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# EU regional blending mechanisms

Leveraging funds for climate change in developing countries



# Why blending?

- The world is facing **massive developmental challenges such as Climate Change**

## HOWEVER

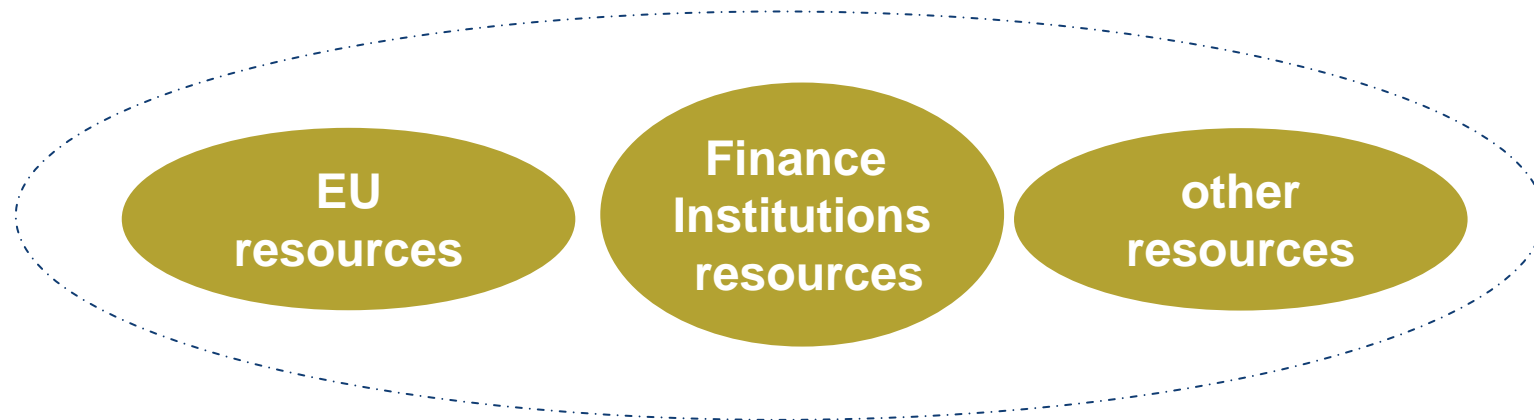
- EU member states' **public funds are heavily constrained** (due to financial & economic crisis)



Ways have to be sought to achieve the **largest possible impact** of development grants .

## What does blending do?

- **Combine grants with additional flows** (such as loans and risk capital) to **gain financial and qualitative leverage** and thereby **increase EU development policy impact**.



## Added value of blending

- The **strategic use of a grant element can make projects** and initiatives by public or commercial financiers **financially viable** and thereby exerts a leveraged policy impact.



# Objectives of blending

- Leverage additional public and private resources for EU development policy objectives (**financial leverage**)
- Increase **aid effectiveness**:
  - Grant element can improve the quality, speed, sustainability of projects (**non-financial leverage**).
  - Careful use of loans to increase **financial discipline** and **ownership** compared to pure grant receipts.
- **Promote cooperation and coordination** between European and non-European aid actors (donors and finance institutions).

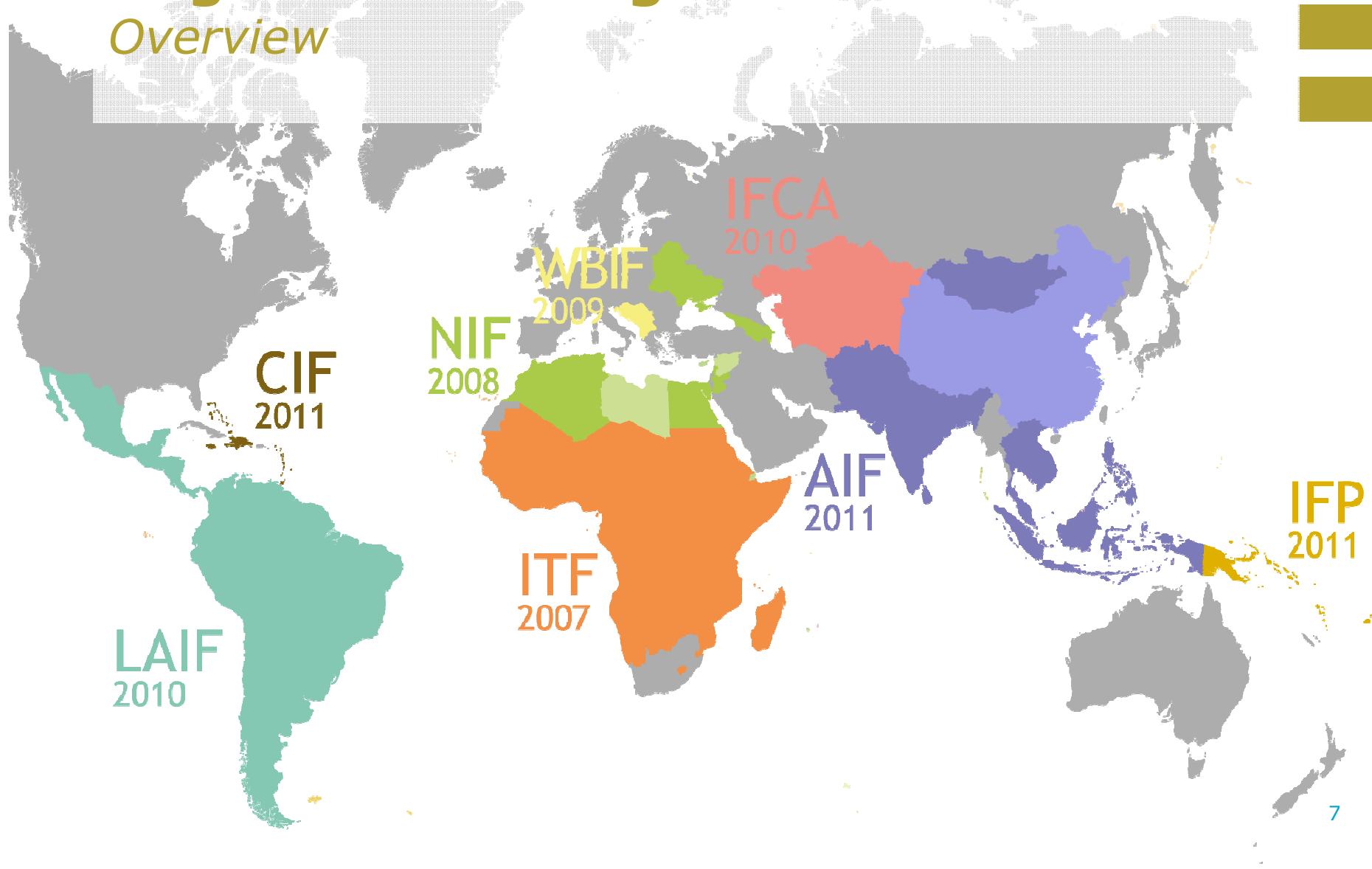
# Regional blending mechanisms

## *Overview*

- EU-Africa Infrastructure trust fund (ITF) - 2007
- Neighbourhood Investment Facility (NIF) - 2008
- Latin America Investment Facility (LAIF) - 2010
- Investment Facility for Central Asia (IFCA) – 2010
- Asia Investment Facility (AIF) – 2011
- Investment Facility for Caribbean – planned for end 2011
- Investment Facility for Pacific – planned for end 2011

# Regional blending mechanisms

## Overview



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# Regional blending mechanisms

*Some figures*

*(since 2007 in ITF, NIF, LAIF & IFCA)*

**115**

PROJECTS

**760 million**

GRANTS

**> 10 billion**

LOANS

**> 26 billion**

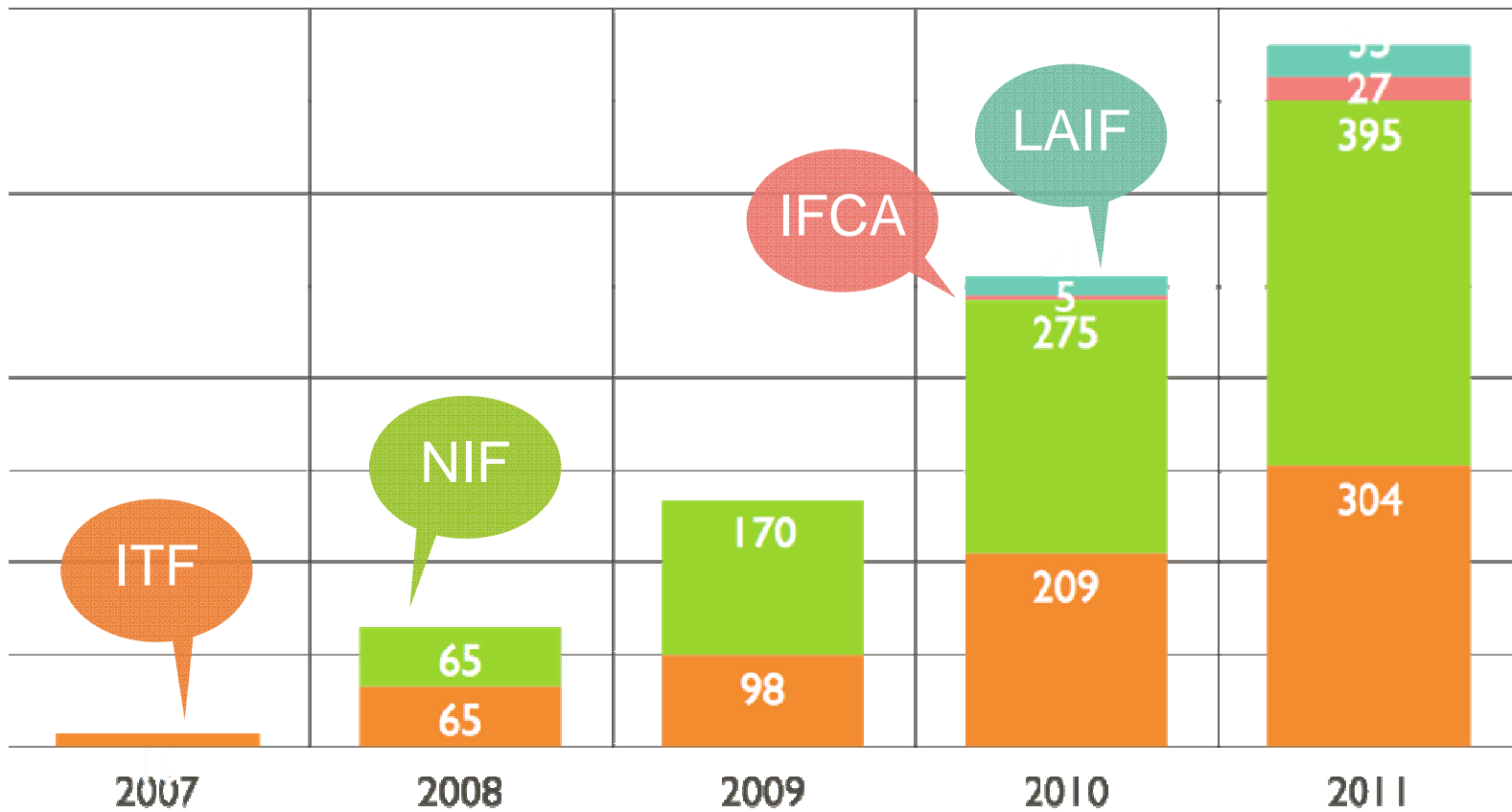
TOTAL PROJECT FINANCING



# Regional blending mechanisms

## Grant commitments

(since 2007 in ITF, NIF, LAIF & IFCA)

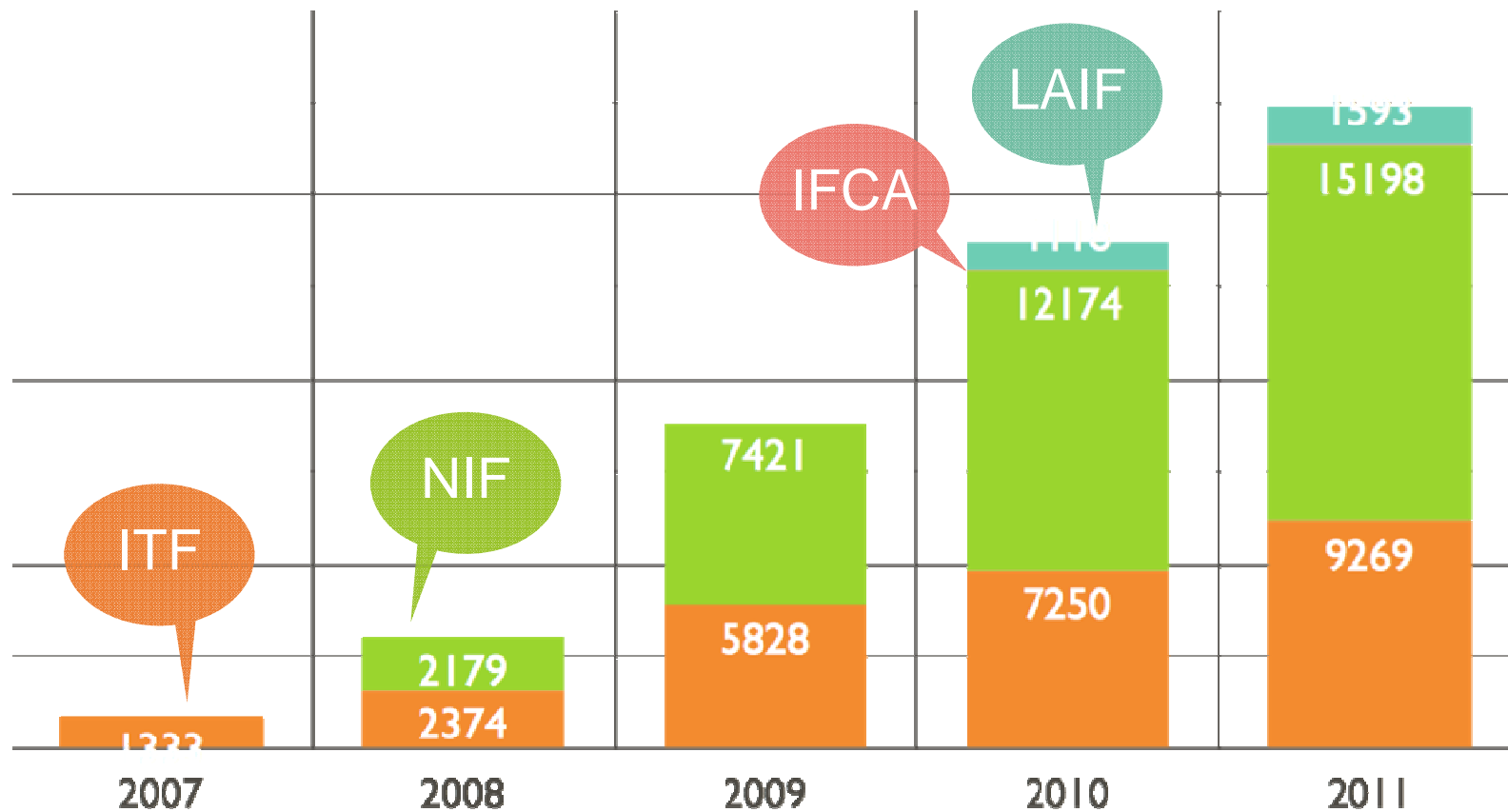


cumulated figures

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# Regional blending mechanisms

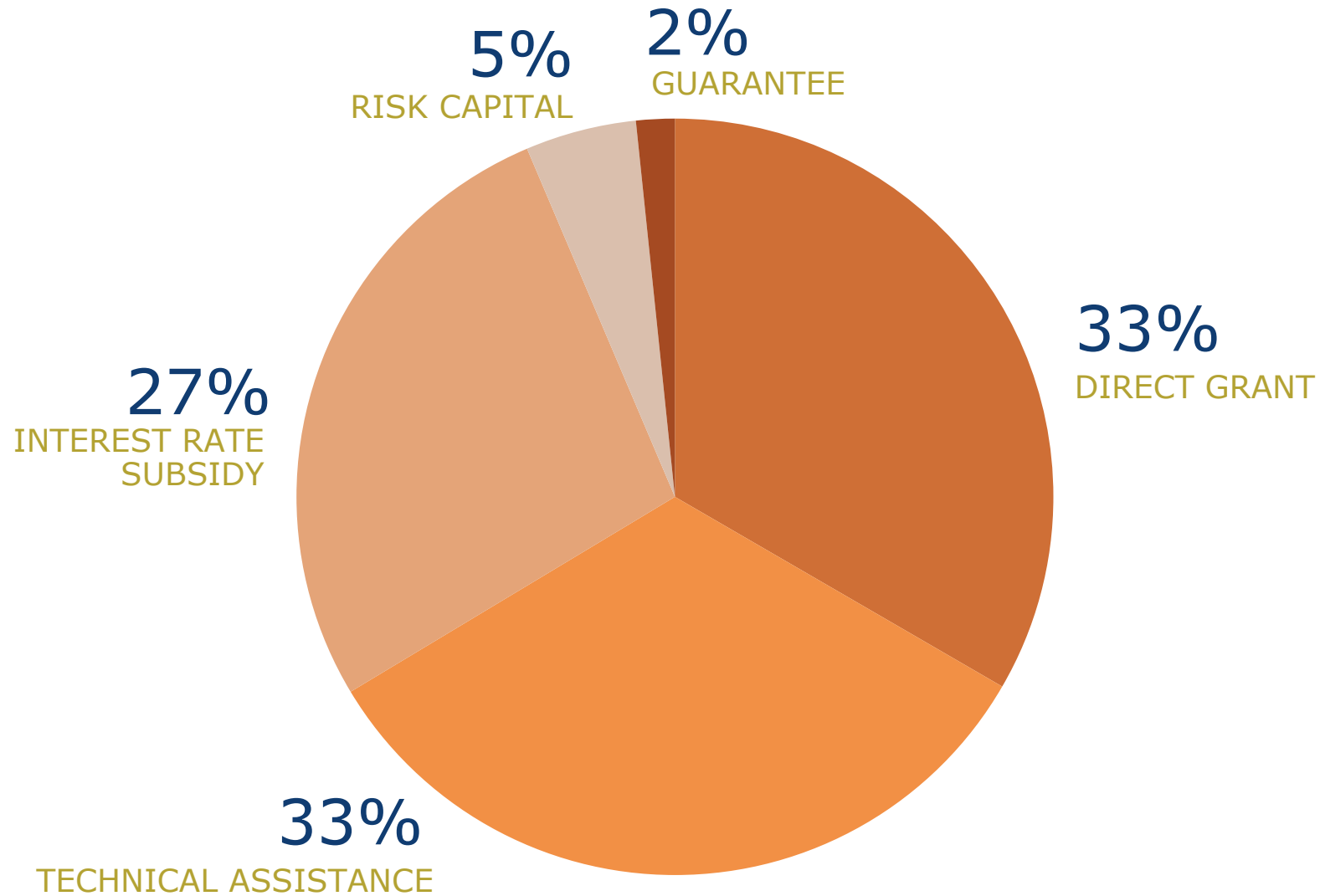
*Estimated total project financing  
(since 2007 in ITF, NIF, LAIF & IFCA)*



cumulated figures

# Regional blending mechanisms

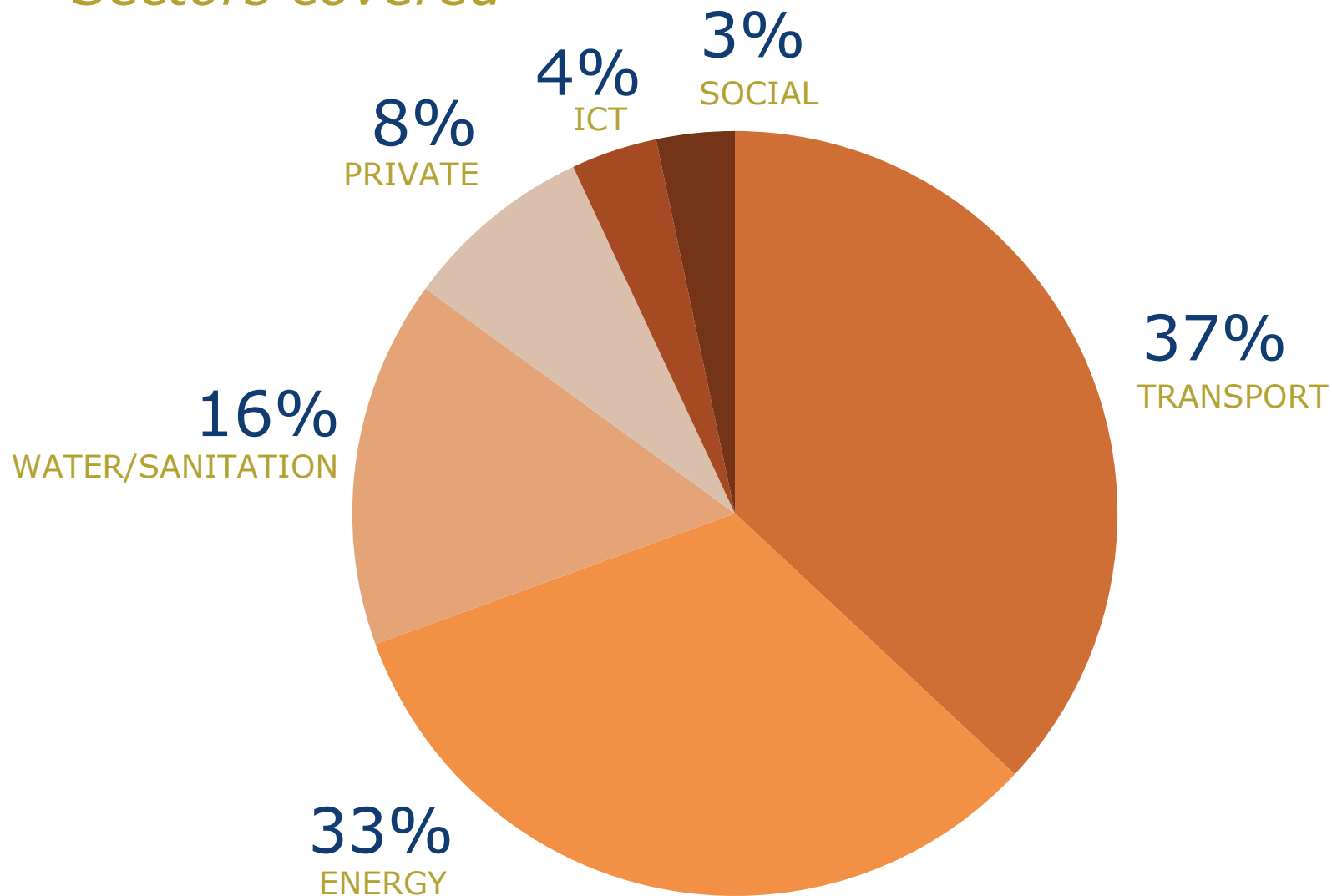
*Type of grant contribution*



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# Regional blending mechanisms

*Sectors covered*



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# Regional blending mechanisms

*Climate Change Projects (in ITF, NIF, LAIF & IFCA)\**

47

PROJECTS

280 million

GRANTS

>6 billion

LOANS

>10 billion

TOTAL PROJECT FINANCING

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\*Preliminary figures 13

# Climate Change Windows

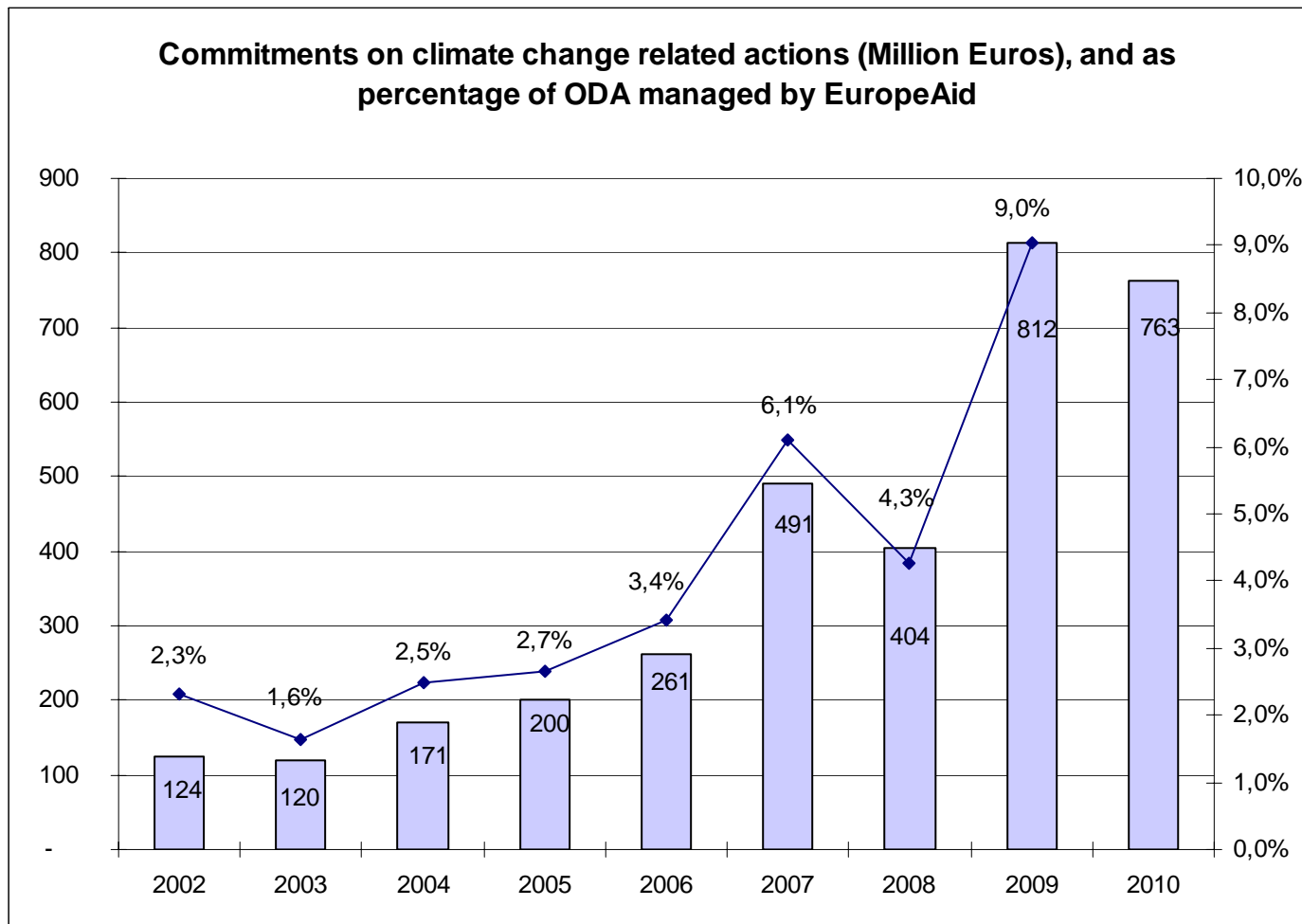
## *Further increasing Climate Change Finance*

- Announced by Commissioners Piebalgs, Hedegaard and Füle in November 2010
- Channelling **new, additional resources** via the regional blending mechanisms, to further increase efforts to combat climate change, involving both public and private actors
- **Transparent tracking** of all climate change related projects funded by the EU and European Finance Institutions through regional blending mechanisms
- Categorised by Rio Marker 0 (CC is not an objective), 1 (CC = significant objective) and 2 (principal obj)

# EU Climate Change Tracking

- **Fixed adjustment factor** for activities only partially relevant to climate change – **40% of the allocated budget if the Rio Marker is 1 and 100% if it is 2**
- The reduction factor provides a **more realistic** reflection of total financial support provided to CC related projects than DAC reporting (100% RM1)
- “**Climate proofing**” of and integration of CC in all aid cooperation projects in all sectors has become **standardised procedure**

# EU Climate Change Tracking





# EU Climate Change Tracking

## *In the EU regional blending mechanisms*

- **Need to report also on loan components**  
(stricter MRV rules in future)
- The **Rio Marker system is the basis** and same 40% principle is applied to RM 1 projects
- Methodologies indicating the expected impact on CO2 reduction are optional.
- Funds for the **CCW will target projects with principal objective** to contribute to mitigation and/or adaptation (Rio marker 2)

# Regional blending mechanisms

## *Project examples*

### **Hydro power plant extension in El Salvador(LAIF):**

- Matching growing electricity demand of the population
- Contributing significantly to climate and environmental protection

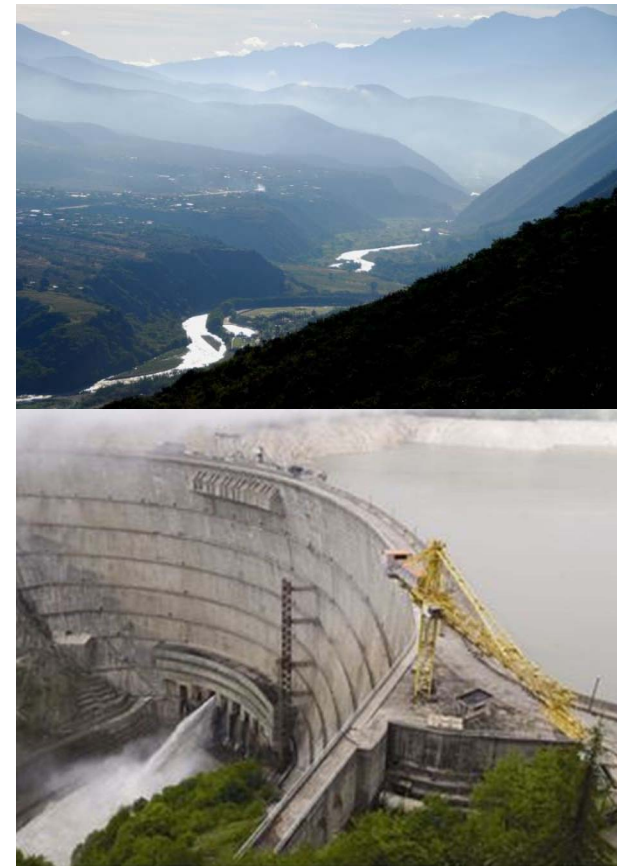


# Regional blending mechanisms

## *Project examples*

### **Hydro power plant extension in El Salvador(LAIF):**

- Total project volume: €132.4 M
- Loans from KfW (Lead Financier) and CABEI: €92 M
- Direct grant from LAIF: €6 M
- Contribution by the beneficiary: €34.4 M



# Regional blending mechanisms

## *Project examples*

### **Ouarzazate Solar Plant (NIF):**

- Expanding electricity production from renewable energy sources
- Avoiding generation of several thousand tons of CO<sup>2</sup>



# Regional blending mechanisms

## *Project examples*

### **Ouarzazate Solar Plant (NIF):**

- Total project volume: €807 M
- Direct grant from NIF: €30 M
- Loans from EIB (Lead Financier), AFD, KfW, AfDB, Clean Technology Fund: €750 M
- Contribution by the beneficiary: €27 M



# Regional blending mechanisms

## *Project examples*

### **Energy Efficiency Programme in the Corporate Sector (NIF):**

- Supporting private companies operating in the Eastern Neighbourhood to invest in Energy Efficiency measures
- NIF technical assistance is used to identify energy saving opportunities

# Regional blending mechanisms

## *Project examples*

### **Energy Efficiency Programme in the Corporate Sector (NIF):**

- Total project volume: € 302 M
- Loans from EBRD: €300 M
- NIF Technical Assistance: €2 M



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# Thanks for your attention!

*European Commission - EuropeAid  
Unit C3 'Financial Instruments'*

