

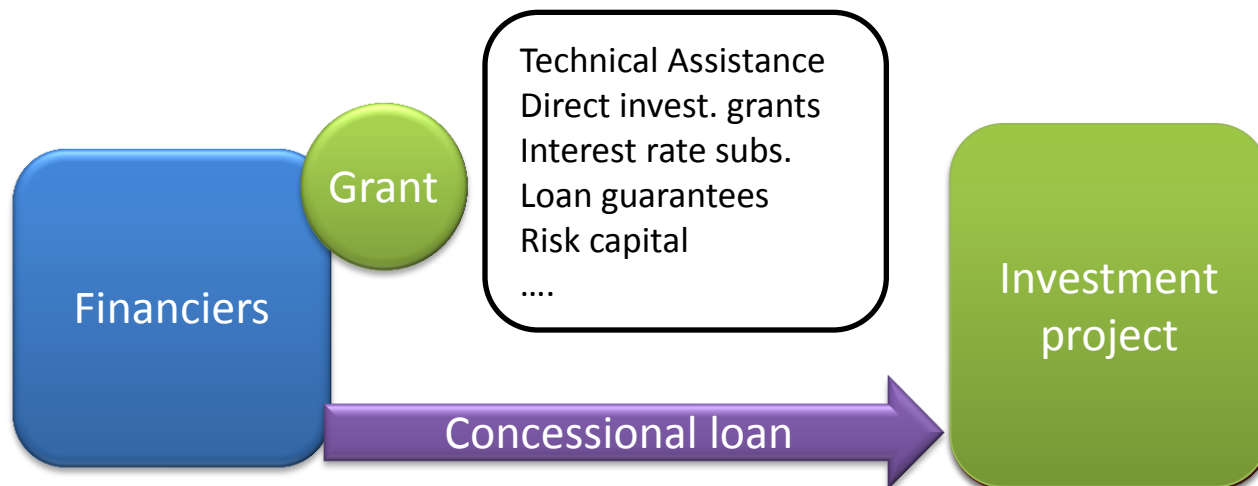
Innovative approaches towards EU blending mechanisms for development finance



Jorge Núñez-Ferrer

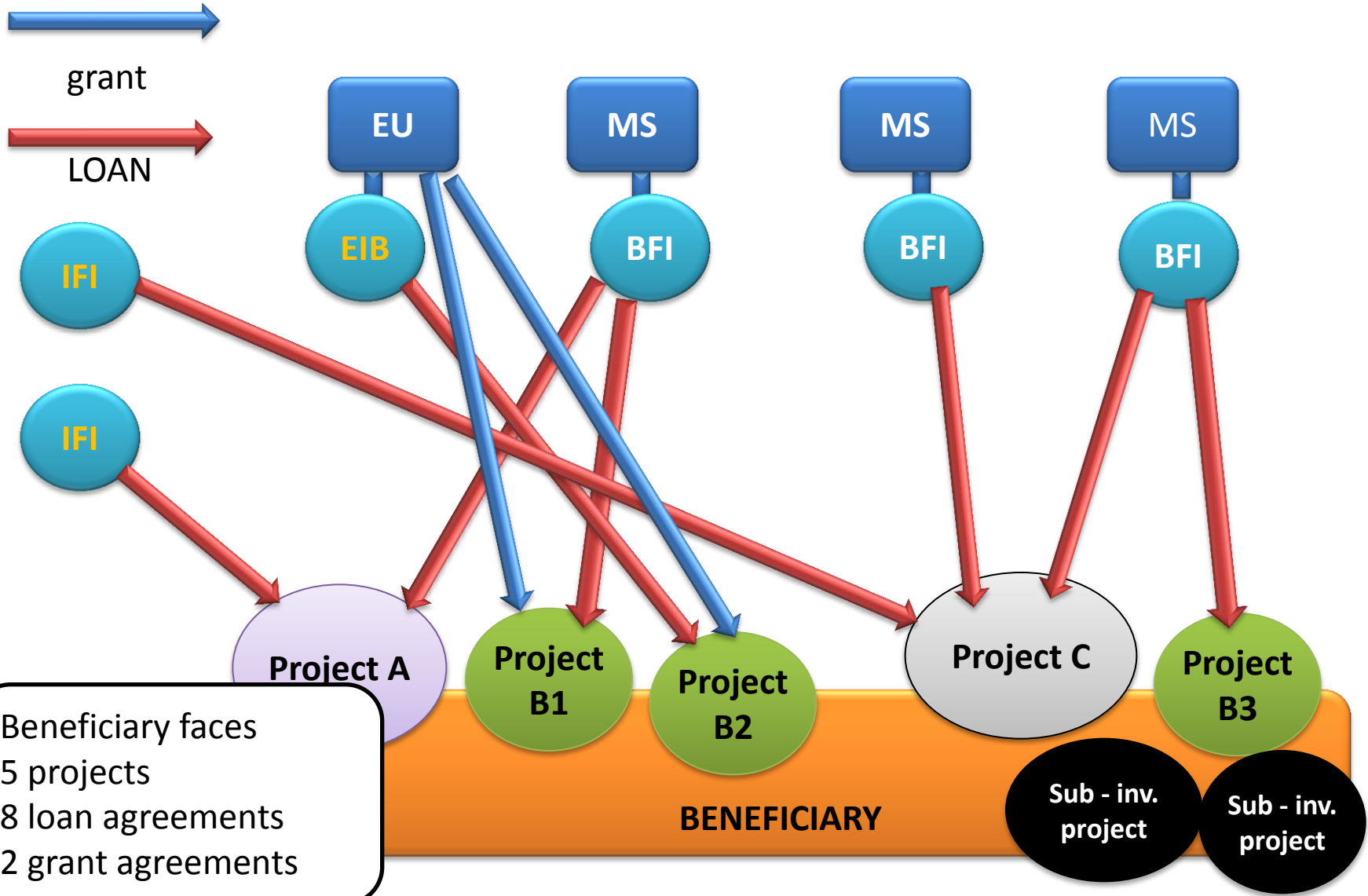
Arno Behrens

What is loan and grant blending?

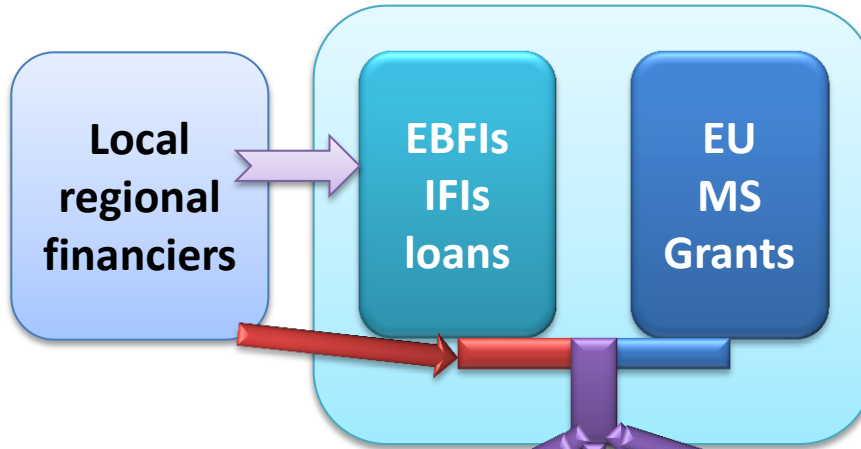


- Grants reduce risks of projects, reducing costs and interest rates
- Blending allows sub-investment grade projects to become bankable
- Beneficiaries face a lower credit cost
- Allows a better allocation of grants
- Attracts financiers to projects which would not have been realised, i.e. creates leverage

What do EU blending facilities add?



EU blending facilities

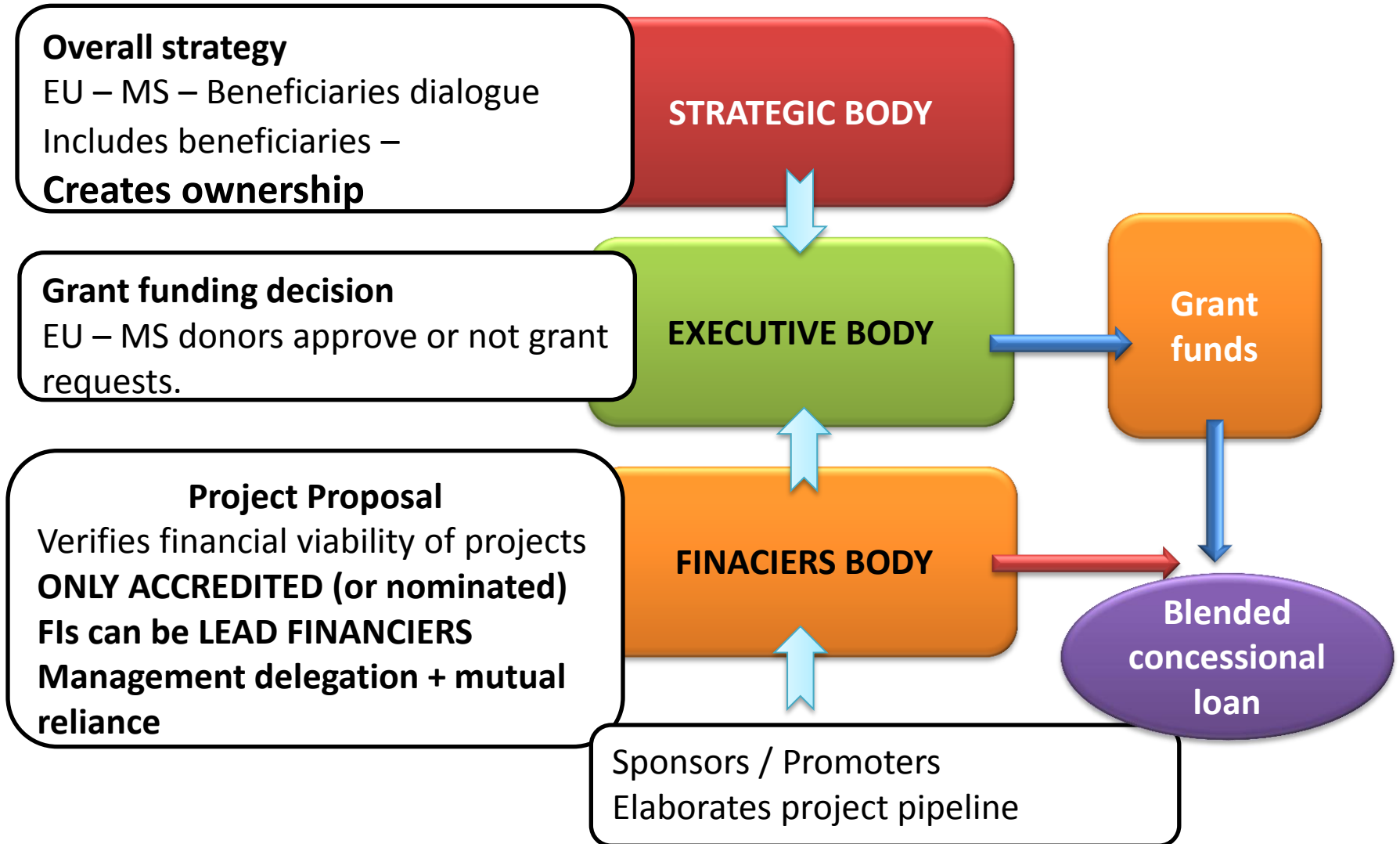


- Increased financial leverage
- Higher transparency
- Aid efficiency up
- Higher EU visibility
- More political leverage
- Joint loans of financiers
- Increases ODA

8 projects (3 in one)
5 agreements
More funding

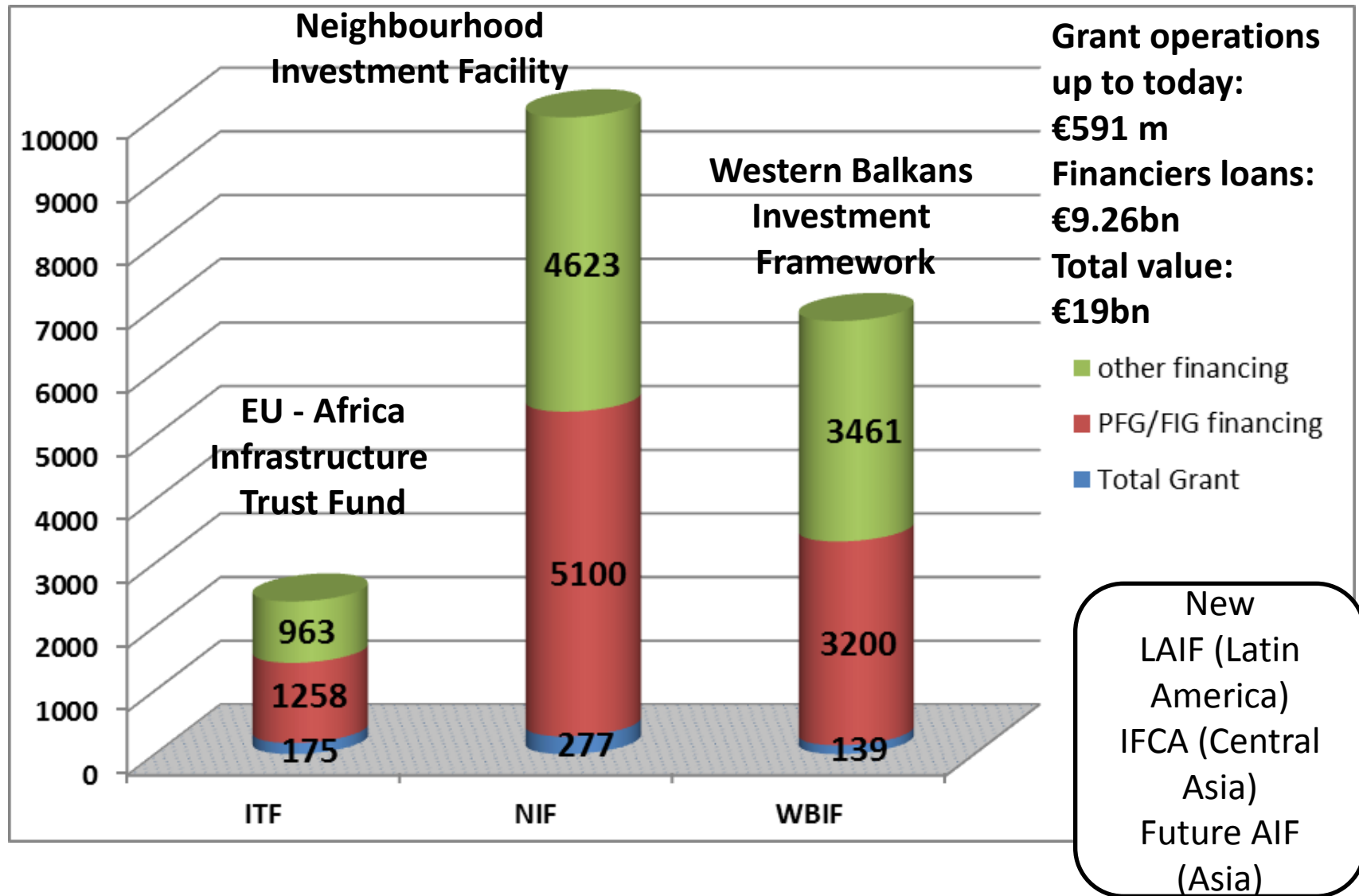


Basic Structure of a facility



FACILITIES AND LEVERAGE

Figure 1. Grants, financiers' loans and other funding in the LGBFs (€ million)



Brilliant **BUT** ...

- Each facility does not follow same procedures, 3 models in place ITF, WBIF and NIF model
 - Different DGs (DEVCO, EEAS, ELARG) have moulded their own blending facility
- Not all differences can be attributed to regional needs
- Administrative structures different in quality:
 - Quality and structure of secretariats varies
 - Remuneration of Lead Financiers for management costs varies for no apparent reason across facilities
 - Reporting standards vary
- Grant funds from EC and Member States are only merged into one trust fund in Africa ITF.
 - But WBIF has a separate grant fund of IFIs for their own use only.
 - Management of joint funds questionable (EBRD in WBIF?)

Brilliant **BUT** ...

- Each facility does not place ITF, WBIF and N
– Different DGs (DEV own blending facilities)

Main objectives of recommendations:

- Increase aid effectiveness
- Expand the use of the facilities

- *Not all differences can be attributed to regional needs*

- Administrative structure
 - Quality and structure
 - Remuneration of L varies for no apparent reason
 - Reporting standards

Recommendations:

- Same rules where comparable function
- Comparable reporting standards (e.g. annual reports)
- Better coordination and coherence across blending facilities

- Grant funds from EC are merged into one trust fund in Africa ITF.

- But WBIF has a separate use only.
- Management of joint

Recommendations:

- Review management of funds

Type and rules on allocation of grants different

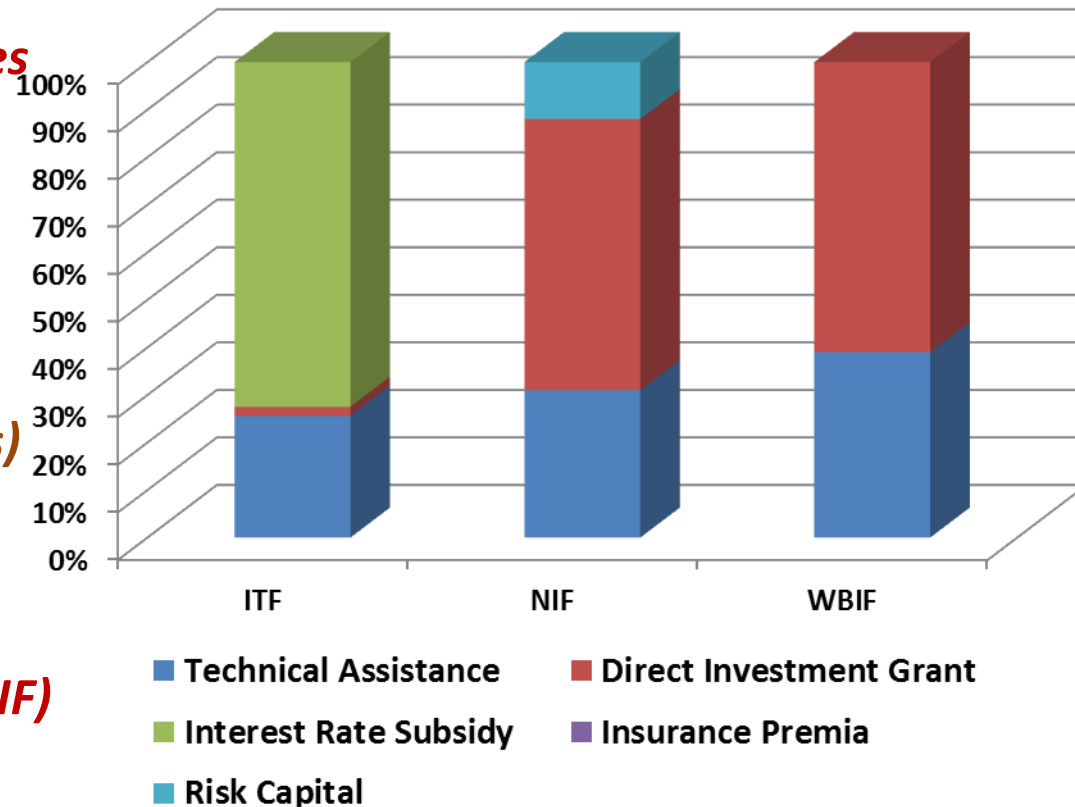
Lack of transparency on grant decisions (feared by both sides)

Grants types differ and do cover all proposed in 2009 COM report.

&

Accredited financiers do not have equal access to all grant instruments

1. *Technical Assistance and studies*
2. *Direct Investment Grants*
3. *Conditionality / performance related grants*
4. *Interest rate Subsidies (used mainly in ITF)*
5. *Loan Guarantees (only for IFIs)*
6. *Structured Finance – first loss piece*
7. *Risk Capital (not in ITF)*
5. *Insurance premia (ITF and WBIF)*



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Recommendations:

- Clearer more transparent reporting of grant type and size in grant demands – better justification
- Expand the types of grant instruments available
- Ensure equal access of financiers to grants

The facilities do not cover same sectors

– Not always justifiable

ITF	NIF	WBIF	LAIF, IFCA
(i) Energy, (ii) Transport (iii) Water (iv) Information technology (incl. telecom)	(i) Energy, (ii) Transport, (iii) Environment (iv) Private sector support (in particular SMEs)	(i) Energy, (ii) Transport, (iii) Environment (environmental acquis) (iv) Private sector support (SMEs) (v) Social Projects	(i) Energy, (ii) Transport, (iii) Environment (iv) Infrastructures in basic social services (SMEs) (iv) Private sector support
<div data-bbox="127 801 537 1043" style="border: 1px solid black; border-radius: 15px; padding: 10px; background-color: #e0e0e0; width: fit-content;"> <p>Only projects of regional importance, no social, no SMEs</p> </div> <div data-bbox="262 1058 1709 1239" style="border: 1px solid black; padding: 10px; text-align: center;"> <p>Creation of a Climate Window to handle climate projects and reporting only introduced in NIF, LAIF, IFCA. Reason – different DGs.</p> </div>			

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Only projects of regional importance, no social, no SMEs

Creation of a Climate Window reporting only introduced in NIF

Recommendations:

- Review scope of facilities and justify differences
- Introduce climate change window in all facilities

Further Recommendations

No need of specific large coordination structures –
blending facilities are *instruments* not a policy and have
operational needs

- **Clearer financier participation rules**, specially for non-European IFIs and Development Banks (World Bank, Regional Development Banks)
- Better define the **role of the European Commission** in **steering** the facilities
- **Expand the financial facilities in future**
appropriate financing to cover new climate objectives and new facilities

Thank you

