World Bank support for investment in EU and Western Balkan transport

An overview

SUMMARY

Over the six decades during which the World Bank has been active in Europe, its engagement has evolved hand in hand with the development of the continent. Initially supporting reconstruction efforts after World War II, it later shifted the focus of its action to development support. In the past, as today, it has provided financing, knowledge and assistance to countries seeking to join the European Union.

As a starting point in providing a deeper insight into how the World Bank contributes to the development of European countries today, this briefing first looks at the Bank's complex structure, the functioning of its different parts and the types of investment and assistance it offers its clients.

Then, leaving aside the many other areas of the Bank's activity, the focus narrows to its support for transport in the EU and its Western Balkan partners.

As the World Bank is one of several international institutions that are active in the Western Balkans, the briefing also looks into how the Bank links with the development-support efforts of the European Commission and the financial landscape of the Western Balkans Investment Framework.

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- The Bank's work in the EU and the Western Balkans
- The Bank's cooperation with the European Commission
- Western Balkans Investment Framework

The Croatian Port of Rijeka, developed with a World Bank loan.
The World Bank

Established in 1944 and headquartered in Washington, DC, the World Bank has more than 10,000 employees and more than 100 offices worldwide. It is a credit establishment in which shareholders both own the institution and are its clients. The governors of the Bank are the governments of its 189 member countries, which contribute financially to the Bank’s functioning and vote in it in proportion to their share of its capital. With no country or group of countries controlling an absolute majority, EU Member States collectively control the largest bloc of shares (26.49%). Although it is a specialised UN agency, the World Bank functions independently. The weighted voting sets it apart from the rest of the UN system. Jim Yong Kim has been World Bank Group president since 2012, and Kristalina Georgieva, a former European Commissioner, has been its CEO since 2016.

The Bank focuses on achieving the twin goals of reducing poverty and promoting shared prosperity. The Bank’s involvement in Europe – from the moment it was established in 1944 – has evolved in parallel to the economic development of European countries and in line with the Bank’s graduation policy. The Bank has developed operational partnerships with many EU Member States and the European Commission, as well as strategic partnerships with the Western Balkan countries (Albania, Bosnia and Herzegovina, Kosovo, the former Yugoslav Republic of Macedonia, Montenegro and Serbia).

The World Bank Group

The World Bank Group consists of five distinct entities:

- **The International Bank for Reconstruction and Development** (IBRD) provides loans and development advice to middle income and creditworthy poorer countries.
- **The International Development Association** (IDA) provides concessionary financing (interest-free loans), technical assistance and policy advice to the poorest countries.
- **The International Finance Corporation** (IFC) mobilises private sector investment and provides advice.
- **The Multilateral Investment Guarantee Agency** (MIGA) provides political risk insurance (guarantees).
- **The International Centre for Settlement of Investment Disputes** (ICSID) settles legal disputes between foreign investors and their host countries.

The IBRD and the IDA form ‘the World Bank’ and provide financing, policy advice and technical assistance to developing countries’ governments. The IFC, the MIGA and the ICSID work to strengthen the private sector in client countries through financing, technical assistance, political risk insurance and settlement of disputes. While these institutions have their own country membership, governing boards and specific rules, they work as one body when addressing a client’s needs.

How the World Bank works

The Bank offers a combination of financial resources, knowledge and technical services. Moreover, for regions with difficult neighbourhood relations, the Bank provides ground for broking compromises.

Financing instruments

The financing instruments listed below are those the Bank uses the most:

- **Investment project financing** (IPF) supports a concrete project, creating physical or social infrastructure. Funds are disbursed against specific investments. Unlike commercial lending, IPF supplies not only financing but also technical assistance.
- **Programme lending** (or ‘programme-for-results’ (PforR) financing) provides support to an expenditure programme. Funds are disbursed against measurable programme results.
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- **Development policy financing** (DPF) is a general budget support. Funds are disbursed directly to the beneficiary country budget against policy or institutional actions.
- **Trust funds and grants** allow the scaling up of activities in situations where the World Bank Group’s ability to lend is limited.
- **Private-sector options** provide direct investment and guarantees for private-sector projects.

In each country eligible for lending, the Bank carries out systematic diagnostics, based both on analysis and stakeholder consultations, to identify the development priorities. On this basis, it prepares a country partnership framework, selecting those priorities it would support. It chooses areas with local political commitment, where it has a comparative advantage and a historic engagement, and where other partners (such as the Commission) are not already taking the lead.

**Services**

In parallel to financing, the World Bank offers several types of services, the main ones being:

- **Technical assistance** (TA). This covers professional technical advice that supports legal, policy, management, governance and other reforms. For instance, this can be in the form of assistance in preparing draft legislation, institutional development plans, country-level strategies, and implementation action plans.
- **Reimbursable Advisory Services** (RAS). The Bank provides clients with access to paid customised technical assistance, as a complement to an existing programme or a stand-alone service. Clients can be countries and government bodies, and also regional governments, municipalities, state-owned enterprises and non-profit organisations.

These services are also offered to non-borrowing countries, and demand for them has grown in recent times.

**The Bank's work in the EU and the Western Balkans**

Given the Bank’s focus on reducing poverty, most EU countries have long graduated from and no longer qualify for the Bank's lending. While several EU countries do not borrow from the World Bank at all, four EU countries (Bulgaria, Croatia, Poland and Romania) and the six Western Balkan partners benefit from the full portfolio of the Bank's instruments. The remaining EU Member States either use the Bank's reimbursable advisory services (RAS) or participate in trust funds set up by the Commission. Since 2012, the World Bank's lending commitments in the EU have amounted to more than more than US$10 billion (€8.47 billion), while the advisory services and trust funds have totalled over US$100 million (€84.7 million).

**Figure 1: Recent World Bank activities in the EU and the Western Balkans**

Support to the transport sector

The World Bank's most relevant support instruments are the IBRD and the IDA financial products, the IFC; and advisory services and analytics.

Lending

Both in terms of the number of projects set up and the amounts committed, the road sector clearly leads, complemented by two railway projects and one focusing on a seaport. A lending project typically covers several different strands. While there are currently no transport projects in the Bank's active lending portfolio in Bulgaria, Kosovo, Montenegro, Poland and Romania, its other lending projects in these countries can contain transport elements.

Table 2: World Bank (IBRD) active lending in the EU and the Western Balkans, by mode

<table>
<thead>
<tr>
<th>Sector</th>
<th>Country</th>
<th>Project</th>
<th>Financial year approved</th>
<th>Amount committed (€ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road</td>
<td>Serbia</td>
<td>Corridor X highway project</td>
<td>2010</td>
<td>361.37</td>
</tr>
<tr>
<td></td>
<td>Serbia</td>
<td>Serbia road rehabilitation and safety project</td>
<td>2013</td>
<td>84.65</td>
</tr>
<tr>
<td></td>
<td>Albania</td>
<td>Results-based road maintenance and safety project</td>
<td>2015</td>
<td>67.72</td>
</tr>
<tr>
<td></td>
<td>former Yugoslav Republic of Macedonia</td>
<td>National and regional roads rehabilitation</td>
<td>2015</td>
<td>60.08</td>
</tr>
<tr>
<td></td>
<td>Bosnia and Herzegovina</td>
<td>Federation road sector modernisation project</td>
<td>2017</td>
<td>54.68</td>
</tr>
<tr>
<td></td>
<td>Croatia</td>
<td>Modernisation and restructuring of the road sector</td>
<td>2017</td>
<td>19.75</td>
</tr>
<tr>
<td></td>
<td>Albania</td>
<td>Regional and local roads connectivity</td>
<td>2018</td>
<td>42.33</td>
</tr>
<tr>
<td></td>
<td>Serbia</td>
<td>Enhancing infrastructure efficiency and sustainability</td>
<td>2018</td>
<td>100.39</td>
</tr>
<tr>
<td></td>
<td>former Yugoslav Republic of Macedonia</td>
<td>Road upgrading and development project</td>
<td>2018</td>
<td>76.99</td>
</tr>
<tr>
<td>Railway</td>
<td>Croatia</td>
<td>Sustainable Croatian Railways in Europe</td>
<td>2015</td>
<td>155.21</td>
</tr>
<tr>
<td></td>
<td>Bosnia and Herzegovina</td>
<td>Republika Srpska Railways restructuring project</td>
<td>2018</td>
<td>51.30</td>
</tr>
<tr>
<td>Port</td>
<td>Croatia</td>
<td>Rijeka Gateway II</td>
<td>2009</td>
<td>103.70</td>
</tr>
</tbody>
</table>

Source: WB data as of 19/9/2018 (in US$, converted to € on 20/9/2018); completed projects not included.

IFC investments

In the transport sector, the IFC can provide project and corporate financing of ports, airports, railways, roads, logistics, urban transport, inland waterways, shipping and airlines. The several cases of IFC investment support to transport projects include:
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- investment of up to €12 million in Romania’s TTS Group and its subsidiaries to improve shipping and logistics across the Danube River basin (2012);
- extension of a €25 million loan to the Romanian Municipality of Timisoara for the development of municipal and social infrastructure. The aim of the loan was to help co-finance projects already supported by the EU, including improvements to transport (2014);
- investment of up to €19 million for an 18% share in the holding company Zagreb International Airport Croatia, and the extension of a loan of up to €35 million (2014).

Advisory services and analytical assistance

Within the spectrum of advisory and analytical services offered, technical assistance can take the form of in-depth analyses and recommendations for policies, support for policy implementation, and actions to strengthen administrative capacity. Here again, the road sector is strongly present.

The services provided for transport-related issues (23 in total) over the past four years, include:

- **Road**
  - road safety (Poland, Romania)
  - improving road-sector performance capacity and EU funds absorption (Bulgaria)
  - assessment of road assets (Albania)
  - transport & ICT sector dialogue (Bulgaria)
  - climate resilience in road transport management (Serbia)

- **Rail**
  - support to railway modernisation (Bosnia and Herzegovina)

- **Transport – cross-cutting initiatives**
  - benchmarking corridor performance (Western Balkans)
  - assessing options for establishing an automated exchange of data in border crossing points in south-east Europe (Western Balkans)
  - updating a regional transport study – REBIS (Western Balkans)
  - green urban transport solutions for sub-national governments (Poland)
  - capacity building for public-private partnerships (Romania)

The Bank’s cooperation with the European Commission

Cooperation between the World Bank and the Commission in the Western Balkans dates back to the aftermath of the Kosovo crisis in 1999, when they jointly coordinated reconstruction efforts in the region. While that phase is now over, the Bank’s analytical work and country partnership frameworks with the EU’s Western Balkan partners continue to help them on their path to fulfilling the conditions for EU membership. The Bank’s cooperation with the Commission under the EU Instrument for Pre-Accession Assistance (IPA) in the 2007-2013 period sought to strengthen regional approaches to infrastructure development. This included the establishment of the Core transport network in the region and the South-East Europe Transport Observatory (SEETO). In 2014-2020, cooperation under the IPA has moved beyond work with individual countries and on individual projects, to a more strategic agenda linked to national economic reform programmes.

In 2015, as part of the EU Connectivity Agenda, the leaders of the Western Balkan countries adhered to an indicative extension of the EU trans-European transport networks (TEN-T), with the aim to improve transport and energy links within the Western Balkans as well as between the region and the EU. These mutual commitments were reaffirmed in the 2017 Transport Community Treaty.

Western Balkans Investment Framework

The Western Balkans Investment Framework (WBIF), a joint initiative of the European Commission, the European Investment Bank (EIB), the EBRD and the Council of Europe Development Bank (CEB), was set up in 2009 as a ‘single entry point’ for investment by international financial institutions in
the region. Blending grants and loans, the framework focuses on key sectors of the Western Balkan economies. As part of the EU enlargement strategy, the Commission set aside up to €1 billion in grants from IPA 2014-2020, to be implemented under the WBIF. Within the framework, transport is the most active sector (84 grants worth €412.6 million, awarded to 46 projects, mostly in rail and road). The World Bank is an ‘associate member’ of the WBIF, with 11 projects approved worth a total of nearly €9.2 million, focusing on policy-based work and sectoral strategies.

In the transport sector, the World Bank has provided lending to the rehabilitation of transport corridors, regional and local roads (in Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Serbia), as well as to road maintenance projects (Albania, Serbia). As an example of technical assistance, the Bank has carried out an analysis of the regional transport core network (the REBIS study update).

MAIN REFERENCES
The World Bank website and data provided to the author.

ENDNOTES

1 ‘Graduation’ refers to the Bank’s determination that a country has reached a level of development (judged by income levels, management capacity and access to capital markets), making it ineligible for new IBRD borrowing.
2 Kosovo: this designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence. Since 2013, when Croatia joined the EU, the term ‘Western Balkans’ includes six partners. Serbia and Montenegro have begun the EU accession process, Albania and the former Yugoslav Republic of Macedonia are official candidates, while Bosnia and Herzegovina and Kosovo are potential candidates.
3 Countries that have signed RAS agreements with the World Bank include: Albania, Bosnia and Herzegovina, Bulgaria, Cyprus, the Czech Republic, Greece, Hungary, Italy, Latvia, Poland, Romania, Slovakia and Slovenia.
4 All Western Balkan partners qualify for IBRD lending; the only low-income partner eligible for IDA lending is Kosovo.
5 The cooperation agreement between the World Bank Group and the European Commission has been in place since 2001 and was amended in 2016. It sets the terms under which the World Bank will disburse EU budget money on development projects.
6 The German bank KfW and the World Bank Group joined the framework later; KfW became a partner organisation in 2017.

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