



## Economic Resilience Initiative

### Southern Neighbourhood and the Western Balkans

The EU's Southern Neighbourhood and Western Balkans regions face growing challenges that require creative responses. The crisis in Syria and climate change are increasing the pressure to improve resources and infrastructure in these two regions. The demand for water, energy, transport, housing, education and jobs has never been higher. It is clear that we need to invest more in vital economic and social infrastructure and in creating opportunities to help young people and women in particular build prosperous futures.

To boost economic resilience, we must upgrade infrastructure, but we also need to help the private sector grow and create more jobs. To accomplish all of this, the European Investment Bank is becoming more involved in projects that promote social cohesion, inclusion and peaceful community relationships.

Recognising the magnitude of the new challenges, the EIB created the Economic Resilience Initiative (ERI) in 2016. The plan increases financing to the Southern Neighbourhood and Western Balkans by EUR 6 billion over the period up to 2020, on top of the EUR 7.5 billion already foreseen for these two regions. Moreover, the EIB is offering additional concessional finance, more support for private sector development and technical assistance.

**To boost the economy's resilience,  
we must help upgrade social and economic  
infrastructure and stimulate private sector  
growth and job creation.**

The EIB is also seeking additional funding from the donors. With contributions from several EU Member States, the guarantees provided by the EU's External Lending Mandate and support from the European Commission, the EIB can work harder to promote the inclusive growth that will create sustainable employment and improve living standards.

The ERI is fully in line with the EU's Neighbourhood and Enlargement Policies and complements the EU's External Investment Plan in addressing the root causes of migration. The Bank itself is providing EUR 90 million for technical assistance to the ERI regions and is making a separate contribution for impact finance. This type of assistance allows the EIB to support projects that help society and the economy but may otherwise not be funded, due to fiscal constraints, poor financial returns or high risk.



**The EIB plays a key role** in helping the European Union meet its objectives in the Southern Neighbourhood and Western Balkans. Over the last ten years, the EIB has signed operations in the two regions amounting to EUR 15.3 billion and EUR 6.6 billion respectively. Projects are considered only after extensive consultation with national and local governments, banks and the private sector, taking into account the expected impacts on final beneficiaries, including refugees, migrants, host and transit communities, as well as communities of origin. We work closely with EU Member States, the European Commission and other international financial institutions to ensure our projects contribute to delivering EU policy objectives and complement other operations in the region.

## The migration crisis

The Syrian conflict has caused an estimated 4.7 million refugees to flee to other nations, and over six million people have been displaced inside the country. This crisis, alongside significant inflows of refugees and economic migrants from around the developing world, is putting pressure on the social and economic resources of the EU's neighbouring countries, with many implications for the EU as well. Over 2 million refugees are living in the Southern Neighbourhood, while the Western Balkan countries have been one of the main migratory routes to Europe.

The EU and other international organisations have been responding strongly to the humanitarian crisis in Syria and in other locations. However, the countries affected by high levels of migration need more help in dealing with the new populations. They also need support to achieve the UN Sustainable Development Goals.

As the only international financial institution operating in the EU, the EU Neighbourhood and sub-Saharan Africa – comprising the countries of origin, transit and destination for migrants – the EIB is in an ideal position to provide coordinated support for countries vulnerable to large migration flows. The ERI complements other EIB migration initiatives in places such as Turkey and sub-Saharan Africa.

## What is the Economic Resilience Initiative?

### Doing more with current resources

#### Rapidly delivering an extra EUR 2 billion in EIB financing under existing funding frameworks

Since the end of 2016, the Bank has increased its financing for infrastructure and private sector development in the two regions, as well as expanding its local presence. In the public sector, it focuses on developing vital infrastructure, improved and equitable delivery of basic services, and social protection for residents. In the private sector, the Bank provides funding through local banks to SMEs and mid-caps in the regions. To improve living standards, it is crucial that we enhance resilience and create sustainable employment opportunities for everyone, particularly young people and women.

### Investing in vital infrastructure

#### EUR 1.4 billion of additional lending supported by grants

Additional support helps the two regions' vital infrastructure, some of which has come under significant strain because of an increase in migrants. Helping vital infrastructure builds resilience to shocks and pressures, such as flooding and earthquakes, and promotes economic growth and job creation.

### Resilience through private sector growth

#### EUR 2.6 billion of additional lending, including EUR 300 million of Impact Finance supported by grants

Private sector development is key to economic growth and employment. The EIB puts a particular emphasis on improving access to finance for SMEs and mid-caps, because these companies create the most jobs and are the backbone of economies. Our corporate lending targets operations with a high potential for new jobs and social impact.

Enhancing the prospects for more resilient and inclusive growth and creating sustainable employment opportunities, particularly for young people and women, are crucial for improving living standards.

### Impact financing instruments

The EIB has a solid record in delivering Impact Finance to the private sector and in the Southern Neighbourhood and the African, Caribbean and Pacific regions. To support economic development and address the causes of migration, we broadly use four types of instruments:

**Private equity funds** promoted by an emerging population of private equity fund managers whose investment strategies focus on social or environmental issues and sustainability.

**Local currency lending**, particularly for micro and small enterprises (MSMEs) and entrepreneurs, in order to improve access to finance. We especially want to help underserved groups, such as women and young people.

**Risk-sharing instruments**, which may include first loss guarantees ("first loss pieces"), guarantees, subordinated debt, or junior equity tranches that will facilitate EIB risk-sharing with local banks to help underserved MSMEs.

**Direct financing** through debt or equity investments in projects with high developmental impact, but which will also entail higher expectations of losses and difficulties to recover the investment. The EIB has a strict selection process for this instrument.



### Case study

## Route 6 Kijeve to Peja, Kosovo

The EIB plans to offer up to EUR 80 million in loans for a 30-kilometre section of a motorway to be built using European engineering standards, in addition to a EUR 3.2 million grant from the Western Balkans Investment Framework. Located on the extended TEN-T comprehensive network between the capital of Kosovo<sup>1</sup>, Pristina, and the fourth-largest city of Peja, this is the only motorway section that has not been improved between the two cities. It serves around 15 000 vehicles a day. The project will move the majority of this traffic away from the existing road, improving speed, safety and environmental conditions for the many settlements next to the current highway. With 95% of freight and passenger transportation taking place on the road, the network is crucial for the economic development of Kosovo and for the country's regional integration.

<sup>1</sup> This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence. Hereafter referred to as Kosovo.



### Case study

## Fayoum Wastewater Expansion, Egypt

Access to clean water is essential for good health and a better quality of life. The Fayoum Wastewater Expansion project will provide sewers for the first time to 800 000 people in rural areas. This work will help the regional economy around Lake Qarun. The project will bring much needed employment to an area where over 30% of the population is below the poverty line. The EIB is offering a EUR 126 million loan for the project, which is also set to receive EU grant support.

**EIB**  
lending

EUR  
million

**80**

## Case study

### Private sector development projects under ERI Red Sea Dead Sea, Jordan

This large public-private partnership is a vital infrastructure project for Jordan, which has a severe shortage of drinking water. The project will alleviate pressures on the infrastructure caused by large numbers of refugees in Jordan. It addresses the scarcity of water in the whole region. Alongside other donors and lenders, the EIB plans to finance this project providing up to EUR 260 million in loans together with EU technical assistance worth EUR 1.7 million. The project comprises a desalination plant in the Gulf of Aqaba, a brine and seawater pipeline linking the Red Sea with the Dead Sea, and a hydropower pipeline. The project is part of a landmark regional water-sharing initiative between Jordan, Israel and the Palestinian Authority. Thanks to the project and the water swap with Israel, Jordan will receive an additional 80 million cubic metres of water a year. The project will create many jobs during its construction and operation, and will contribute to climate action by slowing the decline of the Dead Sea's water level.

EIB  
lending

EUR  
million

260





Case study

### Fes University, Morocco

The new Fes University eco-campus will help 6 000 students. By attracting students from the whole region, it helps regional stability and intercultural dialogue. A number of scholarships will be granted to students from low-income families. Fes University's new state-of-the-art buildings have solar panels for energy efficiency. The EU bank is offering the university a EUR 70 million loan flanked by an EU grant.

**EIB  
loan**

EUR million	<b>70</b>
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## Case study

### IDF Loan for SMEs, Montenegro

In partnership with the Investment and Development Fund of Montenegro, the EIB approved a EUR 220 million loan to help small businesses access financing on favourable terms. The vast majority of firms in the region are small businesses, so they drive local private sector development and job creation in a country with 20% unemployment. Young people especially have trouble finding jobs. The loan helps SMEs in key economic sectors, such as energy, social services, agriculture, health and education.



EIB  
total loans  
EUR 220  
million  
to help  
SMEs



## Case study

### Food and Drinks, Morocco

A EUR 35 million EIB loan will help a company improve package production and beverage processing, and build a distribution centre. The EIB finance provides support to a local Moroccan-owned food and drinks business, a group that is undertaking an ambitious development plan, set to create around 325 direct jobs plus 400 indirect ones in rural areas. The project will also help local farmers. The generation of new exports could improve Morocco's international trade balance.



## One of Europe's most beautiful railways recaptures past glory

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 their 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 EIB's help, the railway plans a comeback. In 2017 the EIB approved a EUR 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. It will also contribute to the achievement of the Bank's Resilience Initiative objectives.

### 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 is also one of the most beautiful trips in Europe, connecting Serbia's capital Belgrade with Montenegro's main seaport, Bar, in the south-west.

The first train to make the 167-kilometre journey was the Blue Train, the luxury transport of the 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.

### Montenegro railway upgrades into the future

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

The loans and grants are intended to prepare Montenegro for EU membership. As Johannes Hahn, the European commissioner for enlargement, said in a visit to Montenegro in February: "The aim is to support Western Balkan countries. The EU invests in the development of future members."



## 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,” states Filipović, assistant executive director at Railway Infrastructure of Montenegro, the company handling the maintenance.

When the project is done, speed restrictions will be lifted and the infrastructure will be more reliable, officials point out. Filipović says the signalling system that will be replaced has been used since the railway opened 40 years ago. “Imagine going straight from a first-generation mobile phone to a smartphone – this change is going to be like that,” she observes, 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 support 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, we contribute to safer, cleaner and faster transport links that will connect the people of this country with their neighbours and the European Union.”

“Imagine going straight from a first-generation mobile phone to a smartphone – **this change** is going to be like that “

## Industrial zones help growth while countering refugee crisis

It is hard to start a business in Lebanon. Land prices are high and it is difficult to find financing. To make matters worse, many industrial areas around the country lack space or do not have proper access to electricity, communications and transport.

“We suffer extensively when we try to create a company,” says Fady Gemayel, President of the Association of Lebanese Industrialists, a group based in Beirut that advocates balanced industrial development in all regions of Lebanon. “There are many impediments to new industries, but the main one is the cost and availability of land. This is a real problem.”

The European Investment Bank is trying to fix this problem by supporting a government plan to build three modern industrial zones in various areas of Lebanon, some of which are close to the Syrian border heavily affected by the refugee crisis. The hope is that more than 100 small companies will move into these zones because land prices will be fair and the quality of infrastructure will be high. The project will be co-financed by Italy and is currently being appraised by another International Financial Institution.

### Increased exports to Europe

“These sites are going to allow companies to operate at a fixed low price, with reasonable costs and good infrastructure. This will increase competitiveness and increase companies’ abilities to export to Europe,” says Cristiano Pasini, a representative in Beirut for the United Nations Industrial Development Organization. “There will also no doubt be indirect, positive benefits for the refugee population,” he adds.

The EIB is offering a EUR 52 million loan for the industrial zones under the Economic Resilience Initiative. The zones will become home to agri-food, car repair and construction companies as well as innovative firms. The EIB loan will finance the zones’ water network, wastewater treatment, roads and electricity infrastructure. An estimated 1 300 temporary jobs will be created and 1 900 permanent ones in the industrial areas, which will cost about EUR 105 million to build.

The EIB’s support is improving infrastructure and promoting private sector development, especially for small businesses. The ERI also helps countries prepare for other difficulties, such as an economic downturn, political crisis, drought, flooding and earthquakes.

Dario Scannapieco, an EIB Vice-President who specialises in migration issues, says real solutions will not be found in short-term fixes. “Economic migration is, and

will remain, a constant issue for the EU,” Scannapieco states. “So we must build long-term economic resilience and help countries that face political and economic instability.”

### Improving quality of life

The industrial zones will be built in areas with large refugee populations to provide more jobs but also to alleviate the infrastructure and social strains created by the Syrian crisis. The Syrian war has caused many delays in Lebanon for economic reforms and investments. There are as many as 1.5 million Syrian refugees in Lebanon, which has a population of about 4.4 million. There are other benefits. The new zones will be built outside of urban centres to reduce pollution, congestion and degradation in cities. The new zones will free up inner city space and improve the quality of life for people in crowded cities. If the zones succeed, many more will be built in various areas.

Lebanon already has about 130 private industrial zones, but they don’t offer proper infrastructure support, many are located in the middle of cities and their prices are prohibitive for young entrepreneurs.

“Today, we have a situation in Lebanon where there have been a lot of privately developed industrial zones over the last 50 years, built next to cities,” says Elisabetta Cucchi, a loan officer at the EIB. “Now the cities have expanded and the industrial areas end up surrounded by residential areas. This doesn’t work.”

Pasini, the UN development representative, says the new zones will create more opportunities for young people and women all over the country, and the new businesses could even help in the reconstruction of Syria. The zones will offer employment primarily to the Lebanese, but refugees can get work permits in agriculture and construction, so they are expected to help in the building and operation of the zones.

Gemayel hopes the new zones will attract a few valuable businesses and foreign investment. Many Lebanese want better jobs and higher earnings, he says, but they often lack opportunities unless they move to another country.

“Lebanon is a land of potential,” Gemayel says. “The people here are focused on high quality and innovation and they keep working and creating businesses despite all the odds. And the odds have been stacked against us for many years.”



“The hope is that more than **100 small companies** will move into these zones because land prices will be fair and the quality of infrastructure will be high.”



## Helping small enterprises realise their big ambitions

Small businesses are the backbone for most economies in the Southern Mediterranean region and play an important role in job creation, innovation and sustainable economic growth. However, access to finance remains a challenge for smaller businesses in the region, despite the fact that they account for around 80% of active firms and over 60% of total private sector employment.

“We know our partner countries are facing many challenges and we want to help reinvigorate growth. Our ultimate goal is to lift the economy and create new opportunities in countries affected by the refugee crisis”, says Luca Ponzellini, the EIB loan officer with responsibility for operations with Arab Bank in the Southern Neighbourhood region. “Our lending to SMEs and mid-caps aims to equip countries to better deal with shocks, support small business and help job creation,” he adds.

In a context where economic, social and political strains associated with refugee inflows continue to be key challenges across the region, implying significant growth shortfalls and budgetary pressures, it is important to support host countries in building economic resilience, sustaining employment opportunities and alleviating the economic burden of the displacement crisis.

In order to boost private sector development, sustain jobs and, ultimately, contribute to the reduction of poverty in the region, the EIB is working with local partner banks to improve access to finance for smaller businesses under the EIB’s Economic Resilience Initiative.

This is already starting to make a difference for small firms in Lebanon and Jordan as well as Egypt, Morocco and the West Bank, many of which have been impacted – although to varying degrees – by the displacement crisis. Lending via partner banks is set to benefit over 1 300 smaller businesses and mid-caps, helping to sustain more than 54 000 jobs.

“Small business are often unbanked and do not have access to credit. The local banking sector in general is risk averse in these partner countries. With the Arab Bank operation for example, we are trying to provide them with the type of long-term funding they need to help small businesses, entrepreneurs and others.”

A first technical assistance operation under the ERI

with the Export Development Bank of Egypt (EBE) is set to help it reach out more effectively to smaller business by streamlining operations and renewing its product offering.

“We want to support our partners in lending more and better to the powerhouse of the economy,” says Liliya Chernyavs’ka, who is working to deliver the technical assistance to the Export Development Bank of Egypt (EBE). By building its capacity, the EIB helps EBE to promote private sector development and job creation more effectively, as well as to cater better for the needs of underserved groups, including women, young people and very small businesses.



## Call for action

The Economic Resilience Initiative gives donors, and in particular EU Member States, the chance to leverage the full range of instruments, networks and expertise available to the EIB to maximise the development impact of our collective finance in target regions.

Donor money is needed to catalyse the target of EUR 15 billion in new investments planned by the ERI. Eight EU Member States — Croatia, Italy, Lithuania, Luxembourg, Poland, Slovakia, Slovenia and the UK — were the first to contribute to a dedicated ERI Fund. The ERI Fund channels donor contributions to new opportunities in the regions and provides the main framework for facilitating donor engagement and coordination.

### Donor support makes a difference

#### For public sector projects

Investment in public infrastructure is key to building economic resilience, but many of the affected countries lack the funds to invest and face constraints in their borrowing capacities. By blending grants with EIB loans, we can lower the overall cost of these investments, allowing local authorities to increase the pace of their much-needed investments while ensuring fiscal sustainability.

Grants also improve the financial viability of investments that have significant economic and social returns. In many cases, it is not possible to increase taxes or institute other local fees to raise money for these investments. Grants can be particularly important for leveraging investments in economically weaker regions or for vital social infrastructure in health, education, water supply and sanitation, and waste management. These sectors are coming under increasing pressure from the local community and are sometimes put under extra pressure by significant numbers of migrants.

#### For private sector operations

Building on several decades of experience in private sector finance, instruments such as local currency lending, equity and partial portfolio guarantees allow the Bank to address market gaps, and provide more loans to a wider range of clients in support of economic growth, job creation and financial inclusion.

Donor resources for Impact Finance are equally used to fund riskier operations where there is significant potential for high social and economic returns. These are usually based on risk-sharing or similar financing structures with local banking partners or lending through intermediaries with higher risk profiles. Examples of such operations are projects that promote financial inclusion and entrepreneurship.

#### Offering advisory services and technical assistance

Support is provided to build the capacity of public and private sector projects. Limited administrative or technical capacity may impede the rate at which countries can absorb investments.

These bottlenecks can be alleviated through targeted deployment of grant-funded technical assistance in support of the identification, preparation and implementation of public sector projects. Technical assistance may also be provided to build the capacity of the counterpart to ensure compliance with the EIB's environmental and social standards, as well as enhance a project's positive impact on social cohesion, youth inclusion and women's empowerment.

## What is the geographical scope of the Economic Resilience Initiative?



### Eligible countries

#### Southern Neighbourhood

Algeria, Egypt, Gaza/West Bank, Jordan, Lebanon, Libya\*, Morocco, Syria\* and Tunisia

#### Western Balkans

Albania, Bosnia and Herzegovina, Former Yugoslav Republic of Macedonia, Kosovo\*\*, Montenegro and Serbia

\*The EIB will start operating in Libya after signing a Framework Agreement with the country – currently under preparation. Following EU sanctions in November 2011, the EIB has suspended all loan disbursements and technical advisory contracts for projects in Syria.

\*\*This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

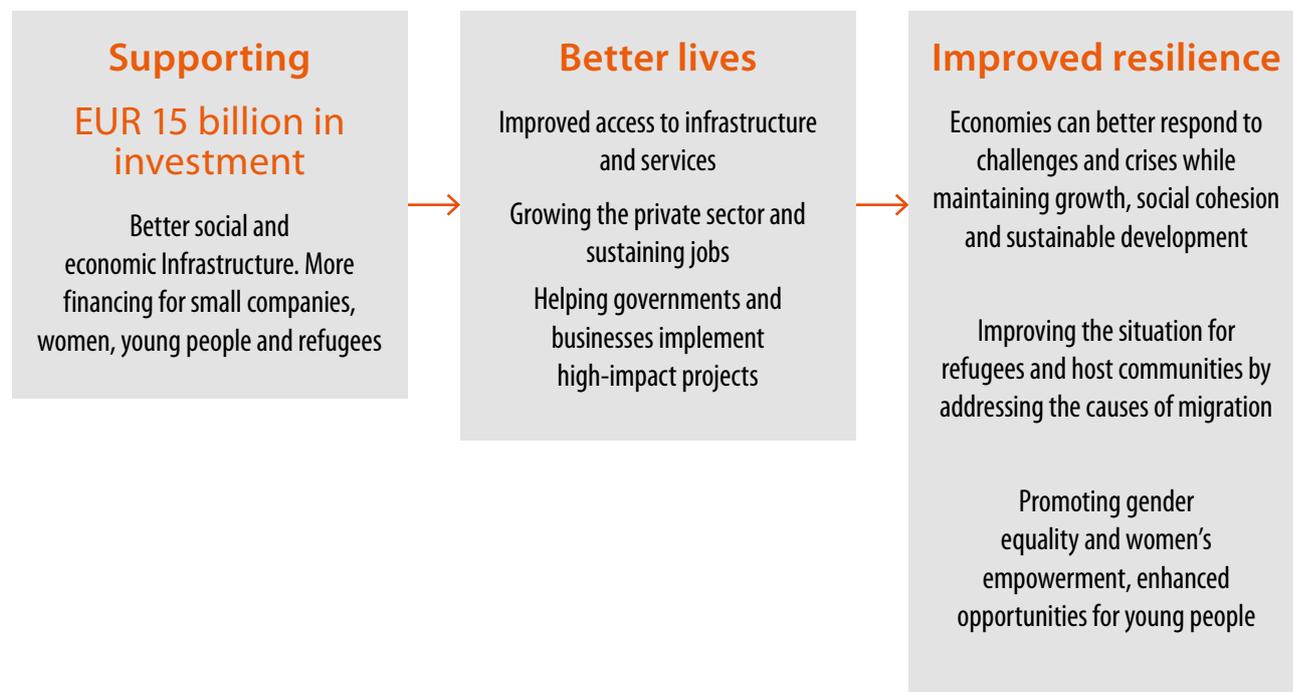
## Results and impact

The Bank employs its Results Measurement Framework to track the results of projects under the ERI, using baselines and tracking progress against expected values to capture economic, social and environmental outcomes of ERI operations throughout the project cycle. All EIB projects must comply with the policies, principles and standards of the Bank, including in the areas of human rights, gender, conflict sensitivity, biodiversity and climate change, and with its Anti-Money Laundering and Combating Financing of Terrorism Framework.



## Unlocking opportunity

We are rapidly mobilising an additional EUR 6 billion in financing as well as seeking more donor support, technical assistance and staffing to improve lives in the Southern Neighbourhood and Western Balkans





## Economic Resilience and the Sustainable Development Goals

The EIB has made global commitments regarding the implementation of the UN goals on sustainable development and is working to develop a consistent and coherent system to map the contribution of its activities, including those under the ERI, to achieving them. The ERI is expected to contribute in particular to development goals relating to clean water and sanitation, affordable and clean energy, decent work and economic growth, industry, innovation

and infrastructure, and sustainable cities and communities. Climate issues are already mainstreamed across all EIB operations, allowing the Bank to track the ERI's significant expected contribution to climate action. Finally, by working in partnership with the private sector, the public sector and other development partners where possible, the ERI will be strongly in line with partnership goals.



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