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:**
  
  o Grant element can improve the quality, speed, sustainability of projects (**non-financial leverage**).

  o 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 Carribean – planned for end 2011
- Investment Facility for Pacific – planned for end 2011
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
Regional blending mechanisms

Estimated total project financing
(since 2007 in ITF, NIF, LAIF & IFCA)
Regional blending mechanisms

Type of grant contribution

- Technical Assistance: 33%
- Risk Capital: 5%
- Guarantee: 2%
- Interest Rate Subsidy: 27%
- Direct Grant: 33%
Regional blending mechanisms

Sectors covered

- 37% TRANSPORT
- 33% ENERGY
- 16% WATER/SANITATION
- 8% PRIVATE
- 4% ICT
- 3% SOCIAL
Regional blending mechanisms

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

47
PROJECTS

280 million
GRANTS

>6 billion
LOANS

>10 billion
TOTAL PROJECT FINANCING

*Preliminary figures
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**
Commitments on climate change related actions (Million Euros), and as percentage of ODA managed by EuropeAid

- 2002: 124 (2.3%)
- 2003: 120 (1.6%)
- 2004: 171 (2.5%)
- 2005: 200 (2.7%)
- 2006: 261 (3.4%)
- 2007: 491 (6.1%)
- 2008: 404 (4.3%)
- 2009: 812 (9.0%)
- 2010: 763 (9.0%)
EU Climate Change Tracking

*In the EU regional blending mechanisms*

- **Need to report also on loan components**
  (strict 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 CO²
Regional blending mechanisms

Project examples

**Ouarzazate Solar Plant (NIF):**

- Total project volume: €807 M
- Loans from EIB (Lead Financier), AFD, KfW, AfDB, Clean Technology Fund: €750 M
- Direct grant from NIF: €30 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
Thanks for your attention!

*European Commission - EuropeAid*

*Unit C3 ‘Financial Instruments’*