



Blending

European Union aid to
catalyse investments



Investment needs in EU partner countries are substantial. 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 vehicle for 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 is the combination of EU grants with loans or equity from public and private financiers.

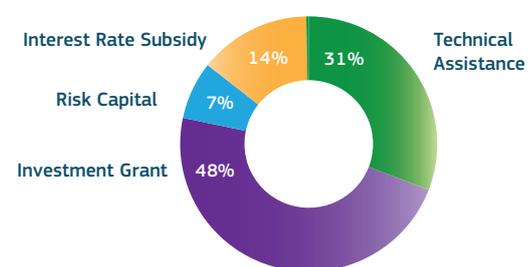
The idea behind the instrument is that the EU grant element can be used in a strategic way to attract additional financing for important investments in EU partner countries.



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



THE BENEFITS OF BLENDING

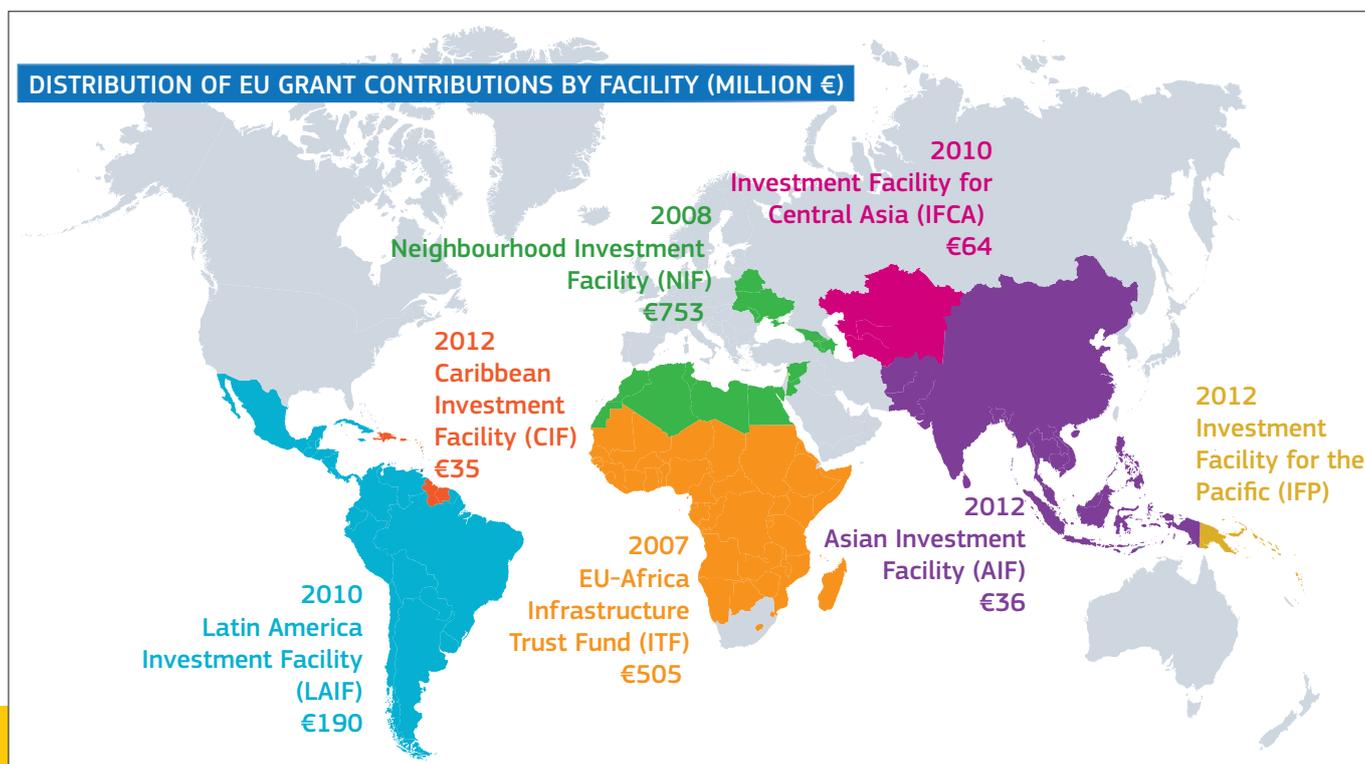
Using blending as a tool for EU external cooperation offers various benefits to different stakeholders:

- **Beneficiary governments:** a sustainable and affordable way to tap into significant additional financing for national development priorities
- **Final beneficiaries:** an increased access to public services, infrastructure and credit to boost socio-economic development
- **Financiers:** mitigation of the risks associated with investing in new markets and sectors
- **European Union:** leverage to enhance the impact of EU development assistance and improved aid effectiveness through greater donor, beneficiary and lender coordination

FINANCIAL INSTITUTIONS PARTICIPATING IN BLENDING

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

DISTRIBUTION OF EU GRANT CONTRIBUTIONS BY FACILITY (MILLION €)



REGIONAL BLENDING FACILITIES

They are spread across the 7 regions of EU external cooperation and were initiated between 2007 and 2012:

- EU-Africa Infrastructure Trust Fund (ITF)
- Neighbourhood Investment Facility (NIF)
- Latin America Investment Facility (LAIF)
- Investment Facility for Central Asia (IFCA)
- Caribbean Investment Facility (CIF)
- Asian Investment Facility (AIF)
- Investment Facility for the Pacific (IFP)

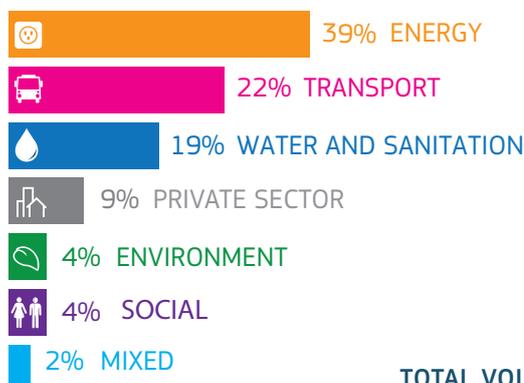
BLENDING OPERATIONS IN 2007-2013

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

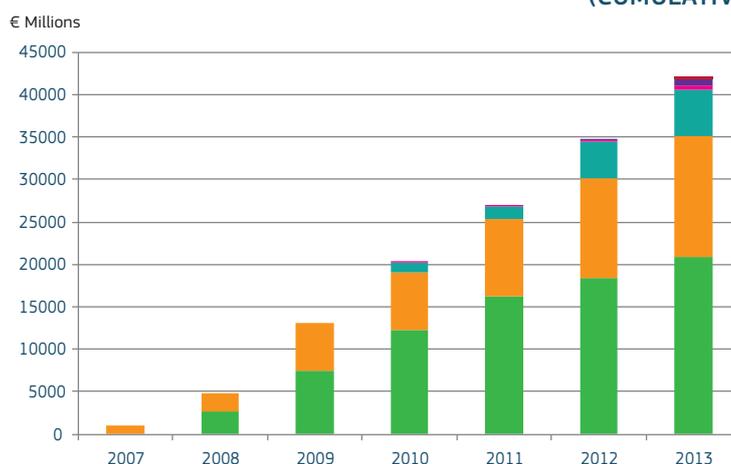
In the last seven years, €1.6 billion EU grants financed 200 blended projects. The EU grant contributions have leveraged approximately €16 billion of loans by European finance institutions and regional development banks. By strategically combining EU grants with public and private financing, blending helps unlock investments with an estimated volume of €40 billion in EU partner countries.

60% of the EU grants allocated to blending projects supported energy and transport infrastructure initiatives; 30% was invested in social infrastructure related to access to clean water, waste treatment, housing, health, urban development, as well as the environment; and 10% of the grant funds supported the local private sector, notably MSMEs, in strengthening local production capacity and fostering job creation.

APPROVAL OF GRANTS BY SECTOR



TOTAL VOLUME OF INVESTMENTS SUPPORTED THROUGH BLENDING (CUMULATIVE)



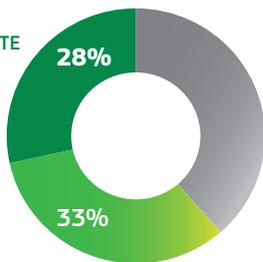
CLIMATE ACTION THROUGH BLENDING

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 the Climate Change Windows financed under 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.

PROJECTS WITH CLIMATE CHANGE AS THE MAIN OBJECTIVE >>

PROJECTS WITH CLIMATE CHANGE AS A SIGNIFICANT 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 this regard. In order to further exploit this potential, the 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. Here experts from the Commission, Member States, the European Parliament, the European External Action Service and participating finance institutions work together on further increasing the effectiveness of blending. In 2013, the technical groups of the Platform focused on undertaking a review of existing blending mechanisms, a review of the ex-ante technical and financial analysis of projects, defining indicators for measuring results, the further development of financial instruments, as well as the overall blending setup.

PROJECTS EXAMPLES

European Neighbourhood Fund (ENBF)

<http://www.efse.lu/>

Private Sector Development

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 Fund (ENBF), created as a specific sub-fund of the successful European Fund for Southeast Europe (EFSE), aims at improving access to finance throughout the region for such enterprises, thus providing stimulus to growth and employment in the private sector.

Indirectly, it also supports the development of domestic and regional capital markets. The NIF grant was sought to contribute to a first-loss tranche which is used to leverage additional mezzanine and senior tranches from Intermediary Finance Institutions (IFIs) and commercial banks. This is the first risk capital operation to have been financed under the NIF in the ENP Eastern countries.

Region: Neighbourhood East
Countries: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Georgia, Kosovo, Moldova, Montenegro, Romania, Serbia, Turkey, Ukraine
Start Date: 2009
Status: Ongoing
Financial instrument: Neighbourhood Investment Facility (NIF)
Lead financial institution: KfW
Co-financing institution: Oesterreichische Entwicklungsbank AG (OeEb)
Total project cost: Up to €70 million
NIF contribution: €10 million
Type of support: Risk capital



Enhanced access to electricity for Southern Africa – the Caprivi Interconnector

http://ec.europa.eu/europeaid/what/energy/sustainable/cs_caprivi_en.htm
Energy Sector

Region: Southern Africa
Country: Zambia, Namibia and South Africa
Start date : 2008
Status: Complete
Financial instrument: EU- Africa Infrastructure Trust Fund (ITF)
Lead financial institution: EIB
Co-financing institutions: KfW and AFD
Total project cost: €302m
ITF contribution: €15 million
Type of support: Interest Rate Subsidy

The Caprivi connection between Zambia and Namibia was officially inaugurated on 12th November, 2010. The project involved the construction of a 300 MW high-voltage direct current (HVDC) transmission connection with a total length of 950 km. Interconnecting the northern and western parts of the SAPP network, the line starts from Katima Mulilo in the north-eastern tip of Namibia, continues along the Caprivi Strip, a narrow 400 km long section of Namibia in the north-east of the country between Zambia and Botswana, and ends in Gerus, in central Namibia.



Photo ©ABB Group

This new link brings numerous benefits to the region:

- Reinforcing the electricity transmission interconnection in the region.
- Providing a reliable route for electricity exports and imports, and supports a competitive regional power market.
- Improving the security of the power supply.
- Optimising the use of energy resources protecting the environment.

Cairo Metro Line 3 Phase 3 *Transport Sector*

Cairo, Africa's biggest metropolitan area, accounted for 18 million inhabitants in 2008 and is expected to reach a projected 27 million in 2027. The city is, however, facing tremendous urban transport issues with a highly congested road network and insufficiently integrated public transport solutions. This situation has implications for tourism, pollution, cultural conservation, and fatalities.

The project aims to extend line 3 of the Cairo Metro by 17.7 km to the west, complementing the existing network in operation. This is a key component of the Greater Cairo Transport Master Plan as it will unlock two densely populated districts (Imbaba and Boulak El Dakrou), benefiting the socially disadvantaged population and providing safe and reliable access to the city centre and the central business districts. Ultimately, with phase 4, this line will offer a direct access to Cairo International Airport cutting travel time reducing congestion, greenhouse gas emissions, and noise pollution.

Region: Neighborhood South
Country: Egypt
Start date: March 2012
Status: Ongoing
Financial instrument: Neighbourhood Investment Facility (NIF)
Lead financial institution: AFD
Co-financing institution: EIB
Total project cost: €2075 million
NIF contribution: €40 million
Type of support: TA/Grant



Phase 1 – Integrated Sector Programme for Human Water and Sanitation (LIFE Programme)

Water and Sanitation Sector

Region: Latin America
Country: Nicaragua
Start date : 2012
Status: Ongoing
Financial instrument: Latin America Investment Facility (LAIF)
Lead financial institution: AECID
Co-financing institutions: EIB and CABEI
Total project cost: €252.3 million
LAIF contribution: €50 million
Type of support: Investment Grant and TA

The Nicaraguan Company for Aqueducts and Sewers (ENACAL) is responsible for service provision in urban areas in Nicaragua. In 2011, ENACAL was required to administrate the drinking water system for 2.8 million people directly through 541,825 domestic connections. However, only 52% of the water pipelines were in good condition.

This project aims to improve access to clean drinking water and sanitation in 19 cities in Nicaragua, which have a combined population of approximately 520,000 inhabitants, as well as prepare the conditions for investment for a second phase in 17 cities. In 15 cities, the aim is to increase the coverage of drinking water from 72% to around 96% and in 13 cities the aim is to improve sanitation services.



Kyrgyzstan Sustainable Energy Efficiency Financing Facility (KyrSEFF)

<http://www.kyrseff.kg/kg/>

Energy Sector

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 pass them on to private sector borrowers; helping financial intermediaries' to improve their capacity to appraise and finance energy efficiency and renewable energy projects. In addition, this supports local engineers to improve their technical expertise.



Region: Central Asia
Country: Kyrgyz Republic
Start date : 2012
Status: Ongoing
Financial instrument: Investment Facility for Central Asia (IFCA)
Lead financial institution: EBRD
Total project cost: € 20.8 million EUR
IFCA contribution: € 6.8 million EUR
Type of support: Investment Grant and TA Assistance

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For further information visit the websites of the Regional Blending Facilities:

- LAIF http://ec.europa.eu/europeaid/where/latin-america/regional-cooperation/laif/index_en.htm
- CIF http://ec.europa.eu/europeaid/where/acp/regional-multi-country-cooperation/index_en.htm
- ITF <http://www.eu-africa-infrastructure-tf.net/>
- NIF http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/irc/investment_en.htm
- IFCA http://ec.europa.eu/europeaid/where/asia/regional-cooperation-central-asia/index_en.htm
- AIF http://ec.europa.eu/europeaid/where/asia/regional-cooperation/index_en.htm
- IFP http://ec.europa.eu/europeaid/where/acp/regional-multi-country-cooperation/index_en.htm