EU Regional Investment Facilities: The Blending Mechanism in Africa

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EU regional blending facilities

Using EU grants strategically

Blending is a new aid modality used by the European Commission to deliver grants to its partner countries

With MS, the European Commission has set up 7 EU regional blending facilities covering all countries in the EU's area of external cooperation

Combine grants from the EU Budget, EDF and MS contributions with additional non-grant resources

By involving a large number of public finance institutions, blending improves coordination between European and Non-European aid actors (donors and finance institutions).

EU regional blending facilities

Using EU grants strategically

At the project level, grant and non-grant resources are blended to create the right financing-mix for that specific project

Grant can address market inefficiencies and can make projects with high economic and social return but low financial return possible.

Grants can bridge financing gaps, increase the sustainability of a project, share risks with investors, etc.

Some examples:

Equity funds with donors taking the first losses can attract private investors and set a precedent in the market (e.g. AEGF)

A grant contribution can help to reach financial closing of PPPs in the infrastructure sector

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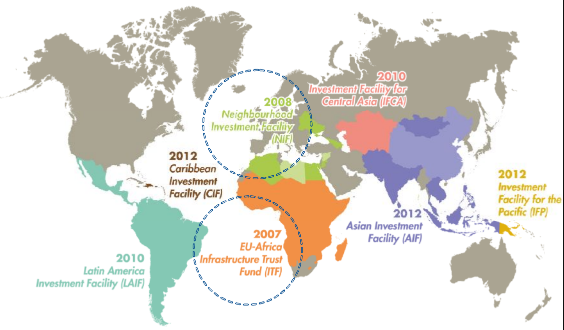
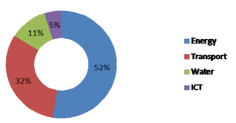


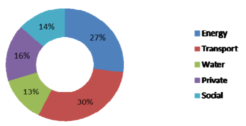
Sectors covered

Figures from the EU-AITF and NIF (south)

ITF grants per sector, 2007-2012



NIF grants per sector, 2008-2012



Support to infrastructure investments

Mainly public so far

Since 2007, in the ITF and NIF (south) €620 million of EU grant contributions went to Infrastructure projects.

These were mainly public investments, i.e. "non-commercially viable" projects. The EU grant can address several shortcomings in the overall financing package.

Investment grants can bridge a financing gap, technical assistance can make the project more sustainable and interest rate subsidies can reduce the debt burden on the beneficiary.

The additional non-grant financing can come from different sources, but mainly European and regional public finance institutions.

Unlocking private investment

With the facilities the needed tools are in place

The regulatory framework of the blending facilities allows using grants as innovative financial tools such as risk capital and investment guarantees.

By sharing the risk or bridging the gap between economic and financial rate of return, the EU grant can make infrastructure PPPs possible.

Example: NIF supports an important part of a Moroccan solar power plant that could become largest solar plant in North Africa. For next phase grant support in the form of a guarantee is under discussion

Approval process

How projects get to the facilities

Projects can only be submitted by eligible finance institutions.

For the EU-AITF and NIF these are EIB, EBRD, AfDB, AFD, KfW, etc..

The best access the point is the local representation of the finance institution.

The EU delegation can help to establish the contacts to the relevant financiers and public authorities.

Blending is an EU aid modality

It must adhere to the same principles as other aid modalities

EU development objectives are always paramount. Blending is not an export promotion tool.

In order to become eligible under the EU regional blending facilities, finance institutions must pass an ex-ante assessment that – among other things – requires them to meet international standards of competitive bidding.

Tied-aid is not possible, to avoid reputational damage.

The EC financial regulation does not allow any contingent liabilities. Therefore, unfunded guarantees are not possible.

Thank you.

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Project examples for EU Blending

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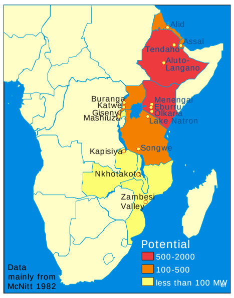
Geothermal Risk Mitigation Facility (EU-AITF)

Direct grant



Large geothermal potential, but largely unexploited, primarily due to the high costs and risks of proving the resource.

website: http://www.grmf-eastafrica.org/

website: http://www.eu-africa-infrastructure-tf.net/

Geothermal Risk Mitigation Facility (EU-AITF)

Direct grant

Attract public and private geothermal field developers in the East African Rift by reducing the exploration risk

- Limited grants for project preparatory studies (project pipeline development)
- Drilling risk guarantee fund
- Continuation premium

Total investment potential : approx. €1bln
Grant contributions:

EU-AITF via KfW	€30 million
German Ministry BMZ	€20 million

Other stakeholders: AUC, EUC, BMZ, Governments of Ethiopia, Kenya, Rwanda, Tanzania, Uganda

website: http://www.grmf-eastafrica.org/
website: http://www.eu-africa-infrastructure-tf.net/

Ouarzazate solar power plant (NIF)

Direct investment grant

Solar power plant with initial capacity of 125-160 MW in Morocco. Reduces dependence on energy imports and avoids the generation of at least 250,000 tons of CO_2.

website: http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/irc/investment_en.htm

Ouarzazate solar power plant (NIF)

Direct investment grant

Part of the **Moroccan Solar Plan**. If fully developed (2GW target capacity), the largest solar power plant in North Africa.

Project promoter is the Moroccan Agency for Solar Energy (MASEN).

Independent power producer (IPP) to implement the project is determined by MASEN through competitive bidding.

The NIF direct investment grant to **bring down the cost of electricity** during the initial stage of the project.

Total project volume: approx. €807 million
Grant contribution: €30 million
Involved EFIs: EIB, AFD, KfW

website: http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/irc/investment_en.htm

EFSE Fund for SMEs (NIF)

Neighbourhood Investment Facility (NIF)

Pools public and private investments to provide access to finance for SMEs in the Eastern Neighbourhood (special window within EFSE) via the local financial market.

EFSE Fund for SMEs (NIF)

Neighbourhood Investment Facility (NIF)

NIF and WBIF grant element used as a **first-loss tranche**.

The first-loss (or junior) tranche takes first losses incurred by the fund (e.g. loan defaults by SMEs).

Reduces risk for other investors and allows them to invest in the mezzanine (public finance institutions) or senior tranche (commercial investors).

Fresh **impetus to the local financial market** and improved access to long-term debt financing for SMEs.

Total project volume: €70 million
Grant contribution: €10 million
Involved EFIs: KfW, OeEB

Lake Victoria WATSAN Initiative

Interest rate subsidy

Regional initiative aiming at reversing the environmental deterioration of Lake Victoria and improve living conditions in the lake basin.

Lake Victoria WATSAN Initiative

Interest rate subsidy

Three projects are supported by the ITF in the context of the LVWATSAN initiative in Uganda, Kenya and Tanzania.

In Uganda, the project aims at increased coverage, reliability and access of water supply services for the population of metropolitan Kampala.

IRS needed to meet objectives set by the Ugandan debt strategy and concessionality requirements in the context of IMF programme.

<u>Total project volume</u>: €212 m
<u>Grant contribution</u>: €14 m IRS / €8 m TA
<u>Involved EFIs</u>: KfW, AFD, EIB

Project lifecycle under blending