



Sustainable finance and green investments

EIP and blending

*DEVCO ENVIRONMENT WEEK,
20 FEBRUARY 2020*

Blending: What is it?

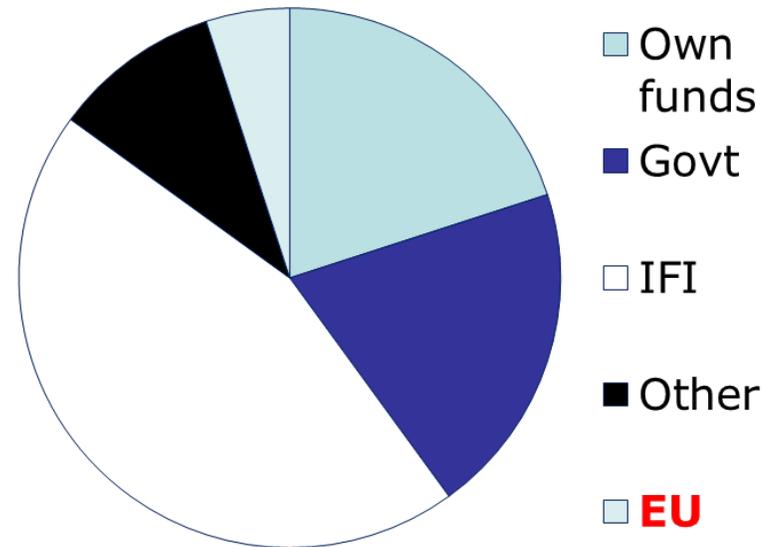
Blending is defined as

- **Strategic use of a limited amount of EU financial support**
- **To mobilise financing from partner FIs and other sources (including private sector)**
- **To enhance the development impact of investment projects**
- **Which otherwise would be difficult to materialise**



Blending: With whom?

The EU support is part of a financing package



Average EU support: EUR 12 (7-25) million / project

Blending: Types of support?

FIVE FORMS OF FINANCIAL SUPPORT...	...WHICH CAN ADDRESS 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)

What are the EIP goals?



Contribute to Sustainable Development



Improve Investment climate



Encourage private Investments



Tackle root causes of irregular migration



Focus on jobs and growth



EIP and Climate Change

28%

EFSD Guarantee contributing to climate action, renewable energy and resource efficiency



EIP - How do we work?

The Three-Pillar Approach

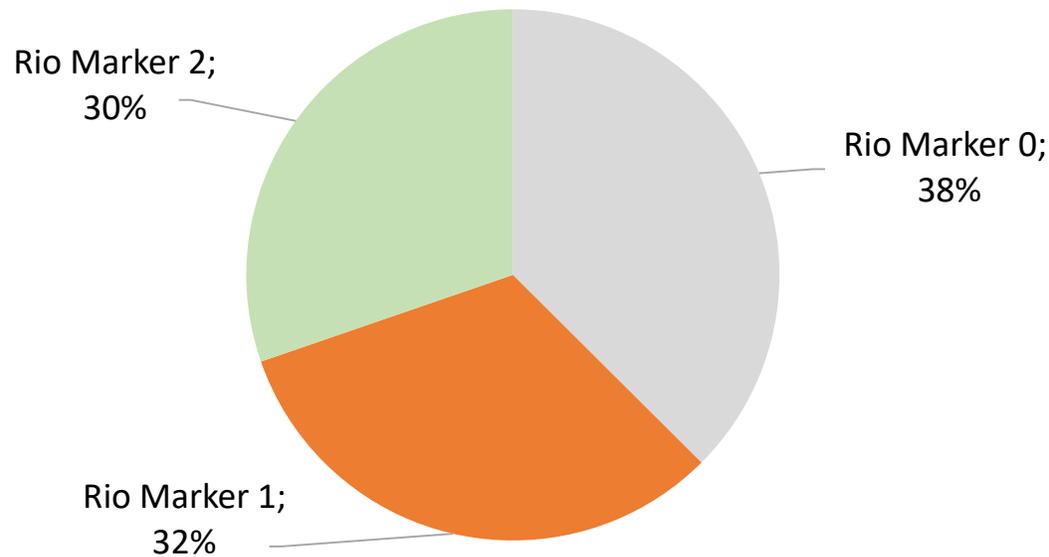


A one-stop-shop for public and private investors

DEVCO and AIP blending and green projects

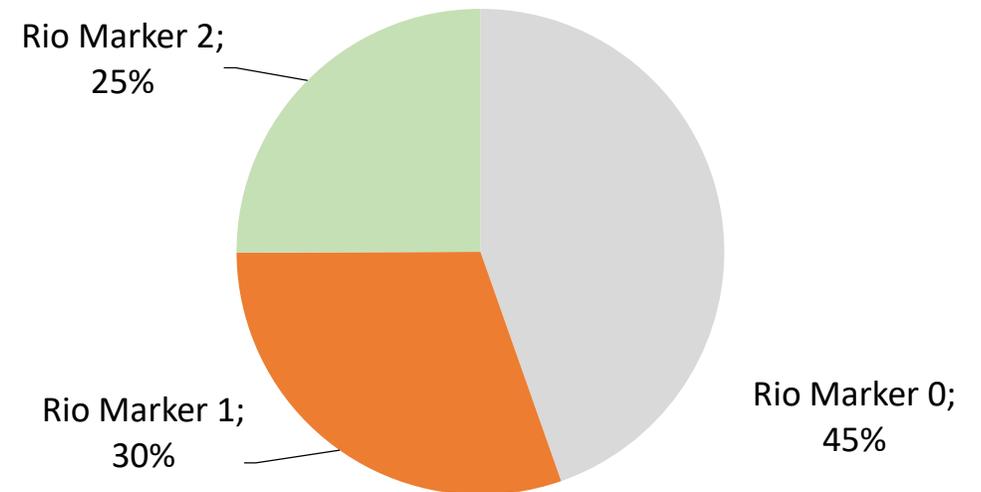
DEVCO 2007-2019 - Rio Markers (%)

Total: €4,5 bn > € 56 bn; RM1+2: € 2,8 bn > € 46 bn



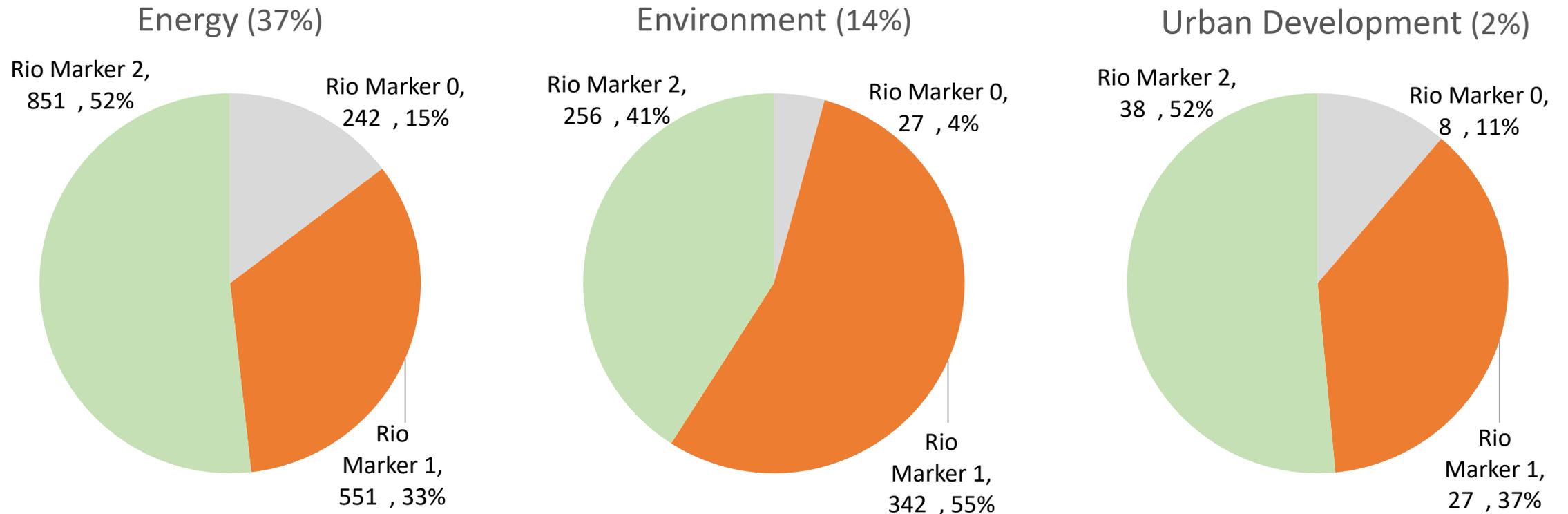
AIP 2015-2019, including thematic, Climate change indicators (%)

Total: € 2,3 bn > € 16 bn; RM 1+2: €1,5 bn > € 12 bn



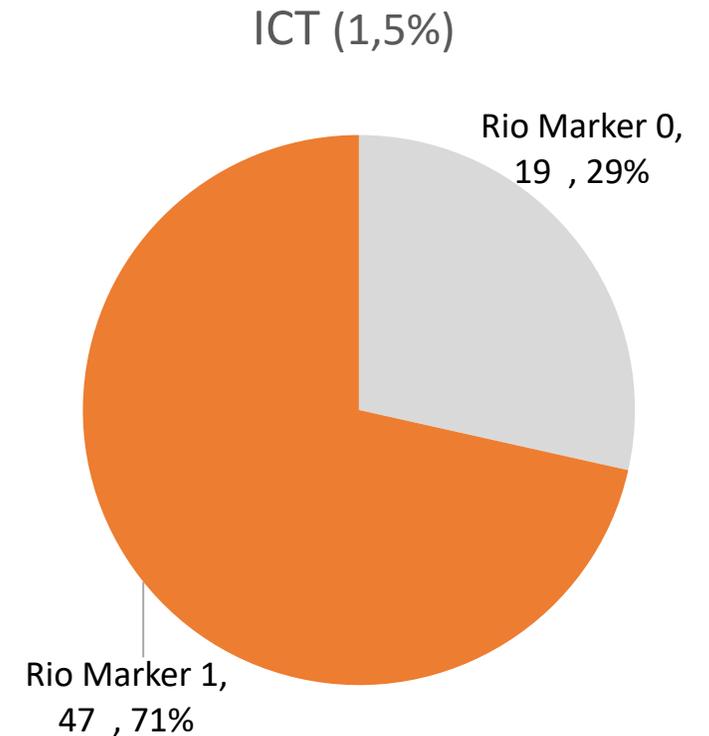
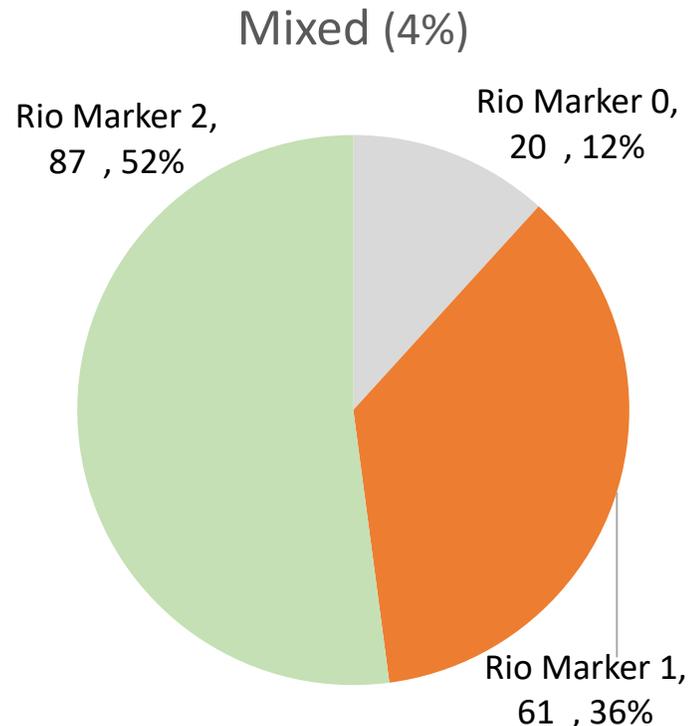
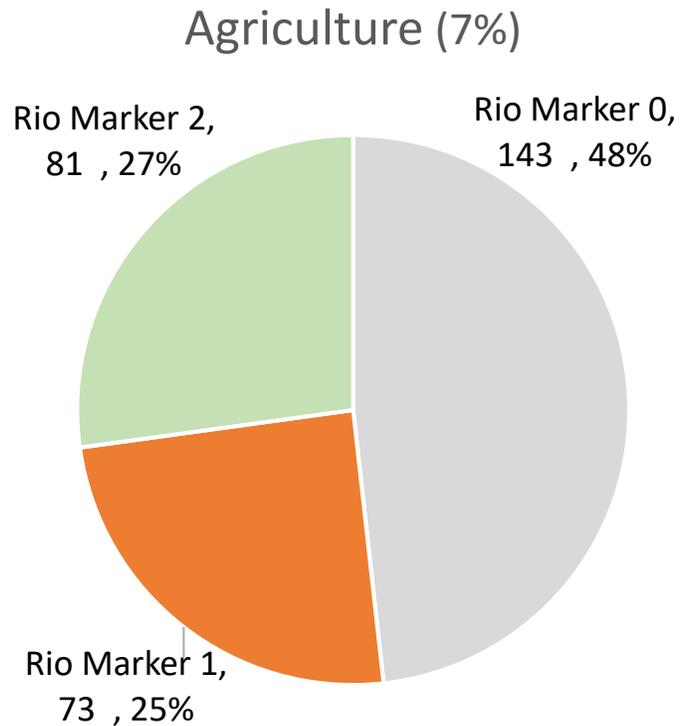
DEVCO 2007-19: Blending projects

Rio markers and sectors (EUR million; %) [1/3]



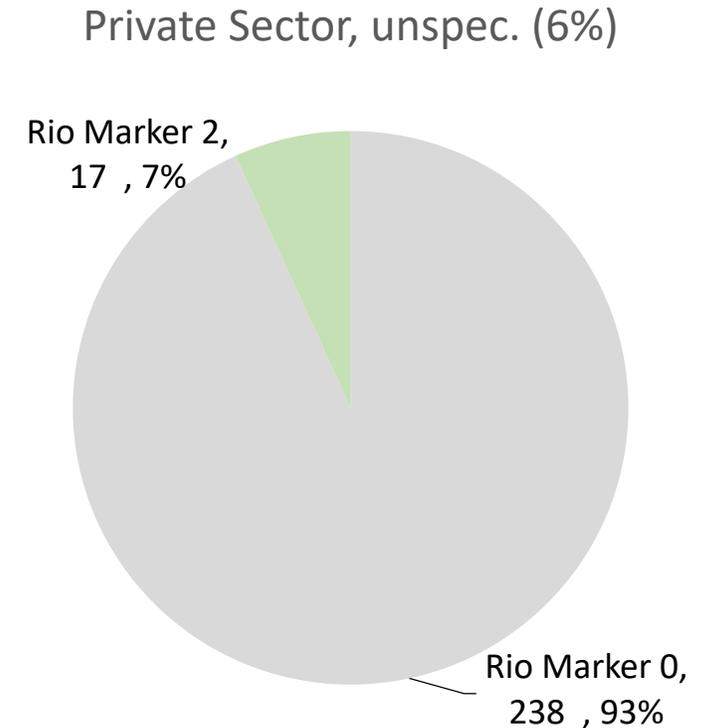
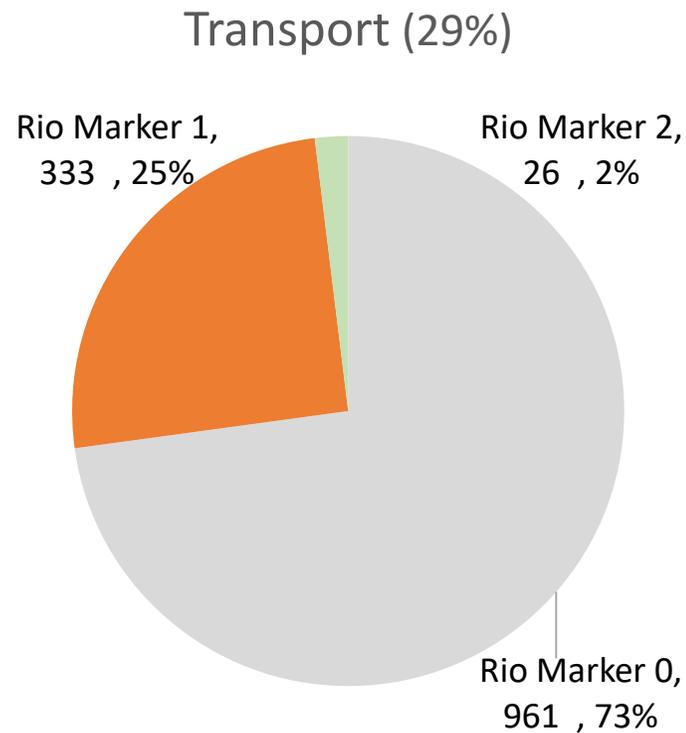
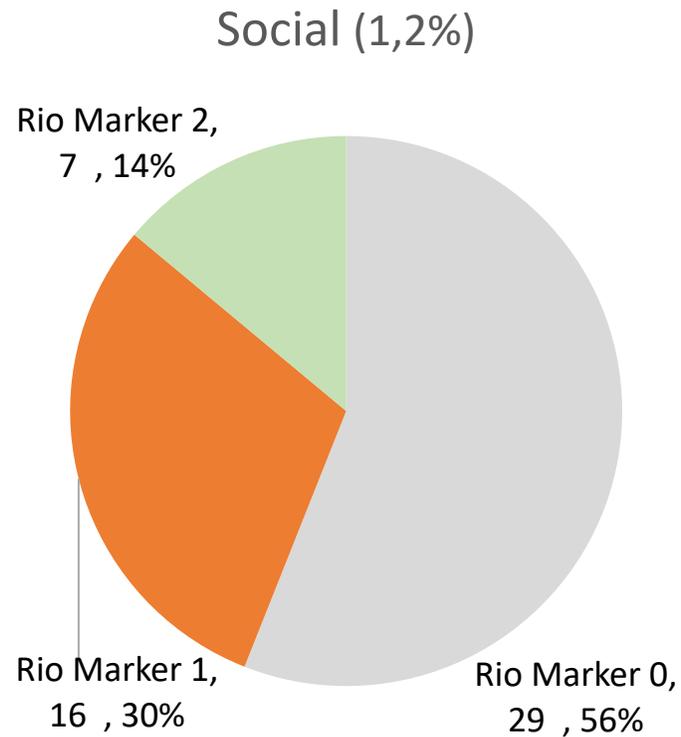
DEVCO 2007-19: Blending projects

Rio markers and sectors (EUR million; %) [2/3]



DEVCO 2007-19: Blending projects

Rio markers and sectors (EUR million; %) [3/3]



EIP Pillar 1 - Current State of Play

EFSD Funding €4.65 bn mobilizes €47bn

EFSD Guarantees

€1.54bn mobilizes €17.5bn

28 Proposed Investment Programmes:

- Close to 4 million jobs (women, youth)
- Reducing carbon emissions by 6000 kT/year
- less migration pressure

2/3 in SSA, 1/3 in NEAR

Leading Sector - Sustainable Energy

(+4 GW, incl renewable energy)

Other: MSMEs (women, youth entrepreneurs) in rural areas

TA €150 million: capacity building – local banks, end-beneficiaries

EFSD Blending

€3.1bn mobilizes €29.7bn

154 Investment Projects:

- SSA: 78 projects, €1.8bn > **13,5bn**
- NEAR: 76 projects, €1.3bn > **€16.2bn**

SSA Sectoral Distribution:

transport 44%, energy 34%, private sector development 8%, agriculture 7%, other 4%.

NEAR Sectoral Distribution: *private sector development (32%), energy (25%), water and sanitation (18%), transport (11%), environment (5%), other (9%)*

EFSD Guarantee, 5 Investment Windows



1. Sustainable Energy and Sustainable Connectivity

2. Micro, Small and Medium Enterprises (MSMEs) Financing

3. Sustainable Agriculture, Rural Entrepreneurs and Agroindustry

4. Sustainable Cities

5. Digitalisation for Sustainable Development

Cross-cutting objective: local currency financing, focus on fragile states, not distorting market competition

Typical Applications of Guarantees in EU Blending Practice

Guarantee Uses

Off-Take & Performance Risks

Support off-taker commitments in large infrastructure projects with residual guarantee. Guarantee technical output or performance targets (replacement payments in case of under-performance)

Country Risk / Political Risk Guarantees

Complement project risk coverage where national ECAs or MIGA may not be applicable, insufficient for program risks or too expensive ...

Reinsurance / Excess Loss Coverage

Backstop innovative weather insurance or climate adaptation programs vis-à-vis IFIs / DFIs. Insure certain price risks or provide excess loss coverage to TCX etc.

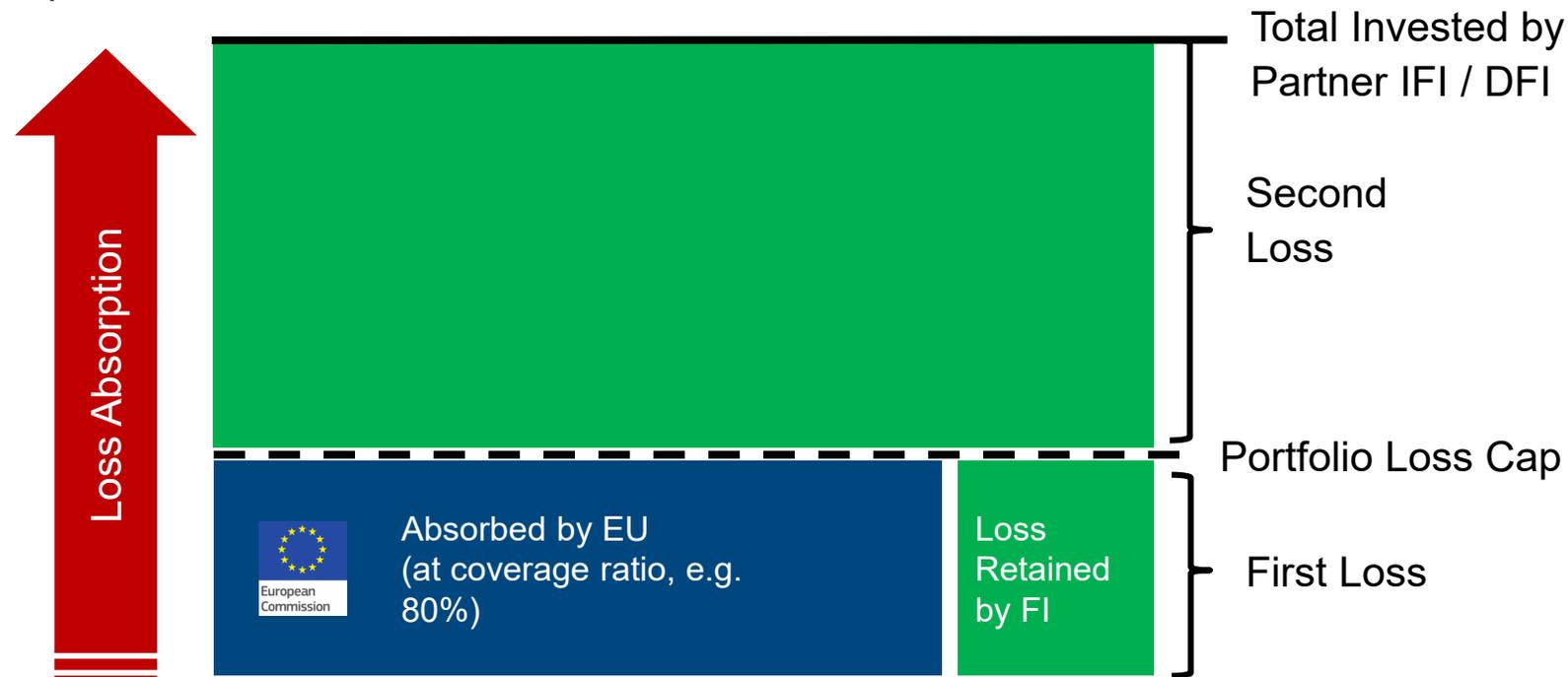
MSME Credit Guarantees

Support MSME Credit Guarantee programs with backstop guarantees; guarantee residual losses to IFI/DFI programs working through local financial intermediaries etc.

Portfolio First Loss Guarantees in EU Blending Applications

Applications:

- Credit enhance partner FI exposure to innovative financing programs addressing bottlenecks to private sector investment.
- Backstop loan guarantees granted by IFIs to local partner banks etc.
- First loss portfolio guarantees at concessional pricing for high risk market segments lead to high utilization and loss rates for the EU.

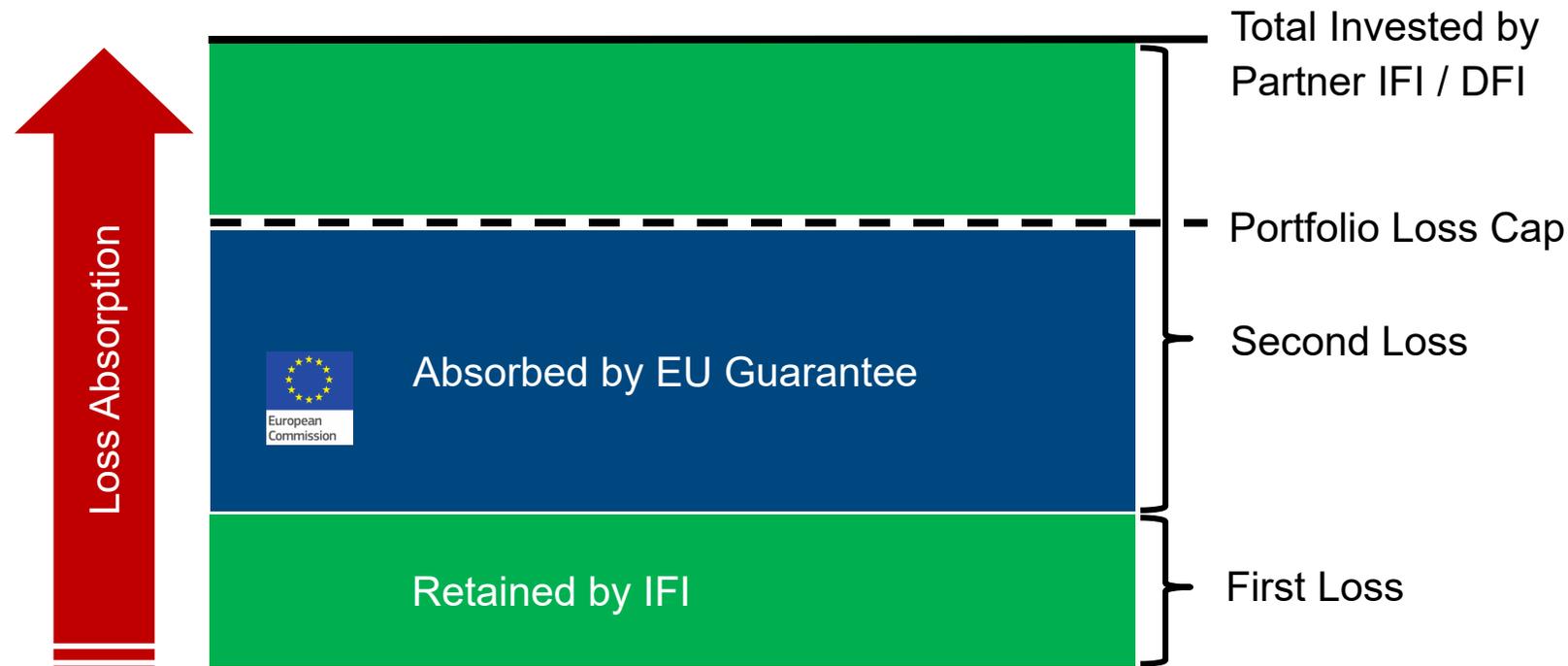


Portfolio Second Loss Guarantees in EU Blending Applications

Applications:

- Enhance risk/return profile of senior tranches invested in portfolio.
- Enhance risk profile of portfolio insurance and affordability of premiums for beneficiaries.

Note that the portfolio loss cap can be problematic for regulatory capital relief.



The African Energy Guarantee Facility

KfW



- ✓ The African Energy Guarantee Facility (AEGF) is designed to increase the availability of political and commercial risk insurance to actors in the Africa power markets.



Target



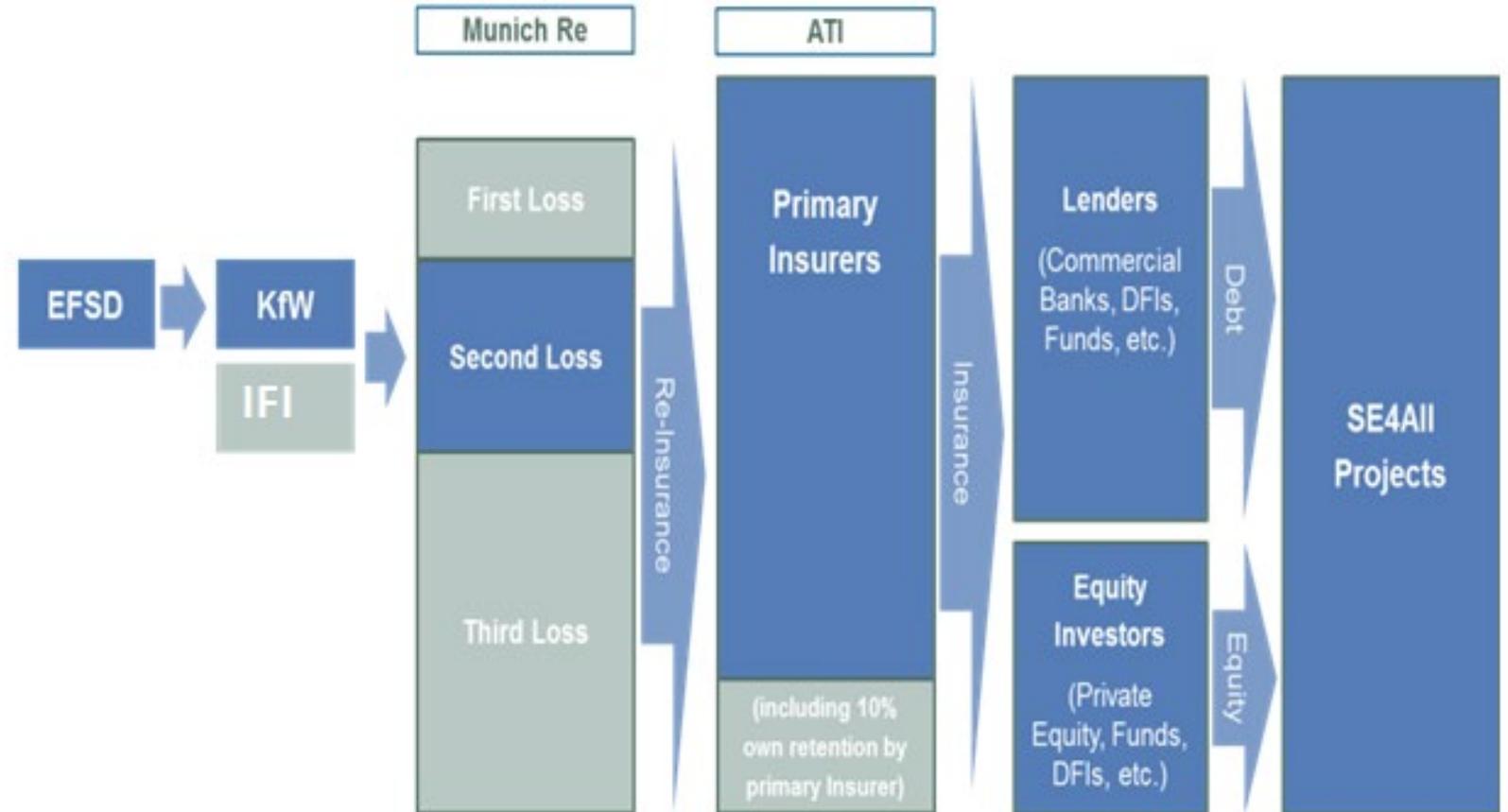
Target

- ✓ **The AEGF is supporting primary insurers to issue cover for SE4ALL projects, by developing a competitive re-insurance portfolio in cooperation with Munich Re. The increase in capacity will allow more private sector participation.**
- ✓ **AEGF aims to increase the trust of investors in the credit worthiness of the utilities and sovereigns by providing adequately priced insurance products.**

AEGF will ultimately lower the cost of energy and increase access to energy.

The African Energy Guarantee Facility

KfW



The Framework to Scale-up Renewable Energy Investments

EBRD



- ✓ The Framework to Scale-up Renewable Energy Investments and will support all forms of renewable energy generation projects



Target

- ✓ **Scale-up renewable energy investments in the target regions in order to increase energy generation from renewable energy sources**
- ✓ **Address bottlenecks to private investments, and increasing access to finance**



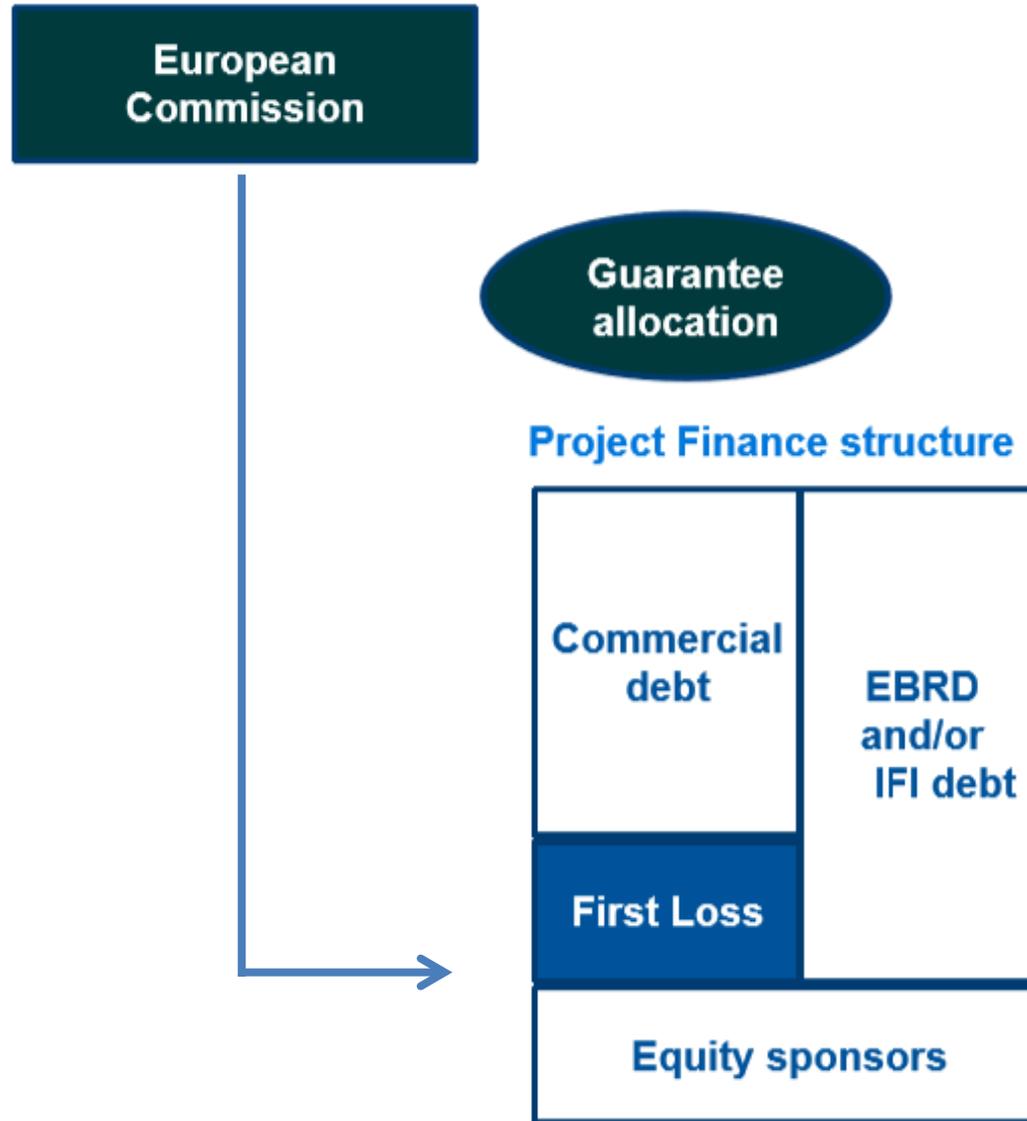
Target

- ✓ **Strengthen socioeconomic sectors.**
- ✓ **Enable increased investment in energy, in line with Paris Climate Goals.**

The Framework will accelerate the transition of countries to greener economies

The Framework to Scale-up Renewable Energy Investments

EBRD



Supporting Delegations

- New blending guidelines
(<https://myintracomm.ec.europa.eu/dg/devco/thematic-activities/financial-instruments/Documents/Guidelines%20on%20EU%20blending%20operations.pdf>)
- Frequent training
- Sector specific studies

Thank you



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