A trip across the railway that once took seven hours now lasts nearly 11. The train has to slow down often because of poor tracks and infrastructure. The Montenegrin part of the railway has suffered extensively from lack of maintenance. The number of passengers dropped from a peak of almost 2 million in 1987 to 1.2 million in 2016. Freight decreased from almost 4 million tonnes to 1.4 million.

That’s why the EU funds are so important. “The grant is worth €20 million, which means that almost 90% of the total €45 million cost of the project is covered by the EU budget,” says Dubravka Nègre, the EIB’s regional representative for the Western Balkans.

A sight to behold, a struggle to maintain

The Montenegrin railway is famous for its scenic route that winds through the picturesque Morača River Canyon. The line has the highest railway bridge in Europe, the Mala Rijeka Viaduct. This was the highest railway bridge in the world, until it was surpassed by a Chinese bridge in 2001.
About one-third of the Montenegrin part of the line is in a tunnel or on a viaduct, which makes the route one of the most difficult in Europe to maintain. The repairs and upgrades will not be easy.

“The project includes five components: a new signalling system in the Podgorica railway station, reconstruction of key slopes, bridges and tunnels, as well as supervision of all of the components,” says Filipović, who is an assistant executive director at Railway Infrastructure of Montenegro, the company handling the maintenance. “Imagine going straight from a first-generation mobile phone to a smartphone – this change is going to be like that,” she adds, referring to the signalling.

A train to the EU

The project will create 1 000 jobs in Montenegro during the repairs. It also will improve trade links, primarily with Serbia and Romania, and help tourism. The new railway will help the expansion of Bar harbour, which expects trade to increase from the current 1.2 million tonnes to over 2 million tonnes in the coming years, Nègre says.

“By investing in the improvement of railway connections,” says Nègre, “we contribute to safer, cleaner and faster transport links that will connect the people of this country with their neighbours and the European Union.”
The EIB has intensified its support for the EU’s neighbourhood, in particular the Southern Neighbourhood and the Western Balkans, in pursuit of economic growth and the sustainable development goals. This extra support has become necessary after the migration crisis, which has created more development challenges in these regions, bringing into question the economic resilience of a number of countries. Making economies more resilient requires upgrading and developing social and economic infrastructures and stimulating private sector growth and job creation.

The EIB’s new Economic Resilience Initiative marks a big change in EIB support for the two neighbourhoods. We are increasing our financing by €6 billion over a five-year period that started in 2016 – in addition to the €7.5 billion already envisaged – to catalyse up to €15 billion of additional investment for both regions.

Across the Western Balkans, the ERI is already helping vital infrastructure and job creation. In Serbia, the EIB is providing €80 million under ERI to finance a new waste management system in Belgrade. The vital infrastructure project concerns the treatment and disposal of municipal solid waste for 2 million people across 13 municipalities, equal to 22.5% of Serbia’s population. The benefits of the project include resource recovery, pollution abatement, reduction of public health risks, tackling climate change issues, and improving the water quality in rivers flowing into neighbouring countries.

In Montenegro, the EIB under ERI is providing €220 million of financing for SMEs operating in key economic sectors such as energy, social services, agriculture, health, and education. The project will support private sector growth and ensure adequate access to finance for SMEs and mid-caps, given their critical role in the economy.

In Albania, basic infrastructure concerning transport, energy, and the environment have come under significant strain following the migrant crisis. Through ERI, €29.5 million of financing will be provided to safeguard vital infrastructure against future pressures should migration flows increase or change direction. The project will also improve Albania’s integration and connections to the rest of the region and to Europe.

Under ERI, the EIB plans impact finance operations in the Western Balkans, with the objective of addressing the social and environmental challenges in the region. These challenges include unemployment, poverty, sustainability of SMEs, climate change, access to basic resources, and economic and social integration of women and young people. Impact financing targets sectors with an expected higher impact compared to regular EIB activities.
In the Western Balkans, the EIB offers a number of investments with partners.

On 4 May, 2008, the Economic and Financial Affairs Council requested a comprehensive Western Balkans Investment Framework (WBIF) “to enhance harmonisation and co-operation in investments for socio-economic development in the region.”

The WBIF was launched in December 2009 as a joint initiative among the EC, EIB, the European Bank for Reconstruction and Development (EBRD) and the Council of Europe Development Bank (CEB). Its establishment responded to the request of the Western Balkans countries to streamline the conditions for assistance provided by the various donors.

Initially, it sounded ambitious for many groups to share investment priorities, but the WBIF has blended €6.6 billion in loans with €800 million in grants.

The WBIF has pooled grants from the EU budget, several bilateral donors and the partner IFIs (EIB, EBRD, and CEB), which now include the World Bank and KfW.

The European Western Balkans Joint Fund (EWBJF) plays a central role in the WBIF legal structure and is the main pooling pot for the majority of grant donors. It is co-managed by the EIB and the EBRD.
The bilateral donors and the EC can provide grants directly to the IFI for blending with their loans. In February 2018, the EC enhanced its support for the Western Balkans by confirming the prominent role of the WBIF in supporting EU accession policy. For the period up to 2020, a further €400 million is expected from the EU as a contribution to the WBIF.

The largest share of WBIF blending is for the Connectivity Agenda in transport. There are 84 grants worth €412.6 million for 46 transport projects. The Connectivity Agenda is defined by the TEN-T network, whose extension was decided in 2015 by the political leaders of the Western Balkans, coordinated by SEETO. Energy and environment sectors have received lower lending and grant support. However, these two areas can benefit from IPA national grants as well as from the EIB’s Economic Resilience Initiative.
Advisory

Advisory support to infrastructure projects

The objective of the EIB’s advisory and technical assistance is to improve infrastructure in Western Balkans countries and to support the preparation and implementation of priority infrastructure investment projects in transport, environment, energy and social infrastructure, to be financed by grants and loans. A team of experts helps with feasibility studies, preliminary and detailed designs, the tendering process, the supervision of projects and other preparatory studies. Such support is co-financed by the European Commission and the EIB, and is free of charge for beneficiaries.

As the manager of the WBIF-funded Infrastructure Projects Facility, the EIB mobilises the expertise of its staff and of external consultants to help public sector promoters improve the chances that their projects will receive investments.

Through the JASPERS programme, the EIB helps the Western Balkan states prepare sector strategies and develop key projects in the environment, energy and transport sectors, thereby enhancing the capacity of the local administrations. Since 2013, JASPERS has helped prepare more than 70 projects, for an investment total of about €4 billion.

The EIB’s EPEC programme also assists WB countries in developing Public Private Partnership (PPPs) by providing advice on PPP laws and by sharing experience and best practices to help public authorities deliver the best PPPs.

Advisory support to SMEs

The Western Balkans Enterprise Development & Innovation Facility, funded by the EU, improves access to finance for SMEs in the Western Balkans. The EIB coordinates the advisory services provided by financial institutions such as the World Bank, OECD, EBRD, and KfW. The aim is to improve the business environment for SMEs and promote research development and innovation in the region.

The EIB conducted a study recently to identify institutions that have the highest potential for success in R&D and innovation. The EIB is working with a few institutions to identify a road map to becoming Regional Centres of Excellence. It has also implemented a support programme to help SMEs use their intangible assets and intellectual property rights in their development. In cooperation with the EC’s Joint Research Centre, the EIB is developing a programme supporting innovative SMEs and R&D organisations in developing “proofs-of-concept” through grants.

The EIB has also carried out a study to assess the funding needs of SMEs and has advised the Serbian government on establishing innovative financial instruments for SMEs using IPA resources. The study identified needs in microfinance, debt and equity markets in the country and proposed an Investment Strategy to address these gaps. The future implementation of an accelerator facility (providing equity financing) and an SME portfolio guarantee instrument, which could include micro-loans, are now under consideration by the Serbian government.

The European Investment Bank in the Western Balkans
About us

The EIB is the European Union’s bank. We are owned by the EU Member States. We work closely with other EU institutions to implement EU policy.

We are the world’s largest multilateral borrower and lender. We provide finance and expertise for sustainable investment projects. In 2017, the EIB Group provided €78.2 billion for long-term investments across Europe and around the world, with over 90% of lending supporting the European Union and accession countries.

The teams responsible for the Western Balkans are based at the EIB’s headquarters in Luxembourg.

The teams cover a wide range of projects across the various economic sectors and consist of leading experts with extensive experience in the region.

In 2010, the EIB Group opened a regional office in Serbia for the Western Balkans. This office handles institutional relations in the region.

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