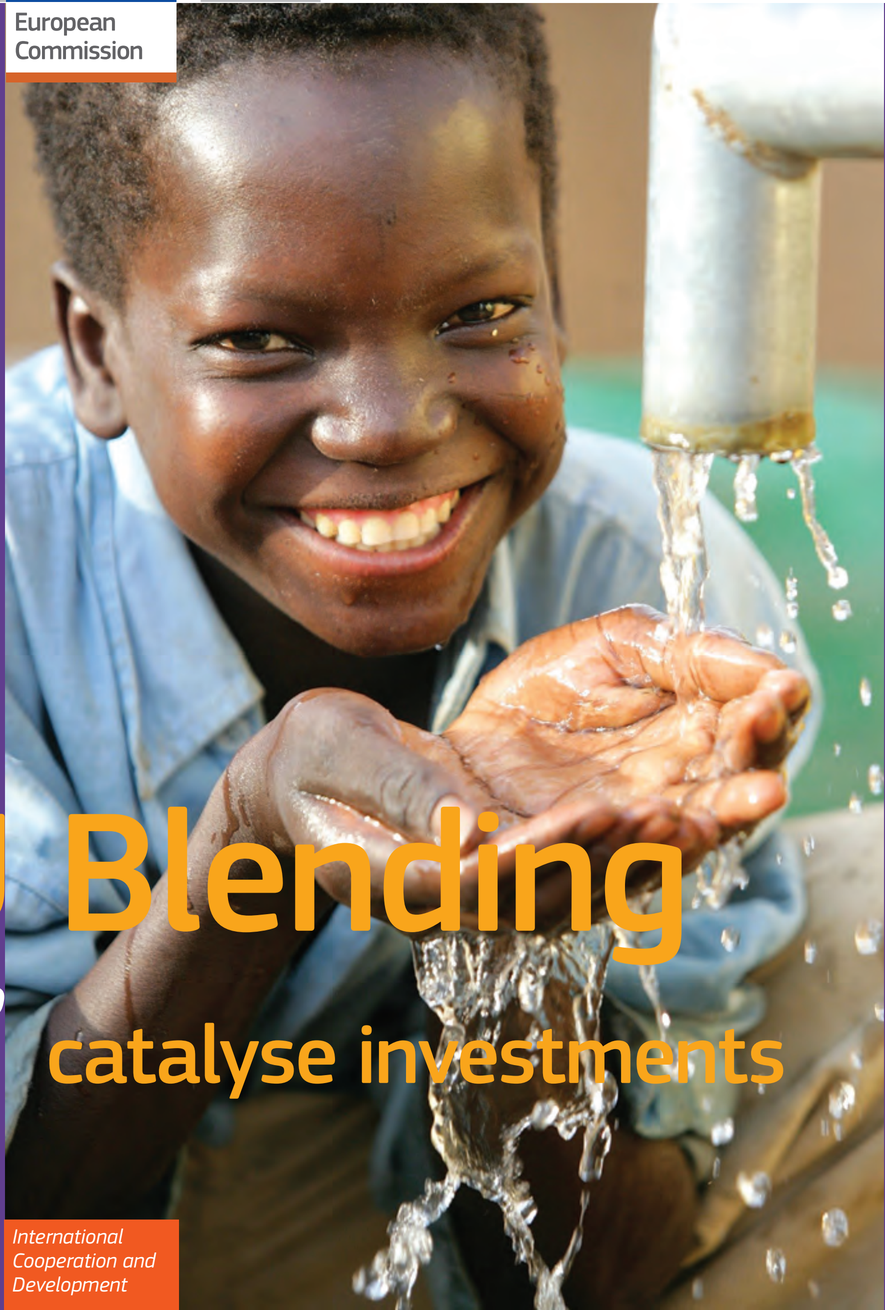
European Commission

EU Blending

European Union aid to catalyse investments

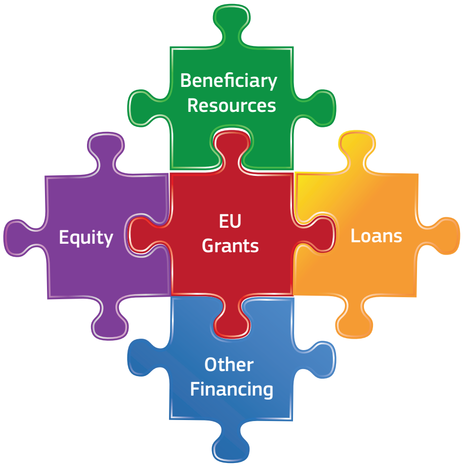


International Cooperation and Development

Substantial investment is required to improve people's living conditions in EU partner countries. Government and donor funds are far from sufficient to cover these needs. Countries need to attract additional public and private financing to drive economic growth as a basis for poverty reduction. The Agenda for Change emphasises the support of inclusive growth and job creation as a key priority of EU external cooperation. In this context "Blending" is recognised as an important means of leveraging additional resources and increasing the impact of EU aid.

WHAT EXACTLY IS BLENDING?

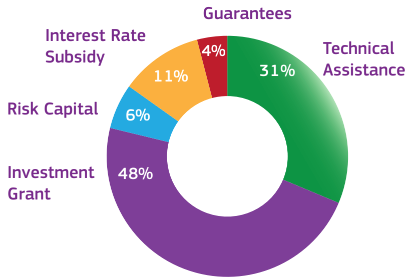
Blending is an instrument for achieving EU external policy objectives, complementary to other aid modalities and pursuing the relevant regional, national and overarching policy priorities. Blending means the combination of EU grants with loans or equity from public and private financiers. The idea behind blending is that the EU grant element can be used in a strategic way to attract additional financing for important investments in EU partner countries.



On a case-by-case basis, the EU grant contribution can take different forms to support investment projects:

- **Investment grant & interest rate subsidy** – reducing the initial investment and overall project cost for the partner country
- **Technical assistance** – ensuring the quality, efficiency and sustainability of the project
- **Risk capital (i.e. equity & quasi-equity)** – attracting additional financing
- **Guarantees** – unlocking financing for development by reducing risk

GRANTS APPROVED BY TYPE OF SUPPORT



FINANCIAL INSTITUTIONS PARTICIPATING IN BLENDING

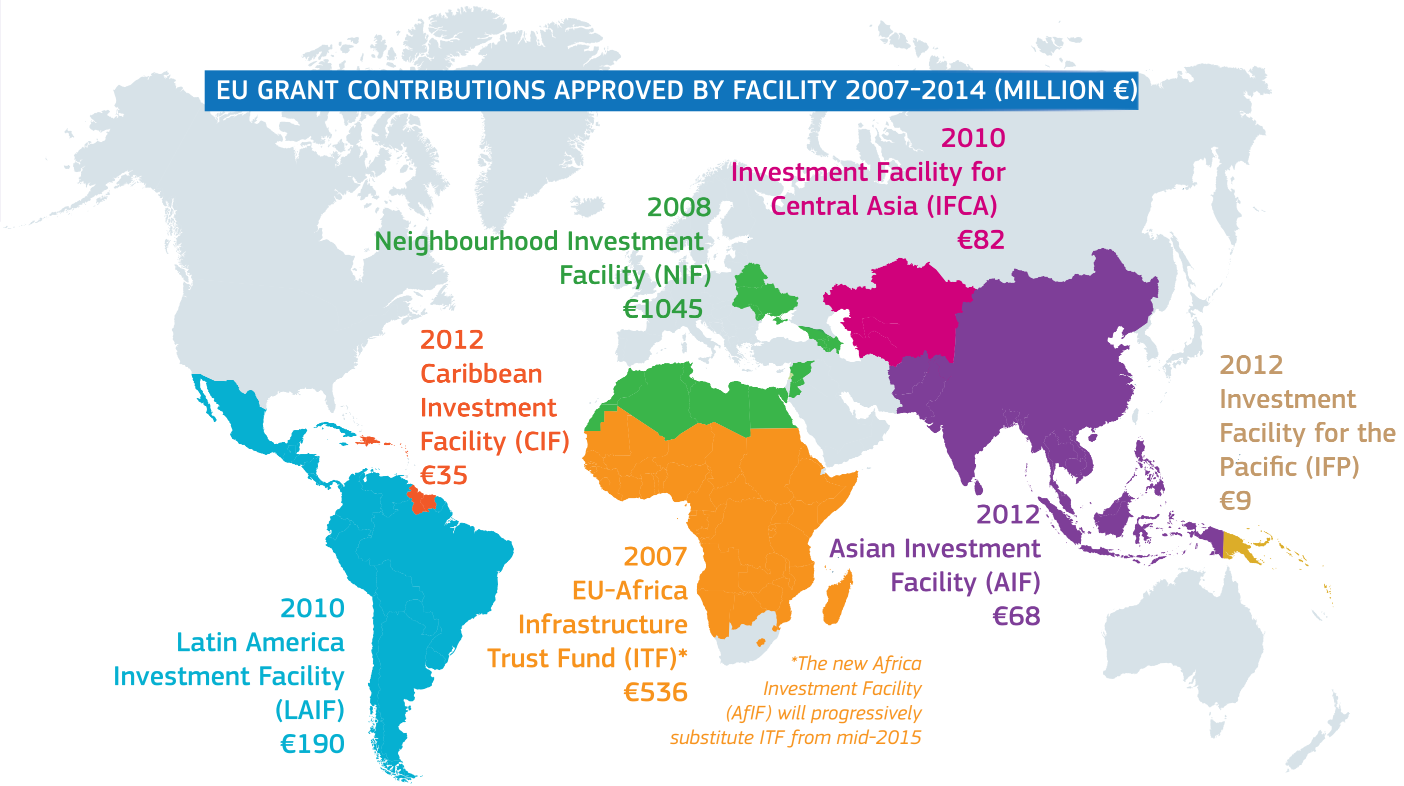
OeEB EIB
EBRD AFD KfW
AECID AfDB
CEB WORLD
BANK GROUP
SOFID IADB
CDB NIB PIDG
CAF LUXDEV
FINNFUND
COFIDES BIO
CABEI ADB
CDP SIMEST

THE BENEFITS OF BLENDING

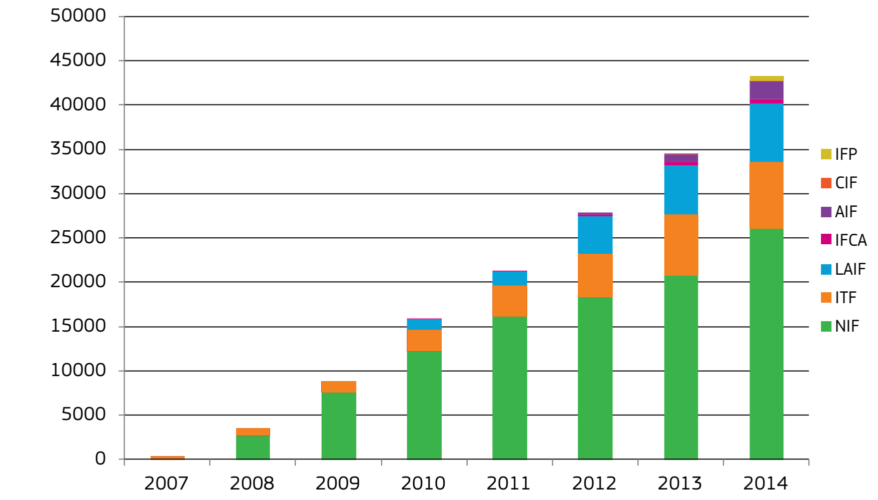
Using blending as a tool of EU external cooperation offers various benefits to different stakeholders:

- **Beneficiary governments:** a sustainable and affordable way to tap into significant additional financing for national development priorities
- **Final beneficiaries:** increased access to public services, infrastructure and credit, to increase socio-economic development
- **Financiers:** mitigate the risk of investing into new markets and sectors
- **European Union:** leveraged impact of EU aid, improved aid effectiveness through greater donor and lender coordination

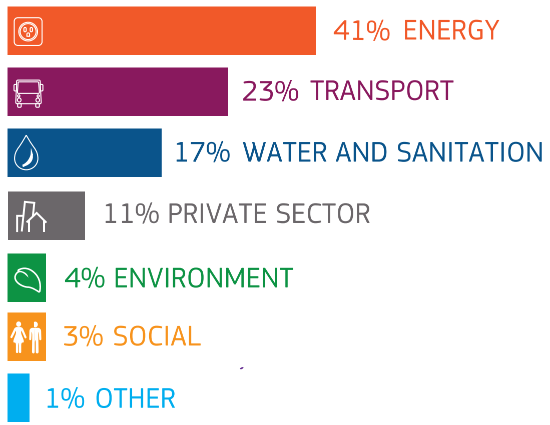
EU GRANT CONTRIBUTIONS APPROVED BY FACILITY 2007-2014 (MILLION €)



€ Millions TOTAL VOLUME OF INVESTMENTS SUPPORTED THROUGH BLENDING (CUMULATIVE)



APPROVAL OF GRANTS BY SECTOR



BLENDING OPERATIONS IN 2007-2014

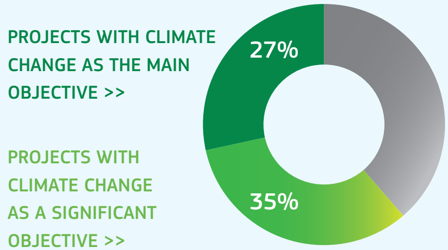
Since first introduced at the beginning of the Multiannual Financial Framework 2007-2013, blending gradually evolved into an important tool of EU external cooperation, complementing other methods of implementation. EU regional blending facilities have been set up in all regions of EU external cooperation.

In the last eight years, around € 2 billion worth of EU grants financed over 240 blended projects. The EU grant contributions have leveraged approximately € 20 billion of loans by European finance institutions and regional development banks. By strategically combining EU grants with public and private financing, blending helps unlock investments with an estimated volume of €43 billion in EU partner countries.

About 65% of the EU grants allocated to blending projects supported energy and transport infrastructure initiatives; 24% was invested in social infrastructure related to access to clean water, waste treatment, housing, health, urban development, as well as the environment; and 11% of the grant funds supported the local private sector, notably medium and small enterprises, in strengthening local production capacity and fostering job creation.

CLIMATE ACTION THROUGH BLENDING

The transition to a green economy poses great challenges which cannot be met solely through grant resources and traditional forms of development assistance. In certain cases blending can attract additional public and private financing for climate change action.



Through climate change windows in the EU regional blending facilities and the Global Energy Efficiency and Renewable Energy Fund (GEEREF), the EU is scaling up its climate finance. About €1 billion in EU grants has been committed to green projects with an estimated volume of €25 billion, also attracting financing from private investors. 62% of all EU grant commitments made since 2007 have been directed towards projects with a climate change objective.

GOING FORWARD

To date, most of the leveraged financing has been provided by public sources. However, blending has the potential to catalyse private financing. Support to local businesses facilitates the leveraging of private financing to help businesses grow and create jobs. Innovative financial instruments, such as risk-sharing mechanisms play a key role. In order to further exploit this potential, the European Commission carefully considers potential risk to ensure that the EU grant element addresses market failures and channels private financing towards investments that contribute to poverty reduction, while avoiding market distortion.

The main forum for exchanges on how to exploit this potential and to address other issues related to the use of blending in EU external cooperation is the EU Platform for Blending in External Cooperation (EUBEC). Here, experts from the Commission, EU Member States, European Parliament, European External Action Service and participating finance institutions work together on further increasing the effectiveness of blending. To date, EUBEC reviewed the existing blending mechanisms as well as the ex-ante technical and financial analysis of projects, defined indicators for measuring results, developed the financial instruments further as well as exploited options of cooperation with the private sector and climate change financing.

LAKE VICTORIA PROJECTS
Water and Sanitation Sector

Lake Victoria is the second largest lake on the planet. Shared by three countries - Uganda, Kenya and Tanzania - it is the most important trans-boundary natural resource on the African continent and the sole source of water supply for communities living on its shores. Every year hundreds of thousands of people arrive there from throughout the region and live in informal settlements, in the hope of finding a job. Consequently the population in the Lake zone has risen at 7 times the African average. This is placing intense pressure on the Lake, causing the ecosystem to deteriorate and inhabitants' living conditions to worsen steadily.

To tackle the regional dimension of the pollution of the Lake, the EU blending framework facilitated developing a coordinated and policy coherent investment programme. Working closely with the United Nations, the governments of the countries and the East African Community (including the Lake Victoria Basin Commission) and EU delegations, the three finance institutions prepared concrete investment projects for the water infrastructure of the three largest towns on the Lake: Kampala, the Ugandan capital; Mwanza in Tanzania; and Kisumu in Kenya.

Each financial institution takes the role of Lead Financier in one country, while still being able to draw on others for specific skills. The EIB is leading on Tanzania and AFD is responsible for the Kenyan project, while in Uganda, the works are being achieved under KfW's lead. The Kampala part is to be finalised in 2016, the Mwanza project is planned to be operational by 2020 and in Kusumu works are expected to begin in 2016. The projects will improve the health of the people living in the Lake zone, by increasing both the supply of affordable drinking water and reducing the risk of waterborne disease and with a target of 2.7 million beneficiaries by 2020.

Photo 1

Blending Instrument: EU-Africa Infrastructure Trust Fund (ITF)
Country: Uganda, Kenya, Tanzania
Start Date: 2010
Status: Ongoing
Lead Finance Institutions: AFD, EIB, KfW
Total Project Cost: € 411.2 million
ITF Contribution: € 44.7 million
Type of Support: Technical Assistance and Interest Rate Subsidy

INTEGRATED SECTOR PROGRAMME FOR HUMAN WATER AND SANITATION (LIFE PROGRAMME)
Water and Sanitation Sector

The Nicaraguan Company for Aqueducts and Sewers (ENACAL) is responsible for service provision in urban areas in Nicaragua. In 2011, the drinking water system in the cities covered by ENACAL reached 2.8 million people directly through more than half a million domestic connections. However, only 52% of all service connections had water pipelines in good condition at the time.

This project improves the drinking water supply and sanitation system in 19 cities in Nicaragua, with a combined population of approximately 520,000 inhabitants and it prepares the conditions for investment for a second phase in 17 cities. In 15 cities, the plan is to increase the coverage of drinking water from 72% to around 96% and in 13 cities the aim is to improve sanitation services.

The project is the first phase of the Integrated Sector Programme for Human Water and Sanitation in Nicaragua (LIFE), which will be carried out over 20 years. The total cost of the programme is around USD 1.6 billion of which around € 260 million is to be invested by 2017.

Blending instrument: Latin America Investment Facility (LAIF)
Country: Nicaragua
Start Date : 2012
Status: Ongoing
Lead Finance Institution: AECID
Co-financing Institutions: EIB, CABEI
Total Project Cost: €260 million
LAIF Contribution: €50 million
Type of Support: Investment Grant and Technical Assistance

CAIRO METRO LINE 3 PHASE 3
Transport Sector

Cairo is Africa's biggest metropolitan area. The population has increased to over 20 million inhabitants in recent years. Greater Cairo accounts for 20% of the Egyptian population, 40% of the country's employment and about 50% of the country's GDP. The city is facing major urban transport issues, with a highly congested road network and insufficiently integrated public transport. This situation has implications for tourism, pollution, cultural conservation and fatalities. It is also leading to a substantial loss in GDP by increasing travel times for all businesses operating in Cairo.

The project will extend line 3 of the Cairo Metro by 17.7 km to the west, complementing the existing network. This is a key component of the Greater Cairo Transport Master Plan as it will unlock two densely populated districts (Imbaba and Boulak El Dakrour) and ultimately connect Imbaba in the west of the city, with Cairo International Airport in the east. The construction of line 3 of the Cairo metro will help reduce traffic congestion, greenhouse gas emissions, and noise pollution and provide safe and reliable access to the city centre and the central business districts.

Blending Instrument: Neighbourhood Investment Facility (NIF)
Region: Neighbourhood South
Country: Egypt
Start Date: March 2012
Status: Ongoing
Lead Finance Institution: AFD
Co-financing Institution: EIB
Total Project Cost: €2 billion
NIF Contribution: €44 million
Type of Support: Investment Grant and Technical Assistance

Photo 2

SUPPORT FOR THE DEVELOPMENT OF GEOTHERMAL ENERGY
Energy Sector

Blending Instrument: Caribbean Investment Facility (CIF)
Region: Latin America
Country: the Commonwealth of Dominica
Start Date: 2013
Status: Ongoing
Lead Finance Institution: AFD
Total Project Cost: €8.5 million
CIF Contribution: €2.0 million
Type of Support: Technical Assistance

Photo 3

Dominica is a small volcanic island in the eastern Caribbean. Its considerable geothermal resources could supply the electricity needs of its 75,000 inhabitants and contribute to the requirements of the neighbouring French islands of Guadeloupe and Martinique. The EU and other international donors have funded and conducted feasibility and assessment studies, test drillings and economic analyses, which have confirmed the potential of Dominica's Wotten Waven geothermal reservoir to produce up to 120MW of clean and competitively-priced power.

The project marks the transition from the end of the exploratory drilling phase to the production development phase. This foresees the government issuing concessions for the operation of firstly a small and then a large Geothermal Power Plant. This small plant would cover the needs of the island (up to 20MW), eliminating costly oil imports for fossil fuel generators. The large plant would supply, via undersea transmission lines, up to 50MW each to Guadeloupe and Martinique, increasing the regional energy grid. The government plans to set up a Public-Private Partnership (PPP) with private investors.

The project consists of two components. The first, funded by the AFD's loan, will complete the preliminary drilling phase, cover additional costs of the third exploratory well and all associated tests, fund the drilling of the first production well together with its associated re-injection well. The second, funded by the CIF grant, will provide technical, legal and financial assistance to the government of Dominica to support the preparation of the concession arrangements and agreements for the Wotten Waven reservoir and supervise the initial investments. Works are expected to be finalised in 2018. The project will boost Dominica's economy and will also bring major benefits in terms of climate change mitigation, by substituting fossil fuel-based power production with clean renewable energy.

Photo 4

KYRGYZSTAN SUSTAINABLE ENERGY EFFICIENCY FINANCING FACILITY (KYRSEFF)
Energy Sector

http://www.kyrseff.kg/kg/

The Kyrgyz economy is very energy-intensive, due to a high rate of energy losses, out-of-date energy infrastructure and inefficient equipment. A more reliable energy supply and the improvement of energy efficiency are key principles of the government's Energy Strategy. The Kyrgyzstan Sustainable Energy Efficiency Financing Facility (KyrSEFF) is designed to assist local financial intermediaries support small-scale sustainable energy projects by combining credit lines with technical assistance. The project, which is co-financed by EBRD, is the first of its kind in Kyrgyzstan.

KyrSEFF supports residential and industrial energy efficiency projects, as well as small-scale renewable energy investments, by providing loans to Participating Financial Institutions that then pass these on to private sector borrowers, thus helping financial intermediaries improve their capacity to appraise and finance energy efficiency and renewable energy projects. In addition, this supports local engineers improve their technical expertise.

Blending Instrument: Investment Facility for Central Asia (IFCA)
Region: Central Asia
Country: Kyrgyz Republic
Start Date : 2012
Status: Ongoing
Lead Finance Institution: EBRD
Total Project Cost: €20.8 million
IFCA Contribution: €6.8 million
Type of Support: Investment Grant and Technical Assistance

EUROPEAN NEIGHBOURHOOD SMALL BUSINESS GROWTH FACILITY (ENBF)
Private Sector Development

https://ec.europa.eu/europeaid/regions/eu-neighbourhood-region-and-russia/interregional-cooperation/neighbourhood-investment_en
http://www.efse.lu/

The global financial crisis has produced severe strains on the economies of the Eastern Neighbourhood, with micro-, small- and medium sized enterprises being particularly affected. The European Neighbourhood Small Business Growth Facility, created as a specific sub-fund of the successful European Fund for Southeast Europe, improves access to finance throughout the region for such enterprises. Indirectly, it also supports the development of domestic and regional capital markets.

The NIF grant contributes to a first-loss tranche which is used to leverage additional mezzanine and senior tranches from Intermediary Finance Institutions and commercial banks. This is the first risk capital operation to have been financed under the NIF in the countries of the Eastern Neighbourhood. By facilitating access to finance for micro-, small- and medium sized enterprises, the Facility provides stimulus to growth and employment in the private sector.

Blending Instrument: Neighbourhood Investment Facility (NIF)
Region: Neighbourhood East
Country: Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
Start Date : 2009
Status: Ongoing
Lead Finance institution: KfW
Co-financing Institutions: Oesterreichische Entwicklungsbank AG (OeEb)
Total Project Cost: Up to €70 million
NIF Contribution: €10 million
Type of Support: Risk capital

Photo 5

GEOTHERMAL RISK MITIGATION – TWO REGIONAL FACILITIES, ONE COMMON GOAL
Energy Sector

http://www.grmf-eastafrica.org/
https://vimeo.com/113997483

The Geothermal Risk Mitigation Facility for East Africa and the Geothermal Development Facility for Latin America are both supported by EU blending facilities and are a catalyst for the promotion of renewable energies, while promoting sustainable and inclusive growth on a regional scale. The Geothermal Facilities encourage public and private investors as well as public private partnerships to develop inexpensive, reliable and environmentally sound geothermal prospects for power generation in Eastern Africa and Latin America. The innovative concept of reducing the high start-up risks and costs for tapping this resource was first developed and successfully applied in Eastern Africa supported by UK, Germany and the EU.

In Eastern Africa on average, less than 20% of the population are connected to the power grid and energy demand considerably exceeds the amount of electricity available. The project helped closing this energy gap in a sustainable and affordable manner also considering the countries' debt sustainability constraints. The concept was then adapted to the requirements of Latin American power markets and its regional development objectives. The EU support contains a grant contribution of €30 million in Africa and technical assistance support of € 5 million in Latin America.

Both projects help make smart use of scarce public funding while helping to mobilise private sector funding to reach common development goals. The leverage of public funds compared to private funding actually mobilised in Africa is expected to be in the range of 1:8.

Photo 7

Photo 6

Blending Instruments: EU-Africa Infrastructure Trust Fund (ITF) and Latin America Investment Facility (LAIF)
Region: East Africa and Latin America
Countries: *11 Eastern African countries:* Burundi, Comoros, Democratic Republic of Congo, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Uganda, Tanzania, Zambia.
10 Latin American countries: Bolivia, Chile, Colombia, Ecuador, Peru, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua
Start Dates: 2010 for ITF and 2014 for LAIF
Status: Ongoing
Lead Finance Institution: KfW
Total Investment Potential: *Africa:* 450 MW equal to €1.3 billion,
Latin America: 350 MW equal to €1 billion
ITF Contribution: €30 million
LAIF contribution: €5 million
Type of Support: Investment Grant and Technical Assistance

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

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