Innovative Financial Instruments and EU Blending

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Blending

The use of a limited amount of grants to mobilise financing from partner FI's and private sector to enhance the development impact of investment projects

Blending reflects specific objectives

1. **FINANCIAL:** mobilize public and private resources for enhanced development impact and do more with less (financial constraints)
2. **NON-FINANCIAL:** improve project sustainability quality, innovation, targeting and speed
3. **POLICY:** support reforms in line with EU policies
4. **AID EFFECTIVENESS:** improve cooperation between European and non-European aid actors (donors and financial institutions)
5. **VISIBILITY:** provide more visibility for EU development funding

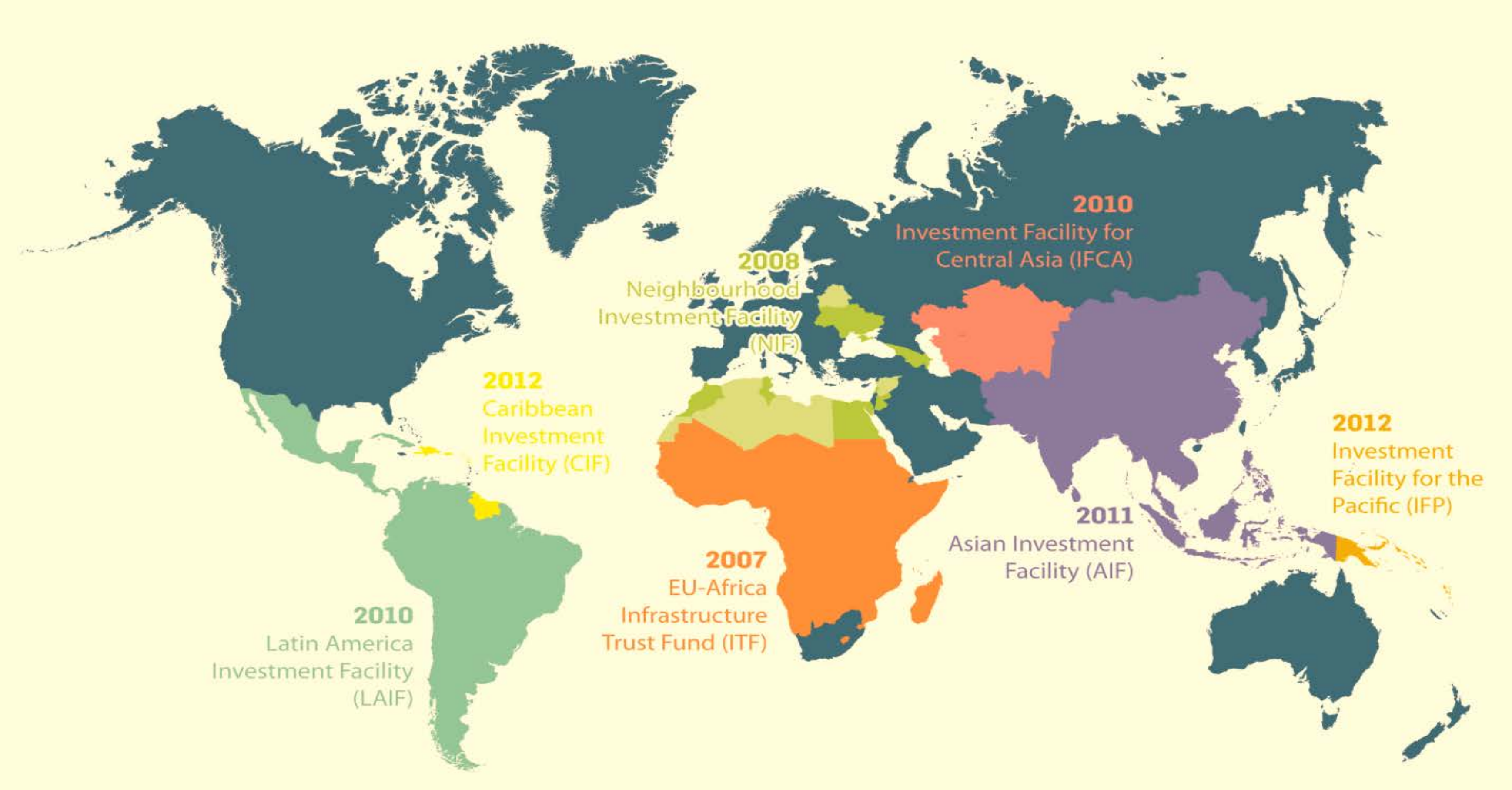
Blending constitutes only one part of EU programmes

Instrument	Countries	Allocation 2007-2013
ENI-IPA	17	11.2 billion €
EDF	79	22.68 billion €
DCI	47	10.06 billion €
Thematic instruments	all	5.6 billion €
	TOTAL	49.5 billion €

Approved grants until end of 2014 (corresponding to 2007-2013 allocations): aprox. €2 billon (circa 4% of the total).

Source: EU website

Blending facilities…



The EU provides 4 types of support

1. **Grants** for **direct investment** and **interest rate subsidy** to decrease the investment cost for sponsors.

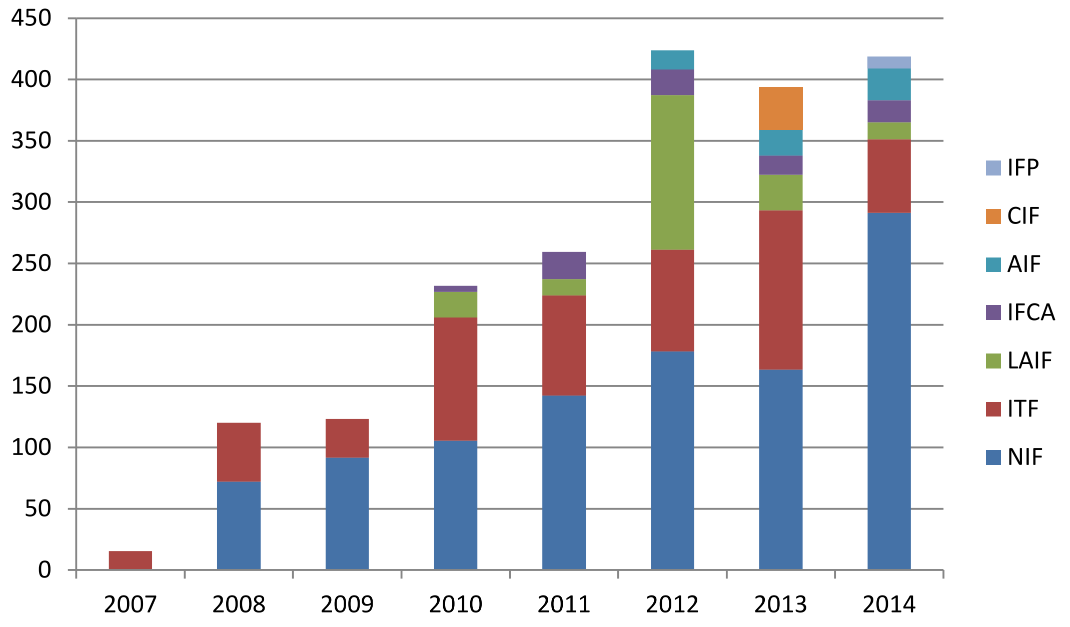
2. **Technical assistance** to accelerate projects and improve quality, efficiency and impact.

3. **Risk capital** (i.e. equity & quasi-equity) to help mobilise additional financing (presently MSME only).

4. **Guarantee mechanisms** to reduce risk and improve access to finance.

Blending operations 2007-2014

Annual grant approvals (in € million)



Allocated resources

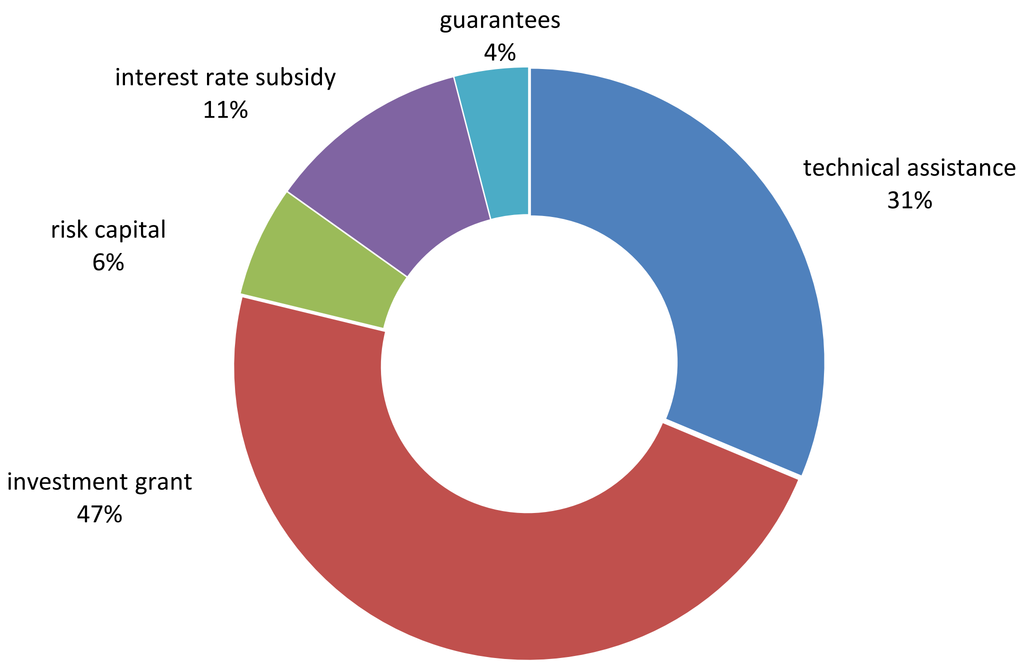
c. € 2 billion

mobilise EFIs resources of more than € 19 billion

support >230 projects with total est. budget of € 43 billion

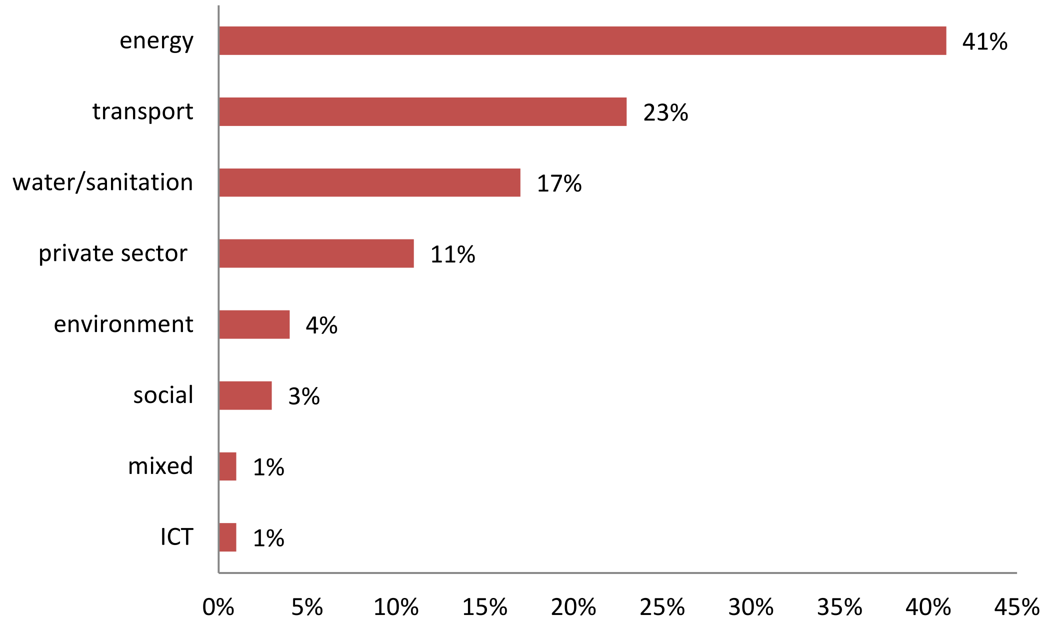
Blending operations 2007-2014

Grant approvals by type (in %)



Blending operations 2007-2014

Grant approvals by sector (in %)



Leveraging resources and expertise, enhancing coordination

EIBEBRDAFDKFWIDB

CEBAECIDCDPAFDB

CDBCOFIDESSOFID

CAFBIODEGOeEBIFC

ADBBCIEFMO …

Common Implementing Rules (CIR)

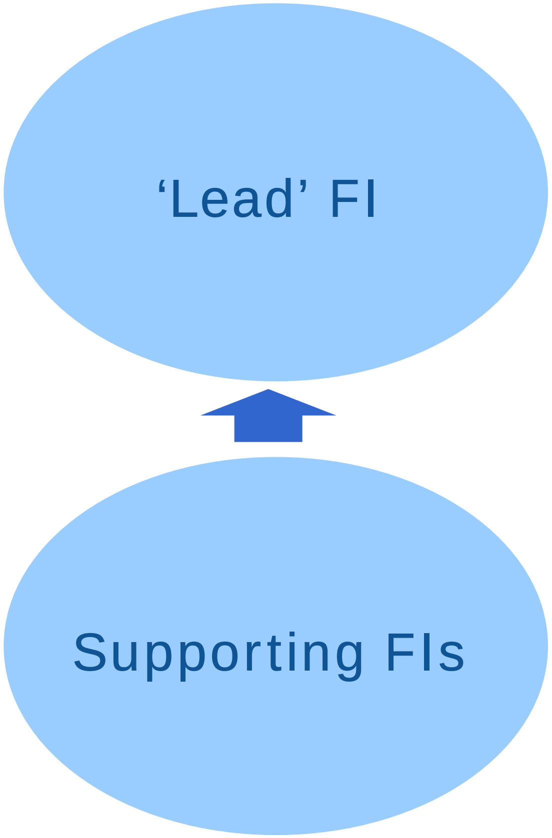
"Financial instruments … shall be, whenever possible, under the lead of the EIB, a multilateral European financial institution, such as the EBRD, or a bilateral European financial institution, e.g. bilateral development banks, possibly pooled with additional grants from other sources."

3 ‘types’ of partners, always a LEAD FI

a) **Multilateral** European Finance Institutions (e.g. EIB, EBRD...)

b) European **National** development finance institutions from Member States

c) **Regional** banks: can act as lead in some regional facilities (e.g. AfDB in ITF, CDB in CIF), only as co-financiers in others.



Latest updates

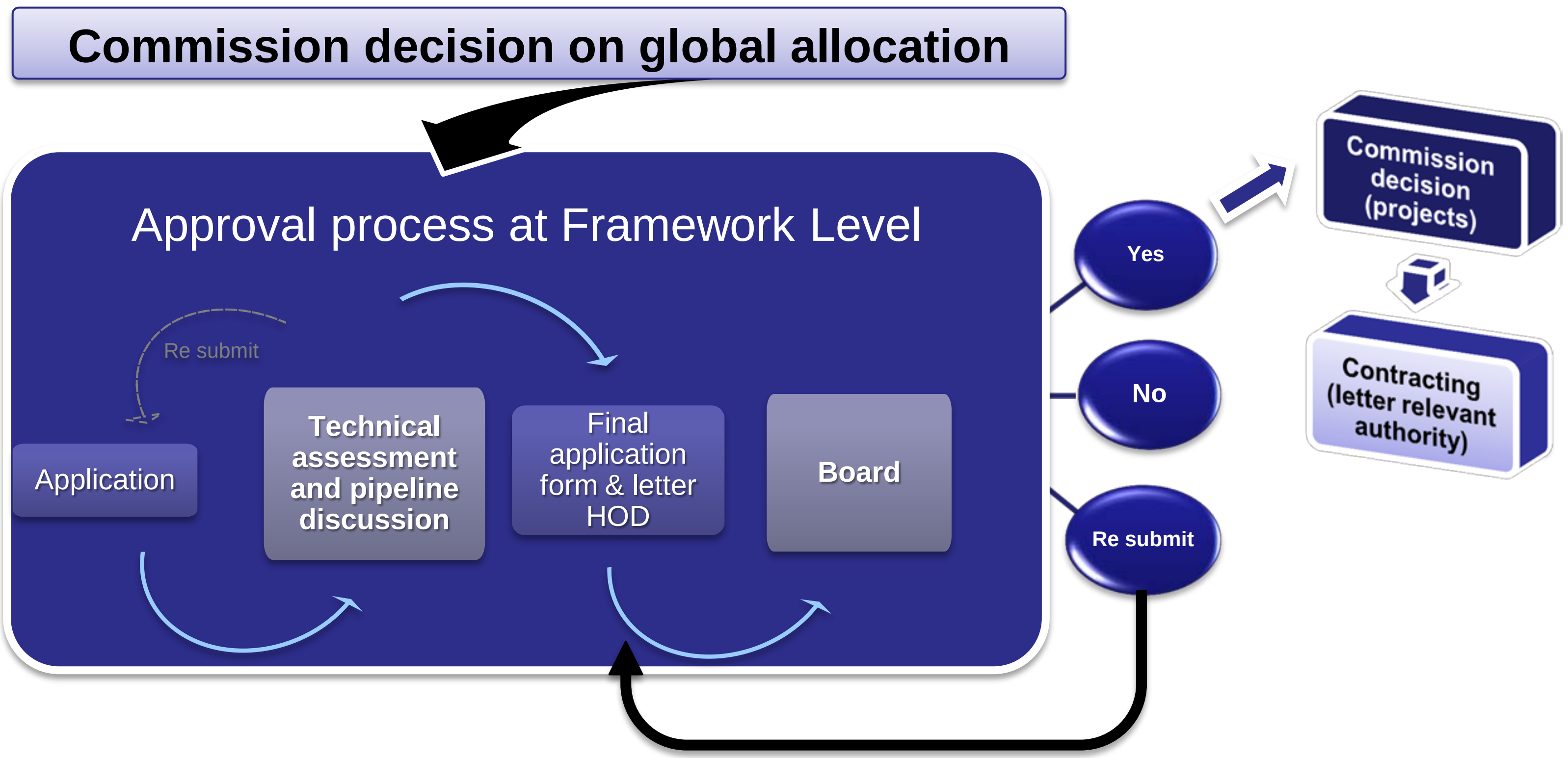
1. European **Court of Auditors**' Special Report.

2. **Council** Conclusions.

3. Increased dialogue with **NGOs** and **civil society**.

4. EU Platform for Blending in External Cooperation (**EUBEC)**.

Decision-making procedure



UNLOCKING PRIVATE INVESTMENT

With the facilities the needed tools are in place

Currently the blending facilities mainly support public investment projects. However, they also provide the means to catalyse private investments – particularly by using more innovative financial instruments such as risk capital and guarantees.

- **Risk capital** can help address the lack of equity capital in some countries, particularly for new sectors such as renewable energy (e.g. GEEREF fund)
- **Guarantees** are particularly useful in more liquid markets where the perceived risk of certain activities is high among local investors or banks (e.g. SME Guarantee Facility)

BLENDING FACILITIES – EXPERIENCE OF PPPs

- 12 PPP projects have been financed by EU blending facilities
  - 11 in Africa (10 ITF, 1 NIF)
  - 1 Caribbean
- Strong emphasis on renewable energy
  - 7 in Energy (most renewable)
  - 3 ICT (undersea cables)
  - 2 Transport (ports)

BLENDING FACILITIES AND PSD
Using Technical Assistance

- Business Development Support
- Pre-investment Project Analysis
  - Feasibility
  - ESIA
  - Design
- Pre-investment project screening
  - Mainly for intermediate banks
    - East Africa (AFD credit lines)
- Investment phase services
  - Project management
  - Supervision
  - Auditing, Verification

BLENDING FACILITIES AND PSD
Using Investment Grants

- Contribution to the investment plan, pari-passu to the loan
- Equity participation in SPVs, facilitating public shareholding
- Performance Based Payments – Credit enhancements, linked to specific policy objectives, e.g.
    - Promoting Energy Efficiency and Renewable Energy:
        - Asia (Indonesia),
        - Central Asia (Kyrgyz Rep)
        - Africa (IOC, West Africa)
        - Neighbourhood (E&S)

Further evolutions of blending

1. EDF framework (Africa Investment Facility, Caribbean Investment Facility, Investment Facility for Pacific)

2. Further involvement of the private sector and more emphasis on PPPs

3. Extending partnerships

4. More use of innovative financing tools

Lake Turkana Wind Power station

Over 300MW capacity, largest wind farm that is currently being developed in Sub-Saharan Africa. EU-Africa ITF provided a capital participation in the form of a preference share to cover the financing gap.

The project contributes to addressing currently unmet and growing electricity demand using a renewable energy resource and thus reduces the country’s dependence on imported fossil fuels.

Total project volume: approx. €625 million
Grant contribution: €25 million
Involved EFIs: EIB, FMO, Proparco, DEG, Finnfund

European Commission

ElectriFI : an initiative stimulating private sector investments aimed at increasing access to electricity

Objective

- boost investments increasing access to electricity and modern energy services as a driver for development, through unlocking the existing potential of the private sector

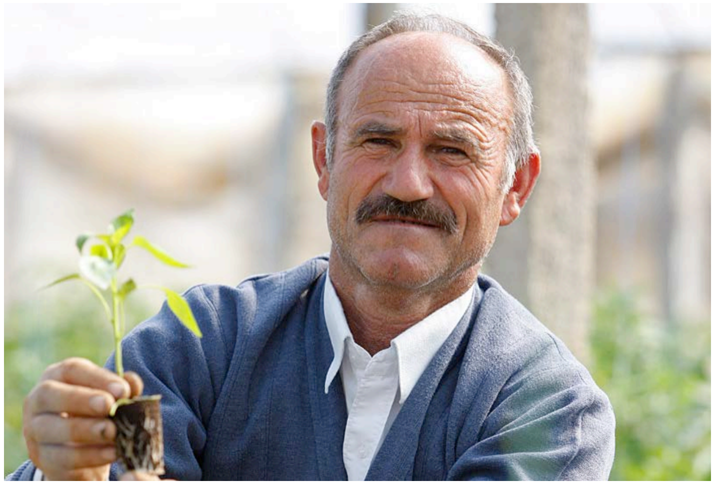
Innovative scheme to bridge the financial gap by making available e.g. early stage development risk capital

Kyrgyzstan Sustainable Energy Efficiency Finance Facility (KyrSEFF-I)

- *USD 20 million credit line: on-lending to fund investments in modern technology, equipment or material*
- *EUR 7 million EU IFCA contribution for TA and smart incentives*
- *Two windows: business EE and residential EE*
- *Over 50% of credit line on-lent to sub-borrowers (Q2 2014)*
- *83% of credit line allocated to projects by partner financial institutions (Q2 2014)*
- *New demand from partner financial institutions*
- *Resulting in development of KyrSEFF II (Residential focus)*

EFSE Fund for SMEs

Risk capital



Pools public and private investments to provide access to finance for SMEs in the Eastern Neighbourhood via the local financial market. Fresh **boost to the local financial market** and improved access to long-term debt financing for SMEs.

NIF and WBIF grant element used as a **first-loss tranche**.Reduces risk for other investors and allows them to invest in the mezzanine (public finance institutions) or senior tranche (commercial investors).

<u>Total project volume</u>: €70 million
<u>Grant contribution</u>: €10 million
<u>Involved EFIs</u>: KfW, OeEB

European Commission

More information

http://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending_en

European Commission

Thank you!