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Energy financing in the EU blending mechanisms

Torsten Ewerbeck
EuropeAid, Unit C3 'Financial Instruments'



Why blending?

- The world is facing **massive developmental challenges** (e.g. Climate Change, Arab Spring etc.)

HOWEVER

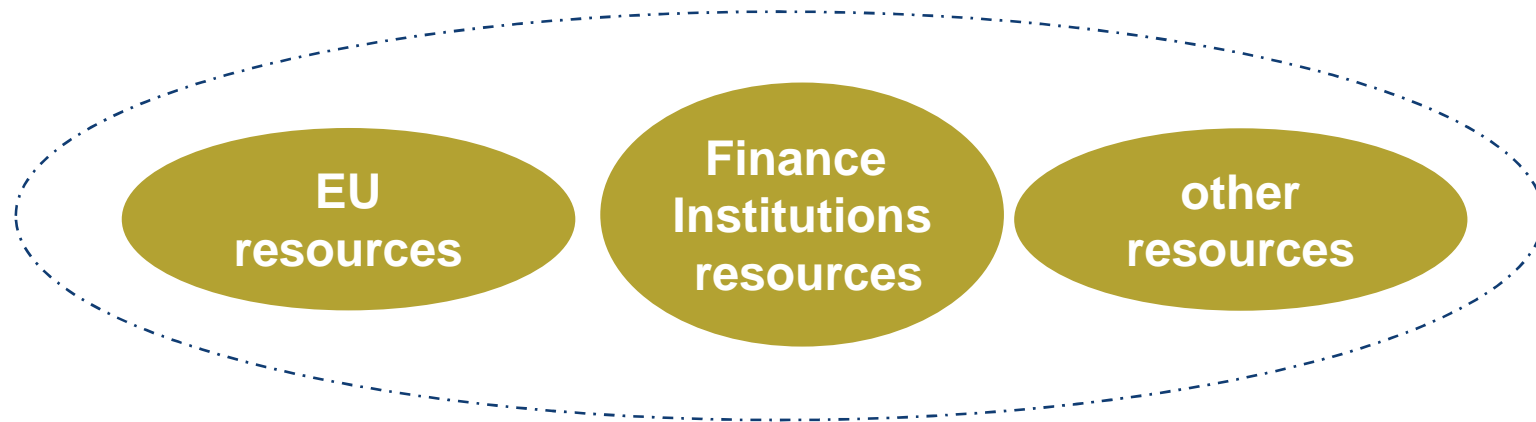
- EU member states' **public funds are heavily constrained** (due to financial & economic crisis)



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

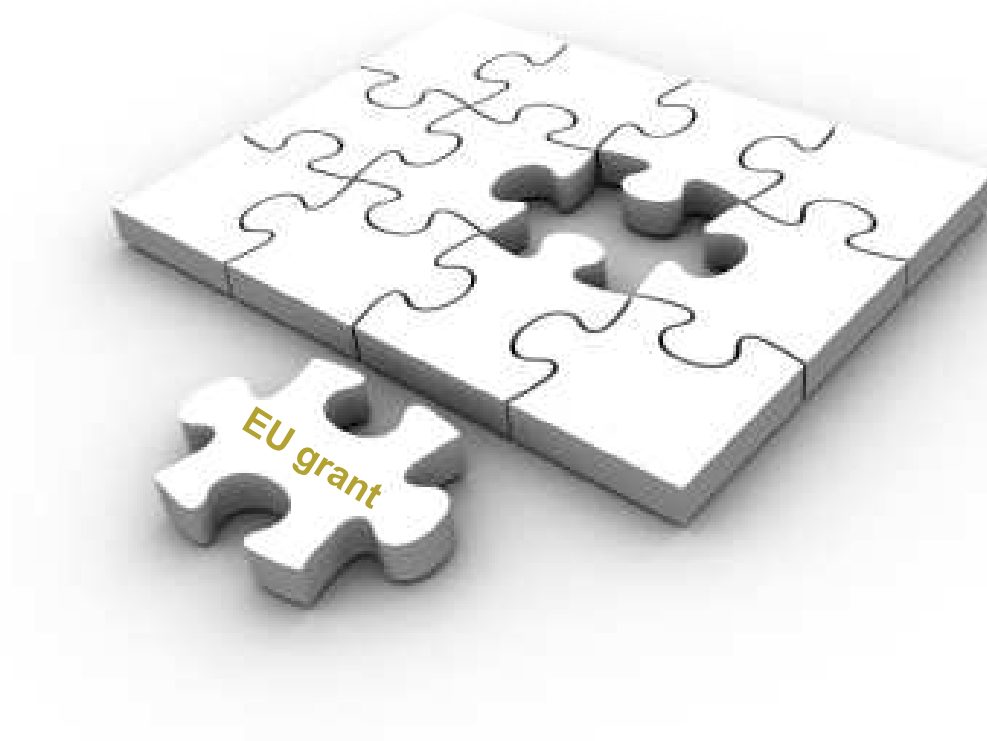
What does blending do?

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



What does blending do?

- 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).

Type of grant contributions

- Direct grants
- Interest rate subsidies
- Technical assistance
- Risk capital operations
- Guarantees and insurance premia

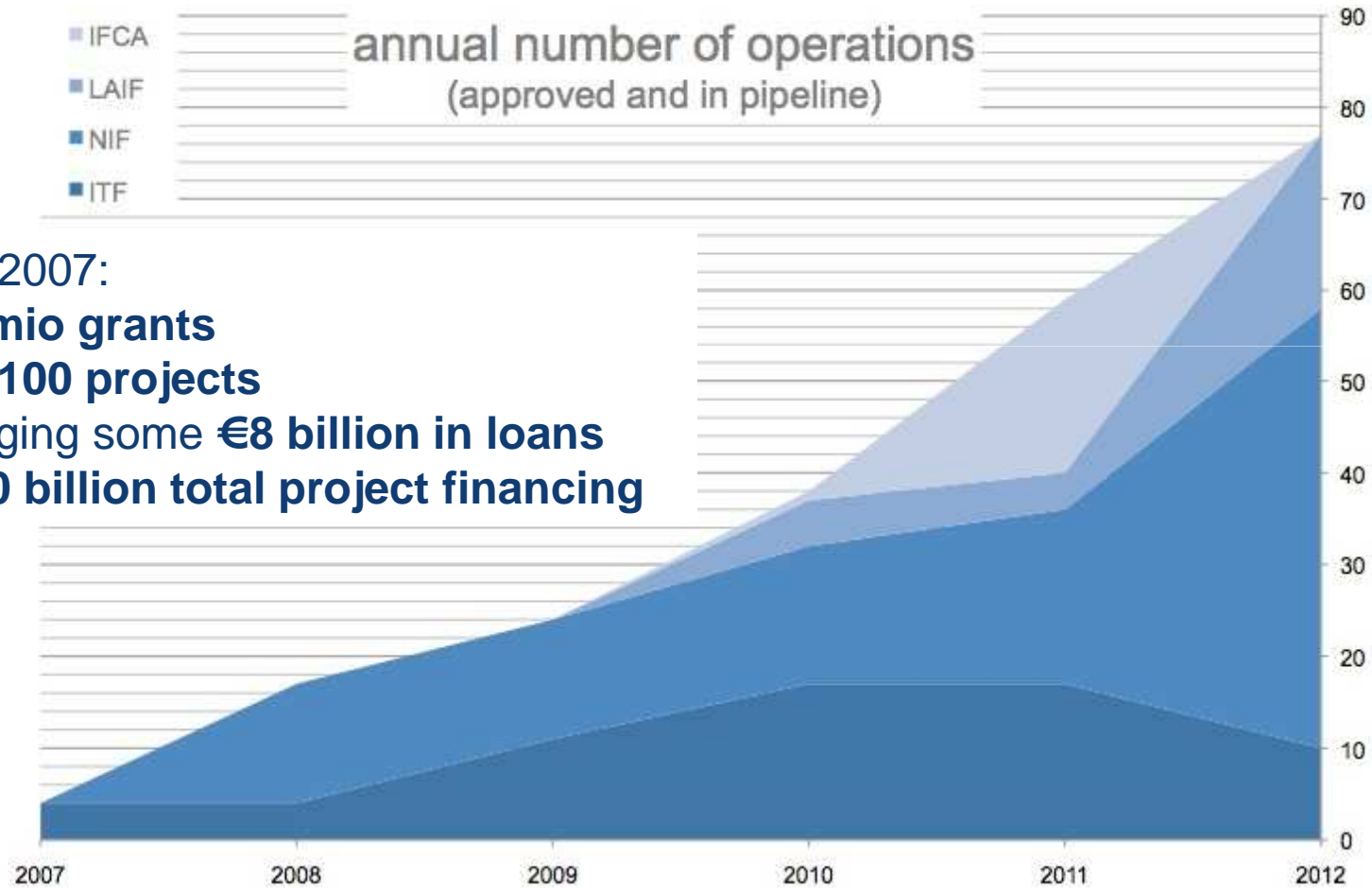
Regional blending mechanisms

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

Some figures



Since 2007:

€570 mio grants

about **100 projects**

leveraging some **€8 billion in loans**

→ **€20 billion total project financing**

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Regional blending mechanisms

Sectors covered

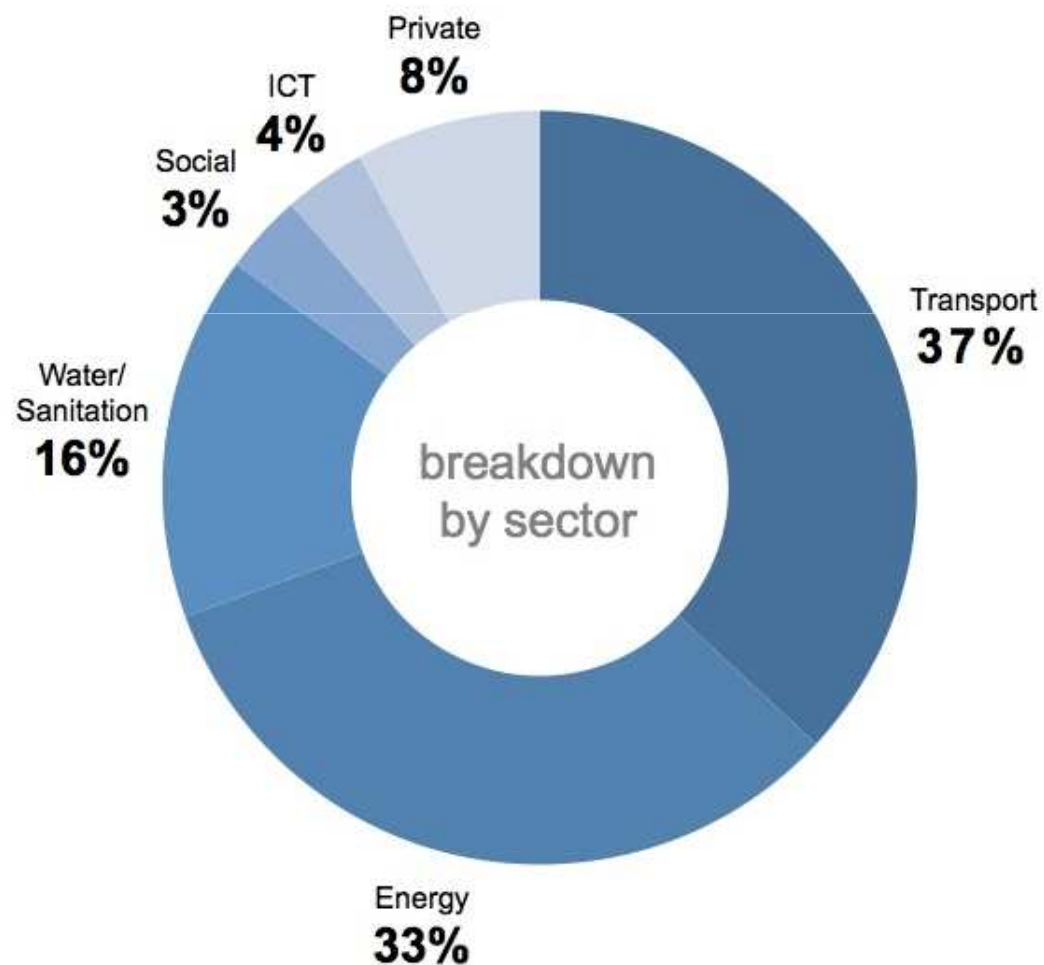
- Transport
 - **Energy**
 - Environment
 - Social
 - ICT
-
- Private sector
 - Climate Change



Infrastructure

Regional blending mechanisms

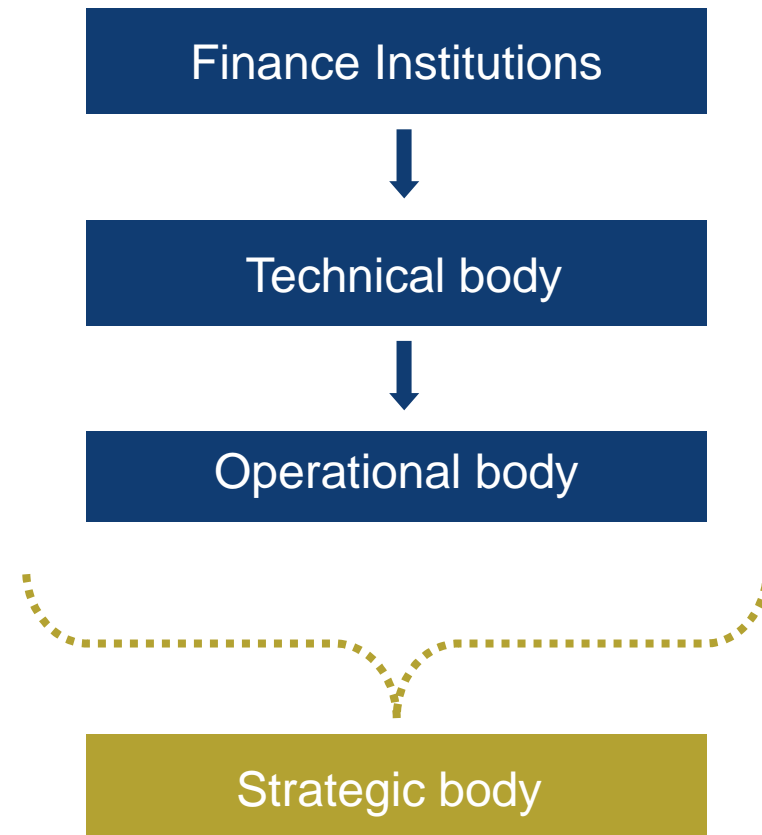
Breakdown by sector



Regional blending mechanisms

Project approval process

- Projects are presented by a Lead Finance Institution...
- ... to the technical body where they are technically discussed
- Submitted for approval to Operational body
- **The strategic body** oversees the activities and provides guidance



Regional blending mechanisms

Eligible Finance Institutions

Eligible Finance Institutions can submit project proposals as **Lead Financier** whereas **Observers** may act as **Co-Financier**.



Multilateral European Finance Institutions



European public **national** development finance institutions from Member States



Regional banks are **full members** in some regional facilities and **observers** in others.

Example from LAIF

Hydro power plant extension in El Salvador

- Objectives: To match the continuously growing electricity demand of the population and at the same time contributing significantly to climate and environmental protection.
- Total cost: €132.4 M
- LAIF grant: €6 M (direct grant)
- Co-financing Institutions: KfW, CABEI
- Contribution from beneficiary: €34.4 M (Comisión Ejecutiva Hidroeléctrica del Río Lempa)

Example from NIF

200 MW Wind Farm in Egypt

- The project is part of a national programme supporting the governmental objective of expanding electricity production from renewable energy sources. The construction of this wind farm will contribute to this goal by producing environmentally sound energy.
- Total Cost: € 340 million
- NIF grant: € 10 million (direct grant)
- Co-financing Institutions: KfW, EIB, EC
- Contribution from beneficiary: €68.5 M (Arab Republic of Egypt)

Example from NIF

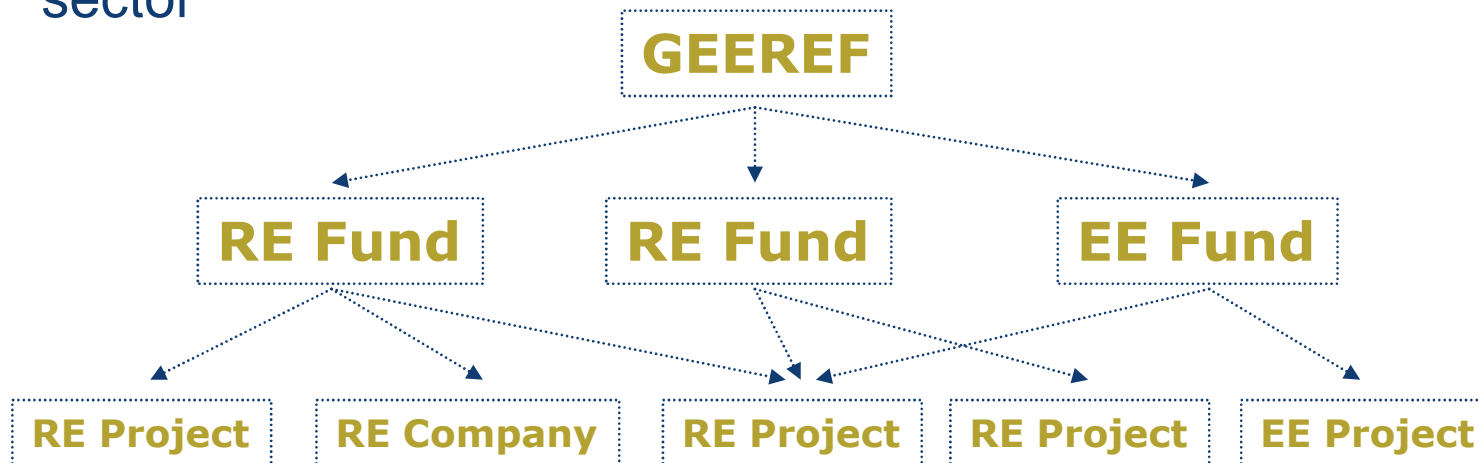
Black Sea Energy Transmission System

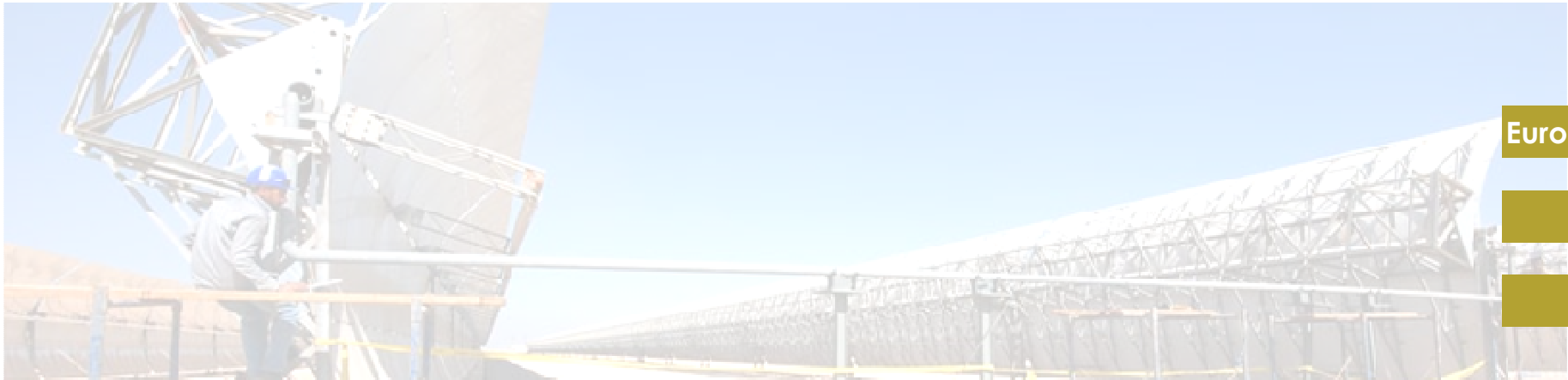
- The project allows the link between the power supply systems of the Southern Caucasus countries with Turkey and Europe. It will stabilise the domestic power supply systems, reduce transmission losses and make the region independent from single supply sources.
- Total Cost: € 270 million
- NIF contribution: €8 million (direct grant + TA)
- Co-financing Institutions: EIB, EBRD, KfW
- Contribution from beneficiary: €12 M (Government of Georgia)

Other blending mechanisms

Global Energy Efficiency and Renewable Energy Fund (GEEREF)

- A **15 years** Fund-of-Funds with €108 M (target €200 M+) in commitments
- Investors: EU (€75 M), Germany (€24 M) and Norway (€9 M)
- Target: Private Equity Funds dedicated to small and medium sized projects in the renewable energy and energy efficiency sector





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Thanks for your attention!

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