European Commission

Blending Facilities

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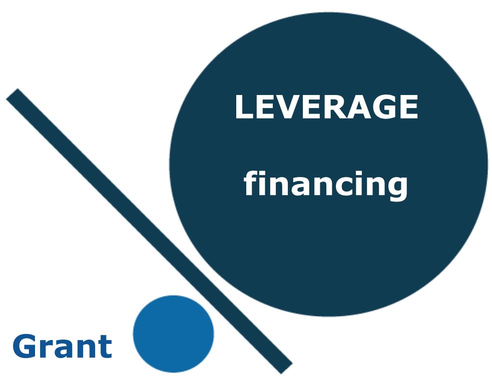
International Cooperation and Development

Blending is defined as …..

THE STRATEGIC USE OF A LIMITED AMOUNT OF EU FINANCIAL SUPPORT TO MOBILISE FINANCING FROM PARTNER FIs AND OTHER SOURCES (INCL. PRIVATE SECTOR) TO ENHANCE THE DEVELOPMENT IMPACT OF INVESTMENT PROJECTS



Blending is useful when.....

- Projects have issues:
  - Affordability problems
  - Poor financial performance
  - Perceived risk/market failure
  - Pricing issues
  - Multi-component
  - Capital intensity
  - New technology
  - Pioneering new approach
  - Issues beyond sponsor
  - Public goods

And/or

- Countries are:
  - Too 'rich' for all-grant (LMICs, MICs)
  - Too poor for all-commercial loan (DSF concessionality & limits)

And/or

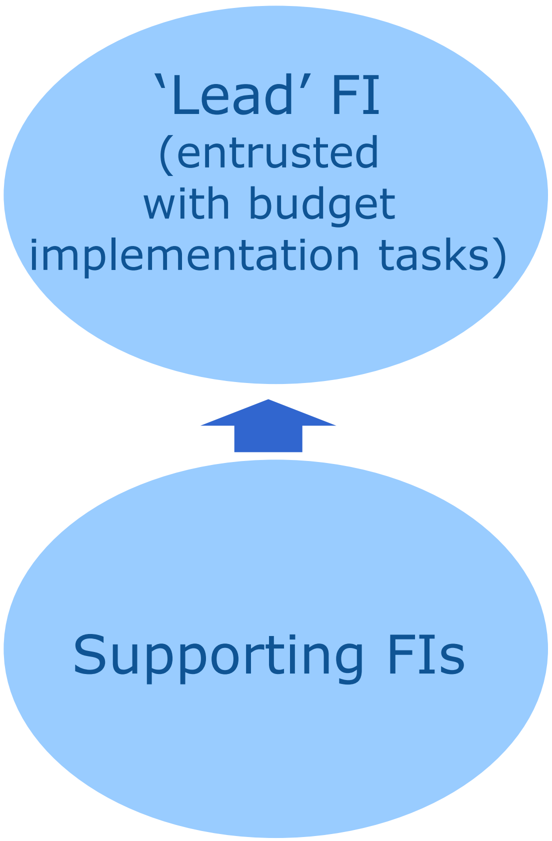
- Actors:
  - Financiers have constraints and specific policy objectives
  - Beneficiaries 'shop' for best deal

3 Main 'types' of partners always a *LEAD* FI

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

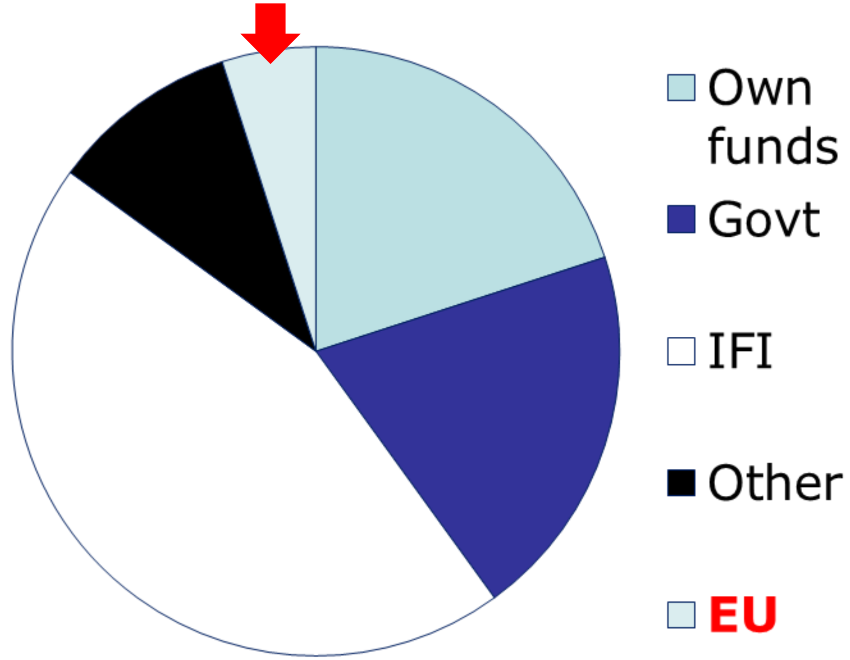
b) European **National** development finance institutions from Member States (e.g. AFD, KfW, AECID, CDP, FMO...)

c) **Regional** and other multilateral banks: can act as lead (e.g. AfDB in AfIF; IaDB, CDB in CIF), as co-financiers in others.



The EU support is part of a financing package

Project financing mix
Equity/Own funds (beneficiary)
Government Financing
Finance institutions (IFIs) Loans ++
Other (Grant donors and/or Private)
EU Financial Support



Average EU grant size €5-10 million

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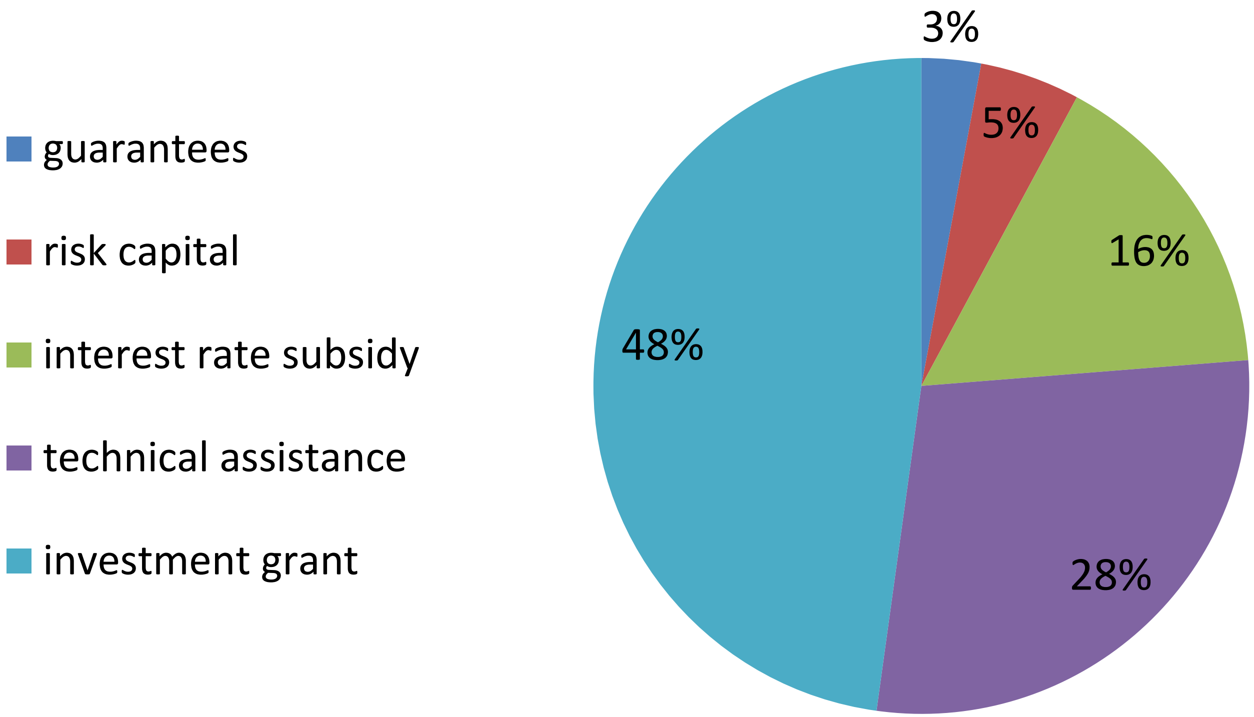
So far, blending takes one of 5 forms

BLENDING GRANT TYPE	...WHICH CAN ELIMINATE A KEY PROBLEM
Direct Investment Grant	Reduce cost to end users or beneficiary country by partly financing the total investment cost
Interest Rate Subsidy Grant	Reduce cost to end users or beneficiary country by reducing interest cost and/or avoiding IMF debt-ceilings (not a favoured tool for EU)
Technical Assistance Grant	To boost management, speed, project design, feasibility/preparation and quality i.e. address risks
Risk Capital	To address perceived high risk by providing funding which absorbs some of this risk and thereby lowers investors' risk perception (often with the objective of mobilising private capital)
Guarantee	To address perceived high risk by partly guaranteeing certain types of investments (often with the objective of mobilising private capital)

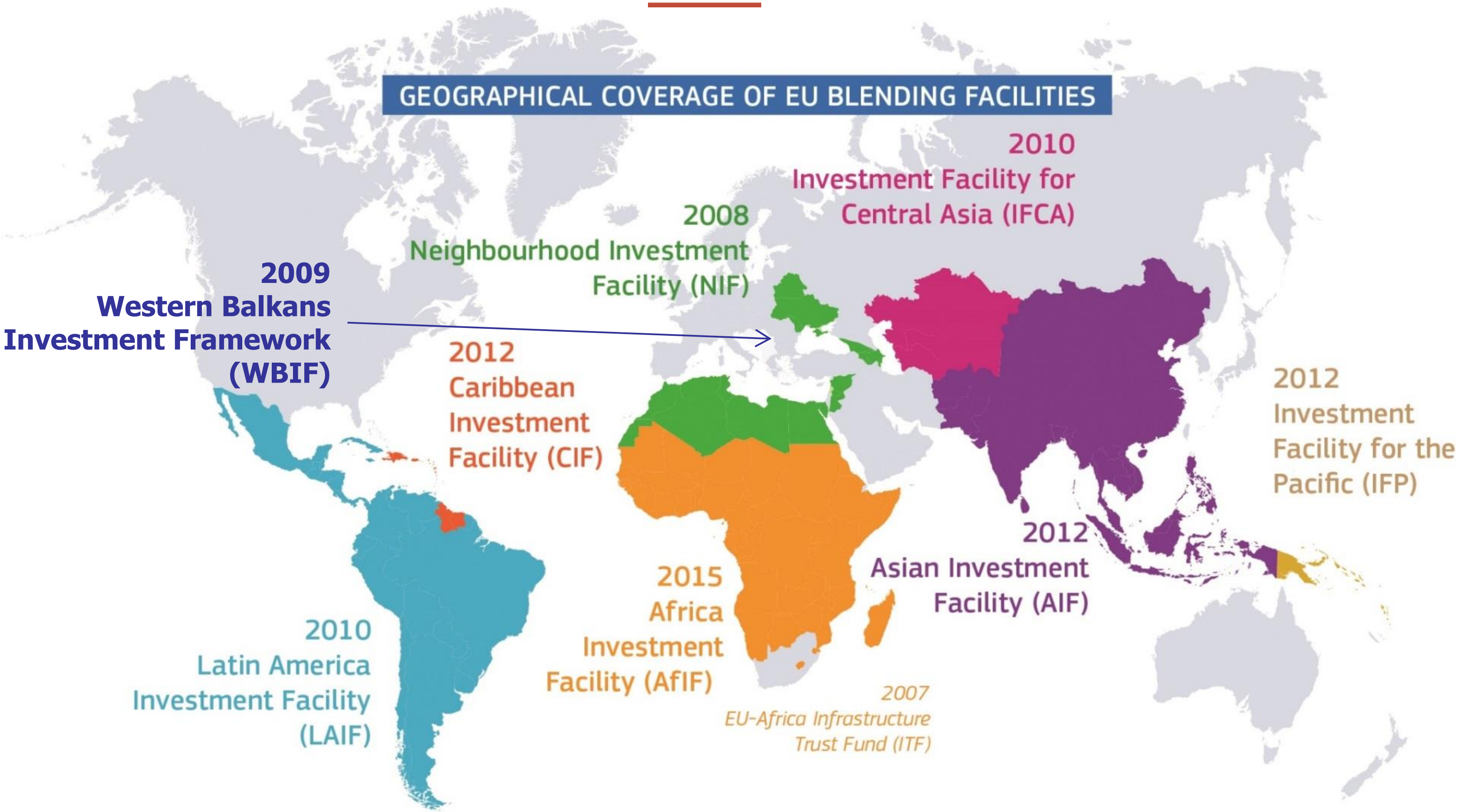
Global Blending Instruments



2 of these are still small

How blending amounts are calculated

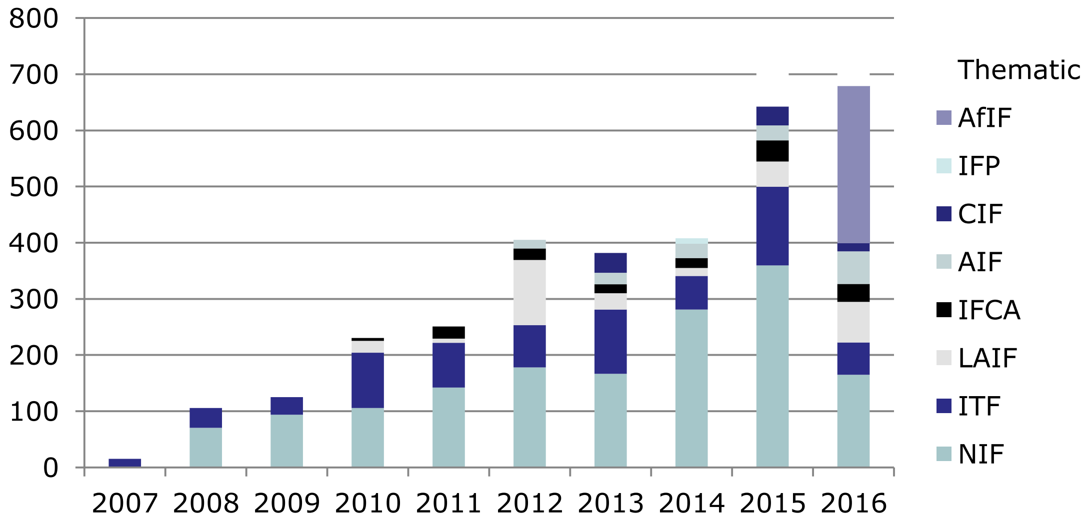
BLENDING GRANT TYPE	Basis of calculation
Direct Investment Grant	Should be linked to a quantified target e.g. reducing a tariff by 5% or 10% etc. It could also be used to finance additional project components/ attain higher quality standards etc.
Interest Rate Subsidy Grant	Whenever the interest rate charged for a loan is lower than the market rate, the difference reflects the concessional or subsidy element. This is often required where debt sustainability analyses point to limits in the Government's capacity to absorb additional public or publicly guaranteed debt.
Technical Assistance Grant	Bottom-up estimate of what grant support is needed to improve the design, quality, timing, sustainability, innovation, impact and/or scale of a project.
Risk Capital	Calculation based on financial ratios e.g. desired debt/equity ratio and/ or risk protection required by typically private investors (could be high e.g. 30-40%).
Guarantee	Guarantees often have a maximum amount (‘cap’), an absolute figure, to limit the cover and potential costs for the EU, which is based, inter alia, on the expected loss percentages, as calculated by the financial institutions.



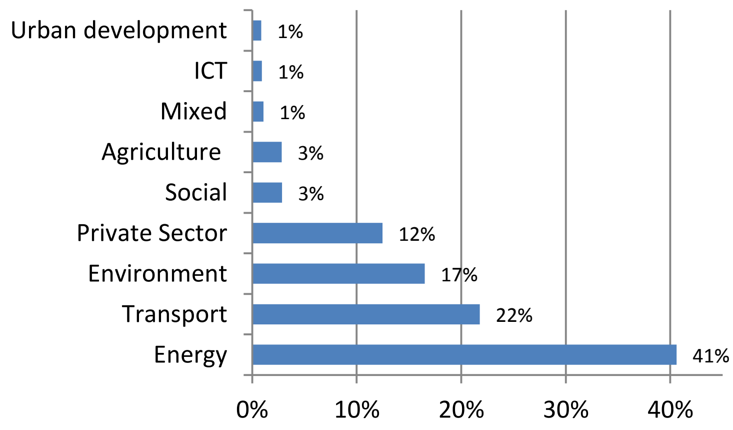
DG DEVCO:6 facilities (AfIF/ITF, LAIF, CIF, IFCA, AIF, IFP)
DG NEAR: 2 facilities (NIF & WBIF)

2007-2016 Blending Operations

Annual grant approvals (in € million)



Grant approvals by sector (in %)



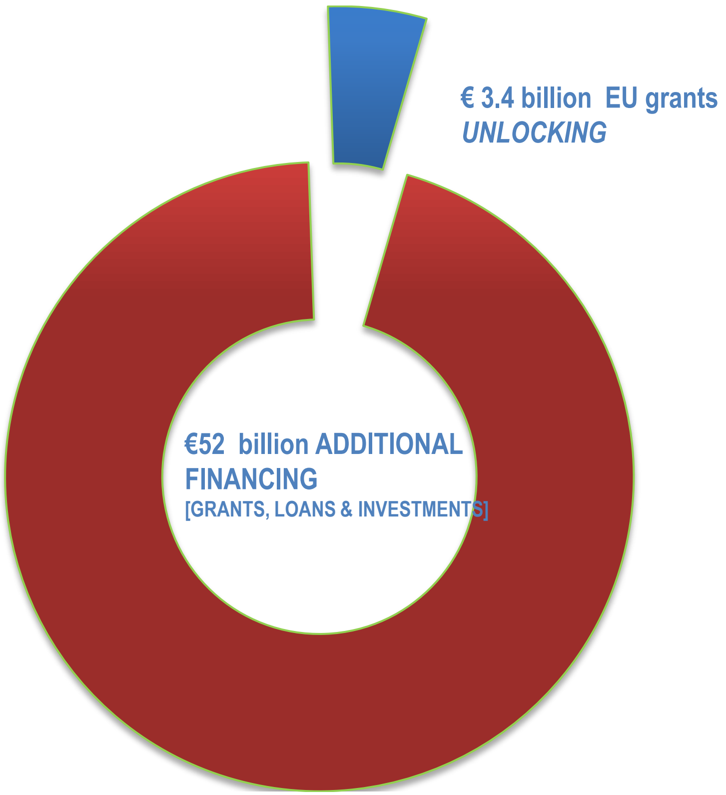
All facilities grant approvals to 380 operations
€ 3.4 billion
Average: € 9 million per operation

EFIs financing to approved projects [1] *
€ 26.2 billion
Leverage: 7.7/1

Total investment amount
€ 57.3 billion
Leverage: 16.8/1

[1] *Regional Banks (AfDB, IADB, CDB, ADB ,...) and WB/IFC are NOT included.*

Average leverage is c. 17x



At least €24 billion are provided by eligible public finance institutions

Indicative allocations 2014-2020

	LAIF	AIF	IFCA	NIF
Indicative 2014-2020 allocation	€ 320 million	€ 320 million	€ 140 million	€ 2.1 billion

	AfIF	CIF	IFP	WBIF
Indicative (RIP) 2014-2020 allocation	c. € 1 billion	€ 135 million	€ 20 million	€ 1,0 billion (plus €100 m for TA)

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Thematic Investment Facilities

- **So far, two thematic initiatives aiming at de-risking investments:**
  - **ElectriFI:** The Electrification Financing Initiative (ElectriFI) is an innovative enabling facility to unlock, accelerate and leverage private sector investment to increase or improve access to affordable, reliable, sustainable and modern energy in developing countries.
  - Focus on connection in rural underserved areas via renewable energy.
  - ElectriFI can provide funding and support to developers/investors across a range of business models.
  - Example: EDFI ElectriFI (http://electrifi.org)

Thematic Investment Facilities

- **AgriFI:** AgriFI is an initiative that aims at increasing investment in smallholder agriculture and agribusiness MSMEs in order to achieve inclusive and sustainable agricultural growth

- Focus on mobilising public and private investment to promote agricultural value chains via risk capital and guarantees (de-risking the investment)

- AgriFI responds to the lack of financing mechanisms adapted to farmers and agri-entrepreneurs, particularly for smallholders and agribusiness MSMEs.

- AgriFI will be backed-up by technical capacity to support business development and advisory services for farmers and agri-entrepreneurs.

There are other blending mechanisms

Additional Blending Mechanisms

1. **GEEREF:** The Global Energy Efficiency and Renewable Energy Fund

2. **EU EDFI** Private Sector Development Facility (only Africa)