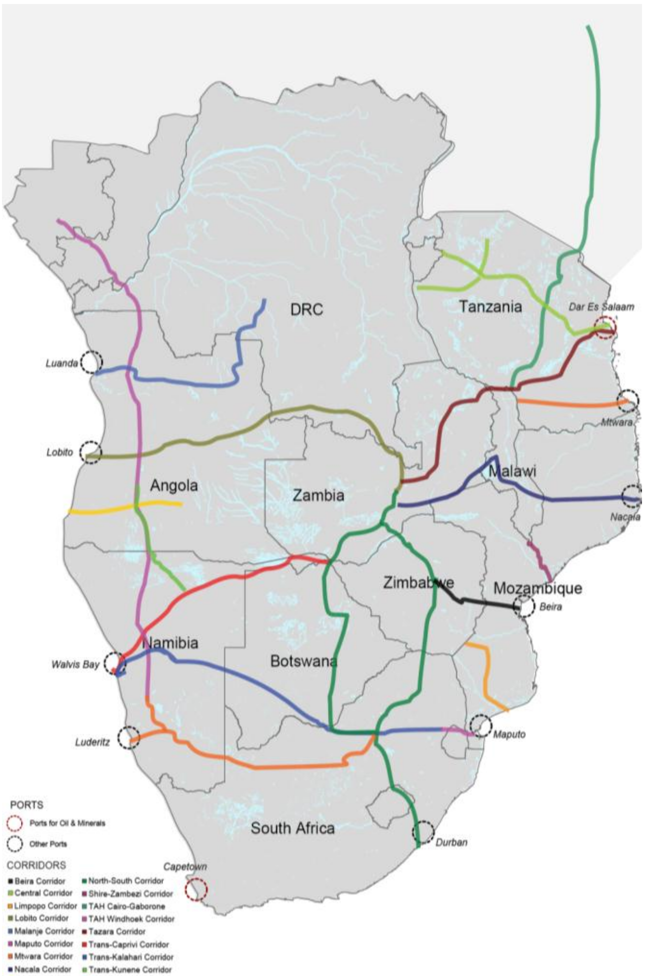
Blending in practice

Great East Road Rehabilitation Project - Zambia

Definition of blending

- Any project combining EU grant funds and non-grant resources, such as loans from public finance institutions as well as commercial loans and investments, is considered as blending

- The strategic use of limited amount of grants for mobilizing financing for development projects



European Commission

18 Corridors

- Beira Corridor
- North-South Corridor
- Central Corridor
- Shire-Zambezi Corridor
- Limpopo Corridor
- TAH Cairo–Gabarone Corridor
- Lobito Corridor
- TAH Windoek Corridor
- Malanje Corridor
- Tazara (Dar es Salaam) Corridor
- Maputo Corridor
- Trans-Caprivi Corridor
- Mtwara Corridor
- Trans-Kalahari Corridor
- ***Nacala Corridor***
- Trans-Cunene Corridor
- Namibe Corridor
- Trans-Oranje Corridor

GER Rehabilitation Project Description

Two packages
(i) "AfDB package":
- 1 lot
- AfDB rules and procedures
- Works, supervision, technical audit and TA support to RDA
(ii) "EU package":
- 3 lots – 3 supervision and 3 works contracts
- EDF rules and procedures
- Cofinancing EU-Gov. of Zambia (using loans from EIB and AFD)
- Contracting Authority: Works (NAO), supervision (NAO), technical audit (EUD)
- EDF fully finances supervision & technical audit contracts and pays about 30% of works contracts

Project Financing issues

- At early formulation phase the Financing gap was around 50% as only EU (EDF grant) and AfDB were committed;

- During the International Conference on North-South Corridor in Lusaka in April 2009, EIB learnt about the project and declared strong interest to cofinance if EU-Africa Infrastructure Trust Fund could be involved;

- Joint EU-EIB-AfDB appraisal mission in Mar 2010;

- JICA and DBSA showed interests but finally declined;

- AFD showed interest in May 2010, came on mission in September and Board approved loan end November 2010.

GER Rehabilitation Project
Costs & financing

Total project costs: € 288m *(all activities including contingencies, provision for price revision and ITF grants):*

- **EU grant:€ 45,5m (10th EDF - NIP)**
- **AfDB loan: around € 77m**
- **EIB lending mechanism: € 73m**
- **AFD lending mechanism:€ 53,13m**
- **EU-Africa ITF Grants for interest rates subsidies:**

  - € 25m for EIB

  - € 13,7m for AFD
- **EU-Africa ITF grant for EIB project TA to support road agency:**

  - € 1m for EIB TA

Project Preparation - lessons learnt

- Split the road in various similar sections to favour design of relevant lots to attract funding ("Big" financing institutions are looking for "bankable" projects ready to be implemented);

- In the ToRs, plan enough time to allow donors & financial institutions to comment/approve the various steps;

- Give more emphasis in the ToRs on the regional aspect of the project for Ecofin analysis;

- Include the preparation of specific Tender Dossiers for all involved donors & financial institutions in the ToRs;

- Formal written approval should be obtained from all donors & financial institutions on the option selected;

- TA support under direct control by the implementing donor or financing institution.

Project Donors coordination - lessons learnt

- No need of formal agreement EUD-EIB/AFD. Only link is the signed FA with Gov. of Zambia.

- Strong added-value of the EUD as only donor with engineering staff in the country with knowledge of national sector issues

- Strong added value for the Ecofin analysis from the Banks thanks to their Transport economists

- Need to exchange information between EUDs on the condition (progress, future plans) of the corridor

- Need for harmonisation on conditionalities in loan agreements and Financing Agreement (EDF grant)

Conclusions

- Good example on how a project can benefit from long-term road sector support and project preparatory work previously undertaken by an EU Delegation;

- Good example on how the EU-Africa ITF can assist in securing innovative financing from different sources to deliver large regional infrastructure projects;

- Good collaboration between co-financiers also enabled the sharing of project documentation and joint missions, providing efficiency savings for the donors and Beneficiary country;

- Increased EU visibility (ITF and financing institutions no visibility).

Why not always blending?

- Crowding out of other possible financing sources;

- Market distortion (unfair advantage);

- Excess concessionality;

- Risk of imprudence;

- Insufficient risk provision (loan guarantees);

- Loss of control and/or visibility for individual donors & financing institutions;

- Potential slow-down of decision-making