European Commission

EU Blending and External Investment Plan

AECID TRAINING

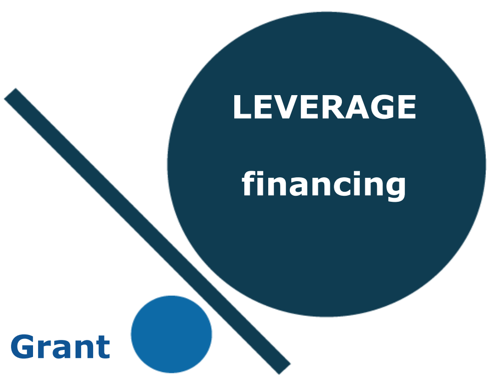
21 December 2017

Madrid

International Cooperation and Development

Blending is defined as …..

THE STRATEGIC USE OF A LIMITED AMOUNT OF EU FINANCIAL SUPPORT TO MOBILISE FINANCING FROM PARTNER FIs AND OTHER SOURCES (INCL. PRIVATE SECTOR) TO ENHANCE THE DEVELOPMENT IMPACT OF INVESTMENT PROJECTS



Blending is useful when.....

- Projects have issues:
  - Affordability problems
  - Poor financial performance
  - Perceived risk/market failure
  - Pricing issues
  - Multi-component
  - Capital intensity
  - New technology
  - Pioneering new approach
  - Issues beyond sponsor
  - Public goods

And/or

- Countries are:
  - Too 'rich' for all-grant (LMICs, MICs)
  - Too poor for all-commercial loan (DSF concessionality & limits)

And/or

- Actors:
  - Financiers have constraints and specific policy objectives
  - Beneficiaries 'shop' for best deal

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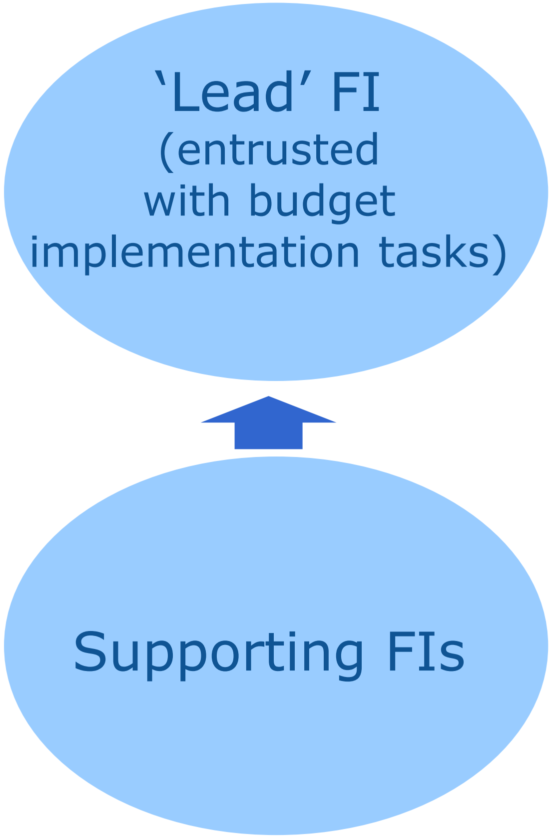
3 Main 'types' of partners always a *LEAD* FI

a) **Multilateral** European Finance Institutions (e.g. EIB,…).

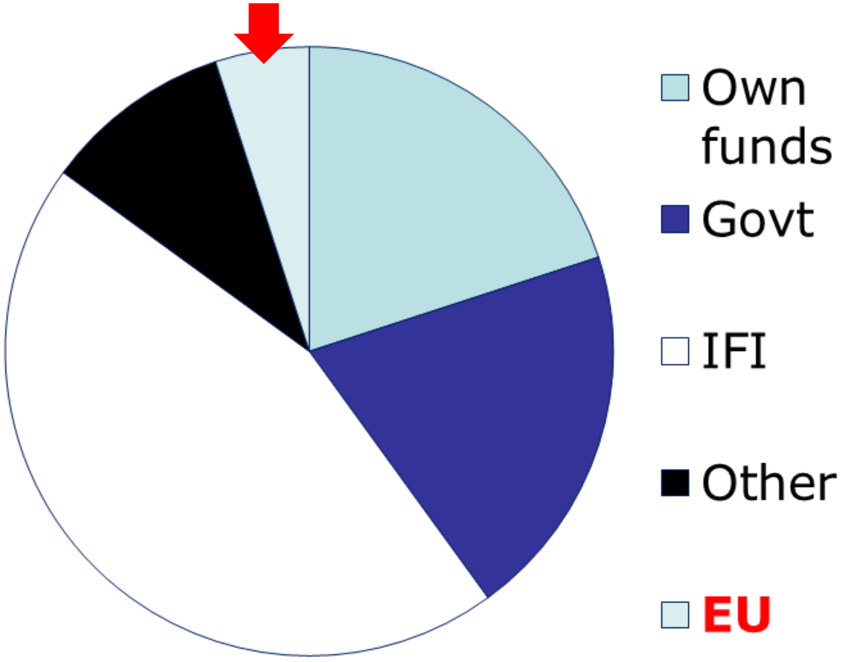
b) European **National** development finance institutions from Member States (e.g. AFD, KfW, AECID, CDP, FMO…)

c) **Regional** and other multilateral banks: can act as lead (e.g. AfDB in AfIF; IaDB, CDB in CIF), as co-financiers in others.



The EU support is part of a financing package

Project financing mix
Equity/Own funds (beneficiary)
Government Financing
Finance institutions (IFIs) Loans ++
Other (Grant donors and/or Private)
EU Financial Support



Average EU grant size €5-10 million

So far, blending takes one of 5 forms

BLENDING GRANT TYPE	…WHICH CAN ELIMINATE 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)

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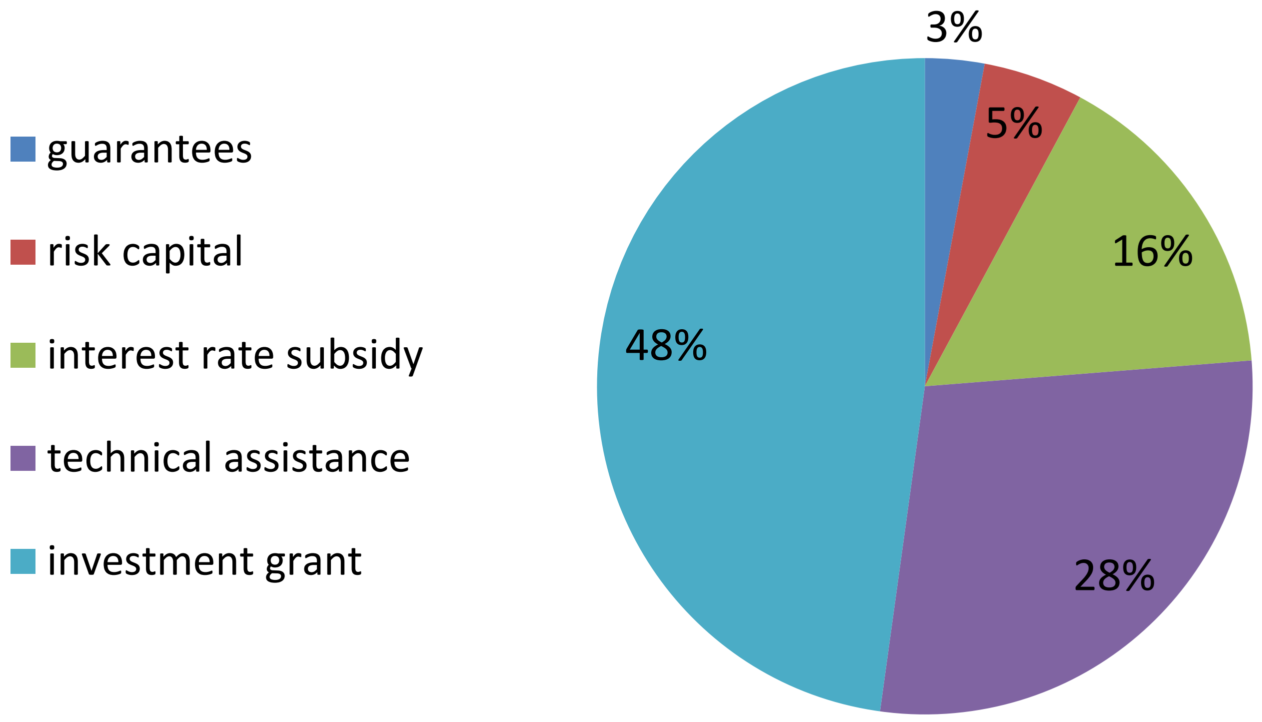
Global Blending Instruments



2 of these are still small

EXAMPLES & INSTRUMENTS:

1: Direct investment grant

2: Interest rate subsidy grant

3: Technical assistance

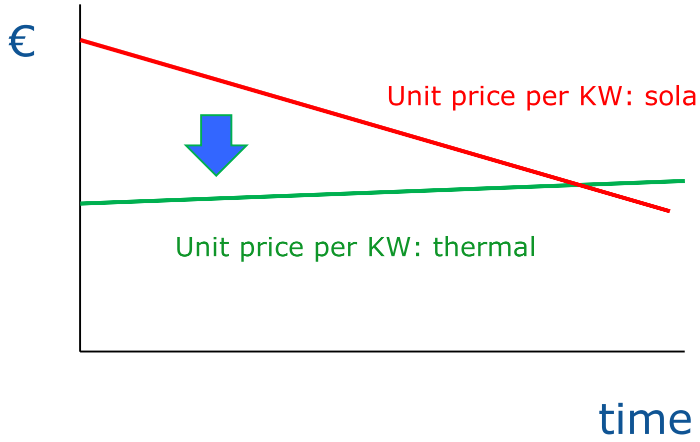
4: Risk capital

5: Guarantees (fully funded)

1 Investment Grant

<u>Direct Investment Grant</u>

E.g. A reduction in consumer price per KW



1 Direct Investment grant

Ouarzazate solar power plant (NIF)

Solar power plant with initial capacity of 160 MW in Morocco. Reduces dependence on energy imports and avoids the generation of at least 250000 tons of CO_2.

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1 Direct Investment Grant

Ouarzazate solar power plant (NIF)

Part of the **Moroccan Solar Plan**. When fully developed (4 phases: 2GW target capacity), the largest solar power plant in North Africa.

Project promoter is the Moroccan Agency for Solar Energy (MASEN).

Independent power producer (IPP) to implement the project is determined by MASEN through competitive bidding.

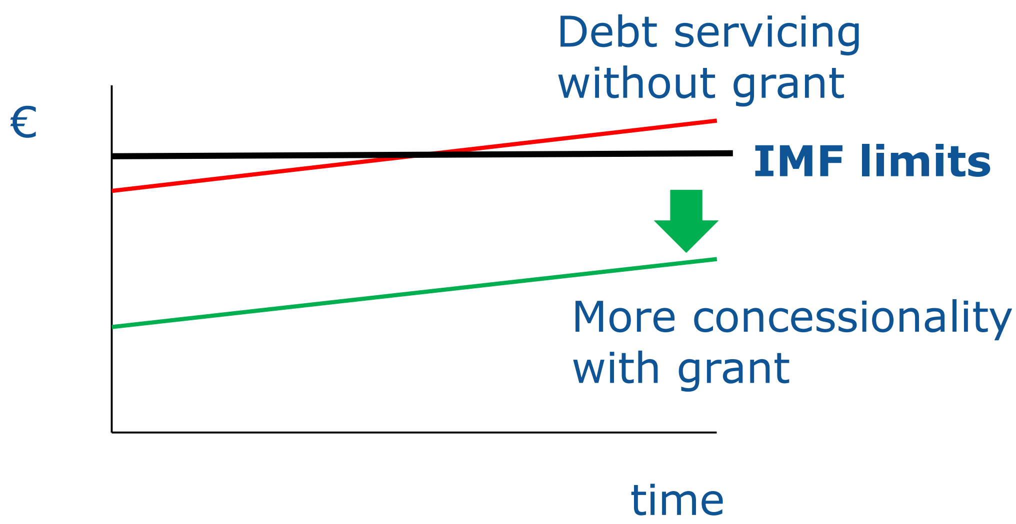
The NIF direct investment grant aims to align (lower) the cost of solar power to the cost of thermal power.

Total project volume: €807mn-phase 1; €1,000mn- phase 2; € 850mn- phase 3.
Grant contribution: €30mn(phase 1); €40mn(phase 2); €50mn(phase 3)
Involved EFIs: EIB, AFD, KfW

2 Interest Rate Subsidy (IRS)

Interest rate subsidy

Increase concessionality



2 Interest Rate Subsidy

Lake Victoria WATSAN Initiative (ITF)

Regional initiative aiming at reversing the environmental deterioration of Lake Victoria and improve living conditions in the lake basin.

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2 Interest Rate Subsidy

Lake Victoria WATSAN Initiative (ITF)

Three projects are supported by the ITF in the context of the LV WATSAN initiative in Uganda, Kenya and Tanzania.

In Uganda, the project aims at increased coverage, reliability and access of water supply & sanitation for the population of metropolitan Kampala.

Interest Rate Subsidy needed to meet objectives set by the Ugandan debt strategy and concessionality requirements in the context of IMF programme (Uganda classified as 'medium risk' by IMF).

Total project volume: €212 m
Grant contribution: €14 m IRS / €8 m TA
Involved EFIs: KfW, AFD, EIB

3 Technical Assistance

Feasibility
Management support
Policy analysis
Technical support
Monitoring & evaluation

1 Financial returns to attract financiers

2 Economic / social / environmental returns to make it worthwhile

3. Adequate policy framework & operating environment to facilitate impact and success

4 Beneficiaries commitment to provide ownership

5 Risk management to ensure appropriate implementation and repayments

6 Competent management to ensure success

'Green lights' for project financing

3 Technical Assistance

Rural road program El Salvador (LAIF)

Improve the rural road infrastructure in order to reverse the conditions that affect rural poverty and low economic activity in those areas. Strengthen the institutional capabilities and reduce vulnerability to climate changes.

3 Technical Assistance

Rural road program El Salvador (LAIF)

Focus on access and population movements, especially those living in poverty, as well as on rural areas with potential for productive development.

TA will finance institutional strengthening activities, climate change adaptation programs, supervision activities, trainee programs as well as institutional software and hardware equipment.

Strengthens the processes, staff competence, methods and tools for sustainable improvement of the cycle of road projects.

Total project volume: €49.5 million
Grant contribution: €4 million
Involved EFIs: AECID, IDB

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4 Risk Capital
is usually equity (first loss)

‘A’ SHARES Private investors & lenders	LAST	LOWER
‘B’ SHARES Public Finance Institutions	Sequence of absorbing any losses that may arise (sub-ordination)	Income waterfall; relative returns for risk
‘C’ SHARES First loss tranche (donors)	FIRST	HIGHER

4 Risk Capital

Microfinance Initiative for Asia (MIFA) Debt Fund (AIF/IFCA)

Pools public and private investments to provide loans to microfinance institutions and thus provide access to finance for MSMEs and low income households in Asia and Central Asia.

4 Risk Capital

MIFA Debt Fund (AIF/IFCA)

Note also EFSE

Grant used as TA and as a first-loss tranche invested in the Structured Fund.

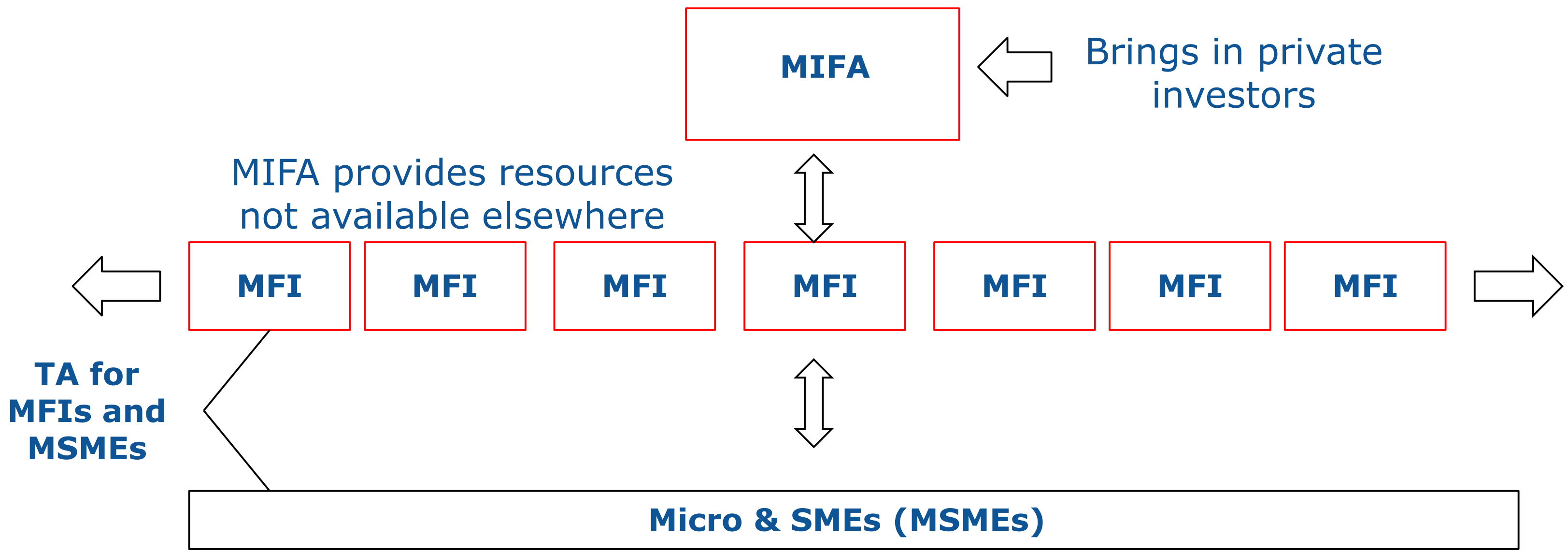
The **first-loss (or junior) tranche** is also funded by Germany's BMZ (€15 million).

Reduces risk for other investors and allows them to invest in the mezzanine (public finance institutions) or senior tranche (private investors).

TA used for capacity building in particular for Tier II and Tier III institutions.

Total project volume: €79 million
Grant contribution: €7 million (C-shares) and €2 million (TA)
Involved EFIs: KfW, IFC

The impact of Risk Capital instrument



5 Guarantees

Definition	Main features
Guarantees are legally binding agreements under which a party (the guarantor) agrees to pay part or all of the amount due on loan or equity upon realisation of a number of agreed events Often, they are disbursed to FIs and then 'earmarked' but not disbursed by the FI until there is an actual loss (i.e. efficient). Undisbursed amounts returned to EU upon closure.	• Provide lender with added protection – are 'risk sharing' • Typically cover only part of first loss – around 50-70% - to avoid 'moral hazard' • First loss typically capped at 10-15% of guaranteed portfolio • Can be free or remunerated • Should generate leverage, and improve access to finance

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5 Guarantee Mechanism

SME Finance Facility (NIF)

Increasing the availability of long-term funding and financial services to SMEs in the Eastern Neighbourhood by enhancing FI capacity as well as their willingness to lend to SMEs.

5 Guarantee Mechanism

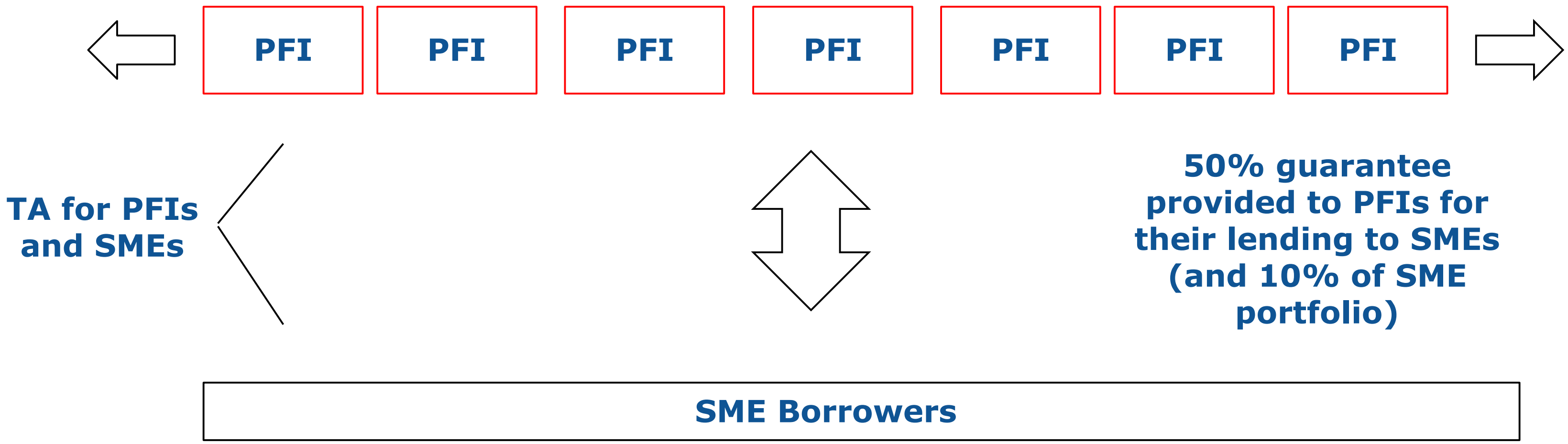
SME Finance Facility (NIF)

EU grant resources are used to finance a combination of Technical Assistance to local partner financial intermediaries (PFI) and/or credit enhancement support for PFIs (in the form of a guarantee) to leverage new on-lending by PFIs to SMEs. Accompanied by EBRD/KfW credit lines to PFIs.

Up to €10 million for guaranteeing up to 50% of individual loans and up to 10% of the loan portfolio risk.

Total project volume: up to €100 million
Grant contribution: €10m (Guarantee) incl. up to €1m (TA)
Involved EFIs: EBRD, KfW

The Impact of Guarantee Instrument



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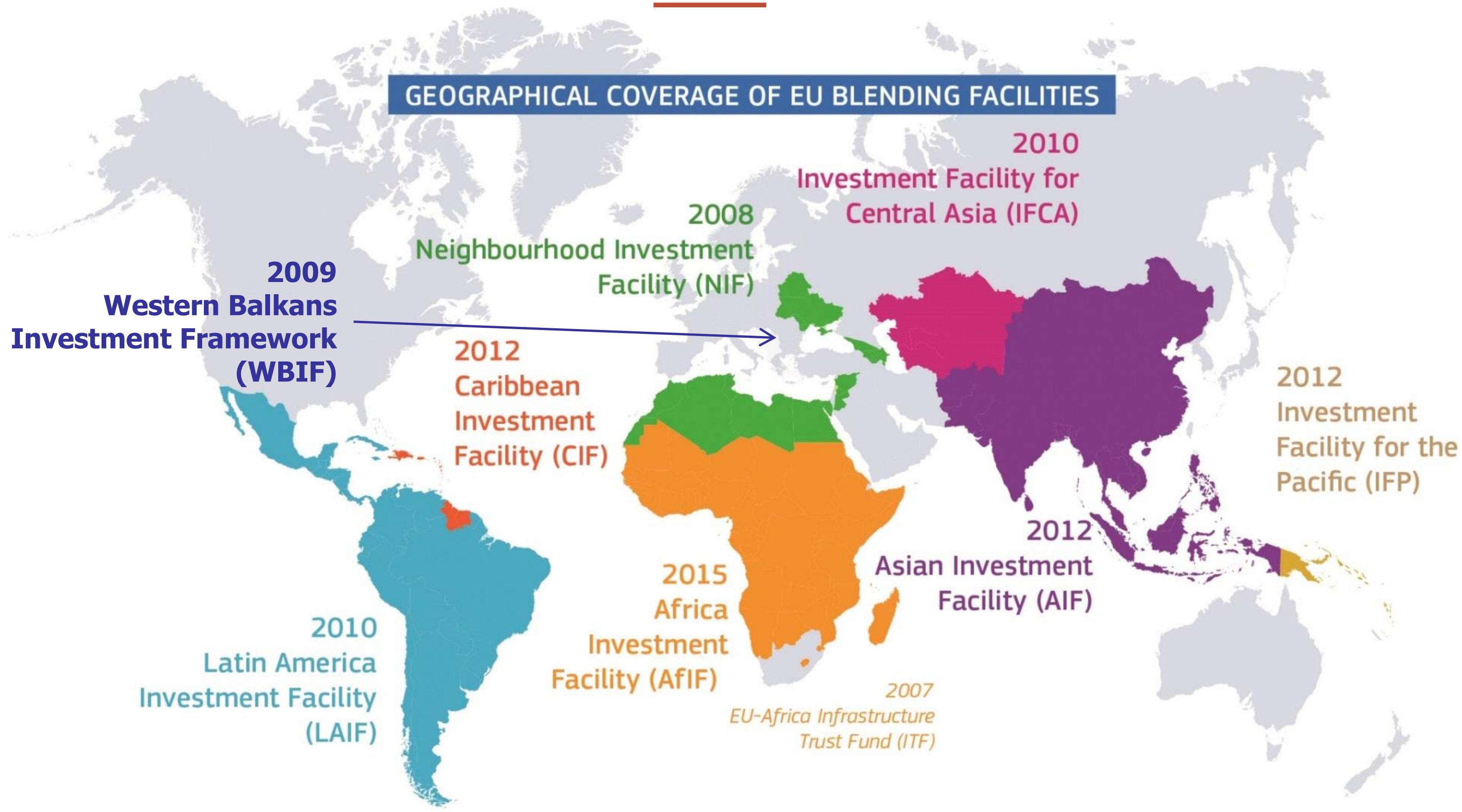
How blending amounts are calculated

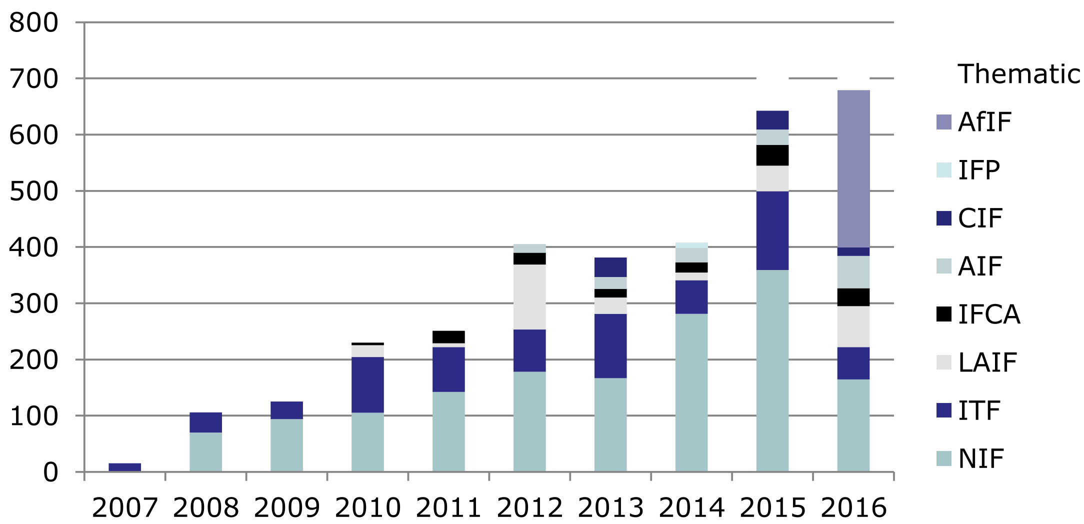
BLENDING GRANT TYPE	Basis of calculation
Direct Investment Grant	Should be linked to a quantified target e.g. reducing a tariff by 5% or 10% etc. It could also be used to finance additional project components/ attain higher quality standards etc.
Interest Rate Subsidy Grant	Whenever the interest rate charged for a loan is lower than the market rate, the difference reflects the concessional or subsidy element. This is often required where debt sustainability analyses point to limits in the Government's capacity to absorb additional public or publicly guaranteed debt.
Technical Assistance Grant	Bottom-up estimate of what grant support is needed to improve the design, quality, timing, sustainability, innovation, impact and/or scale of a project.
Risk Capital	Calculation based on financial ratios e.g. desired debt/equity ratio and/ or risk protection required by typically private investors (could be high e.g. 30-40%).
Guarantee	Guarantees often have a maximum amount ('cap'), an absolute figure, to limit the cover and potential costs for the EU, which is based, inter alia, on the expected loss percentages, as calculated by the financial institutions.



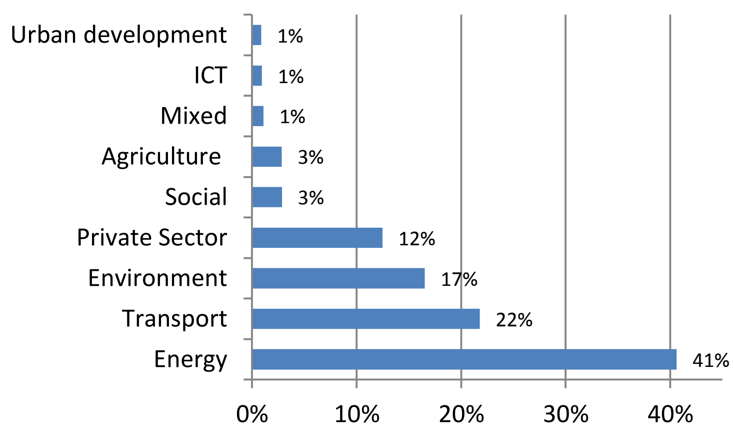
DG DEVCO:6 facilities (AfIF/ITF, LAIF, CIF, IFCA, AIF, IFP)
DG NEAR: 2 facilities (NIF & WBIF)

2007-2016 Blending Operations

Annual grant approvals (in € million)



Grant approvals by sector (in %)



All facilities grant approvals to 380 operations
€ 3.4 billion
Average: € 9 million per operation

EFIs financing to approved projects [1] *
€ 26.2 billion
Leverage: 7.7/1

Total investment amount
€ 57.3 billion
Leverage: 16.8/1

[1] *Regional Banks (AfDB, IADB, CDB, ADB ,…) and WB/IFC are NOT included.*

Average leverage is c. 17x

At least €24 billion are provided by eligible public finance institutions

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Indicative allocations 2014-2020

	LAIF	AIF	IFCA	NIF
Indicative 2014-2020 allocation	€ 320 million	€ 320 million	€ 140 million	€ 2.1 billion

	AfIF	CIF	IFP	WBIF
Indicative (RIP) 2014-2020 allocation	c. € 1 billion	€ 135 million	€ 20 million	€ 1,0 billion (plus €100 m for TA)

Thematic Investment Facilities

- **So far, two thematic initiatives aiming at de-risking investments:**
  - **ElectriFI:** The Electrification Financing Initiative (ElectriFI) is an innovative enabling facility to unlock, accelerate and leverage private sector investment to increase or improve access to affordable, reliable, sustainable and modern energy in developing countries.
  - Focus on connection in rural underserved areas via renewable energy.
  - ElectriFI can provide funding and support to developers/investors across a range of business models.
  - Example: EDFI ElectriFI (http://electrifi.org)

Thematic Investment Facilities

- **AgriFI:** AgriFI is an initiative that aims at increasing investment in smallholder agriculture and agribusiness MSMEs in order to achieve inclusive and sustainable agricultural growth

- Focus on mobilising public and private investment to promote agricultural value chains via risk capital and guarantees (de-risking the investment)

- AgriFI responds to the lack of financing mechanisms adapted to farmers and agri-entrepreneurs, particularly for smallholders and agribusiness MSMEs.

- AgriFI will be backed-up by technical capacity to support business development and advisory services for farmers and agri-entrepreneurs.

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There are other blending mechanisms

Additional Blending Mechanisms

1. **GEEREF:** The Global Energy Efficiency and Renewable Energy Fund

2. **EU EDFI** Private Sector Development Facility (only Africa)

Conclusions from the 2016 Evaluation of Blending: Achievements*

- *Blending **allowed the EU to engage more broadly and with strategic advantage** (large infrastructure projects)*
- ***Significant value to the EU's grant based development cooperation** and IFI loan operations*
- ***Important role in supporting private sector** development mainly within financial sector*
- ***High quality of blending process** especially **with higher risk projects** approved by the EU*
- ***Development of a body of good practice** forms a basis for **continual improvement***
- *Large extent of the projects have been successful and there is evidence that the **outputs are being used and appreciated by the beneficiaries***

**Based on the Evaluation of Blending Final Report 12/2016*

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Conclusions from the 2016 Evaluation of Blending:
Opportunities for Further Enhancement*

- ***Further strengthen the additionality*** *of the grant part of blending*
- *Explore new partnerships with* ***IFIs***
- *Sharpen* ***alignment with national policies***
- *Build on the* ***post 2014 blending guidance framework***
- *Expand the* ***use of risk sharing instruments*** *to financial intermediaries selected for their strategy and policies (with respect to pro-poor and pro-development risk taking)*
- *Greater focus on* ***job creation*** *and* ***poverty alleviation***
- *Need for a* ***pro-active stance on visibility***

**Based on the Evaluation of Blending Final Report 12/2016*

EUBEC Platform's objectives

Established 2012 (policy and technical group):

- Improve the quality and efficiency of EU external blending mechanisms
- Harmonise key principles while differentiating by sectors and regions
- Focus on sectors where financial instruments can be most usefully deployed
- Strengthen coherence with EU policies

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Understanding EU Blending Operations

Two 'levels' of Commission financing decisions

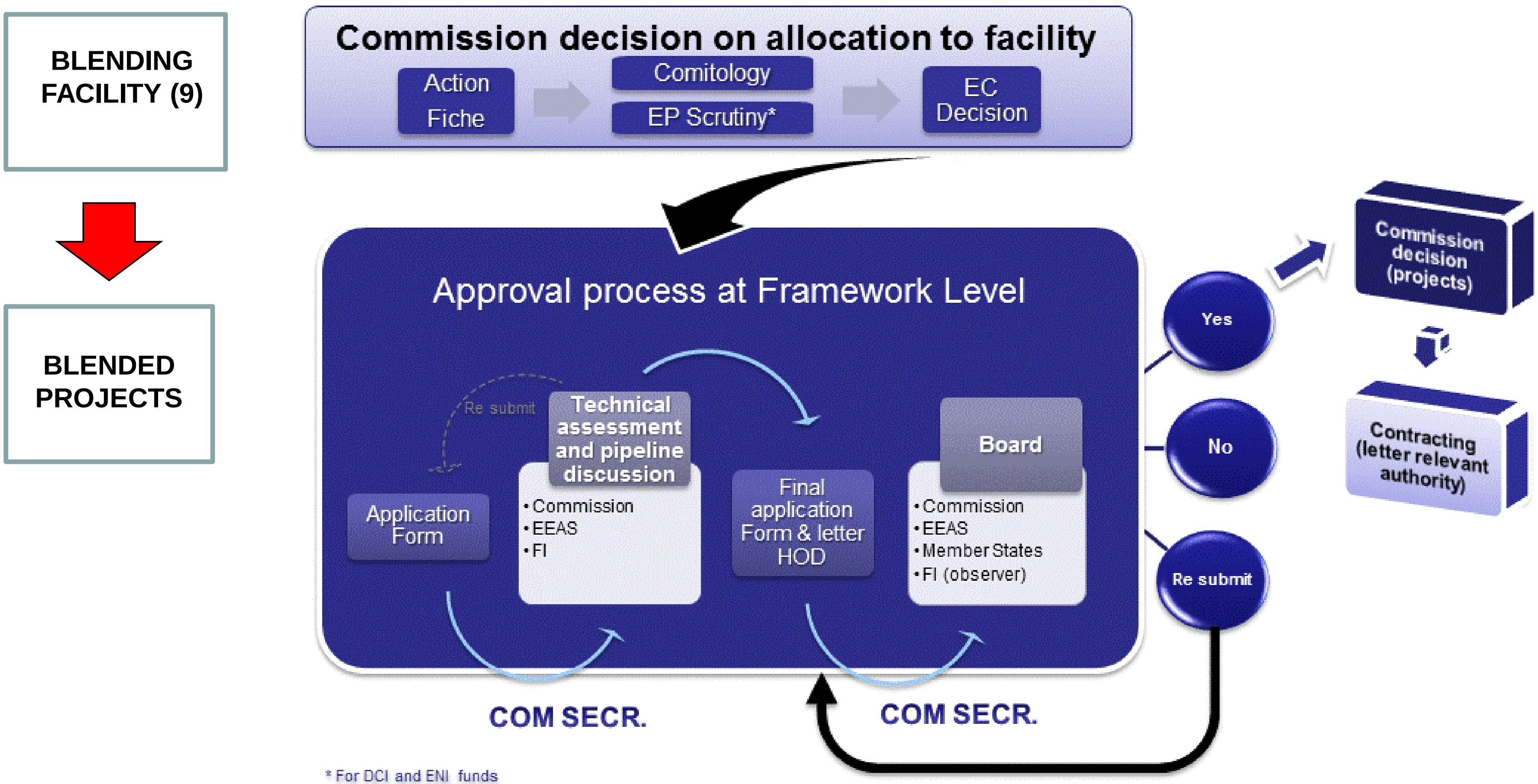
BLENDING FACILITY

Funding to Blending Facilities through Annual Action Plans, based on sectors / priorities defined in the programming exercise

BLENDED PROJECTS

Facility and Partner FI funding of specific projects via the project cycle

With different documents & inputs



Programming the funding of Facilities

- As part of the programming process, Commission, EEAS and partner countries/regional organisations discuss regional and national priorities and development objectives that would be best met using the blending modality;

- Relevant sectors and indicative envelopes are defined in the regional or national multiannual indicative programmes

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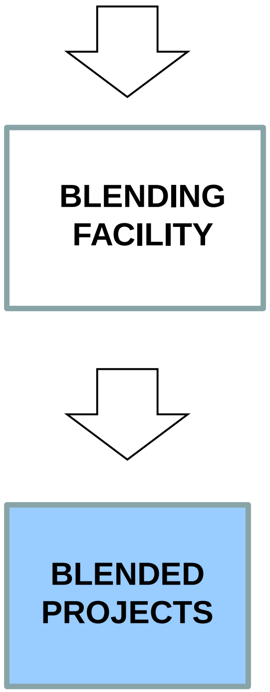
Annual Action Programmes & blending

- Programming documents are transposed into Implementing Decisions which set up the Blending facilities and allocate financing to them;
- Blending Facility Action Document defines financial allocation, objectives, expected activities, results and target leverage, eligible instruments and basic governance structure of each Facility;

Strategic Discussions

- Objective is to update/further specify strategic priorities and orientations based on programming documents and implementing Decisions;
- Partner countries/Regional Organisation participate; meetings are co-chaired by Commission and EEAS
- Varies in format and timing region by region

The second phase: financing projects



EU funding to the 8 blending Facilities through AAP, based on sectors and priorities defined in the programming exercise

Facility and Partner FI funding of specific projects via the project cycle

Roles: 'who does what and how'

The EU Blending project cycle

	Identification	Preparation	Peer review & screening	Board Opinion & COM Decision	Contracting	Monitoring	Evaluation
EU Delegation/ Geo Reg	√	√	√		√	√	√
DEVCO HQ	√	√	Lead (Geo Director)	Lead (Geo Director)	Lead (Geo Director)	√	√
Partner FI	Lead	Lead	√		√	Resp. as entrusted entity	Resp. as entrusted entity
Beneficiary	√	√			√	√	√
Member States				√			
Other			Line DGs DEVCO C, Geo, EEAS	EEAS and Line DGs			

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Application form

Blending application form

- Latest version January 2016
- 2 parts (identity of the project and detailed description of the project), 40 sections and 5 Annexes
- Recommendations of the EUBEC Platform included in the relevant sections of the application form.

Application form

Key requirements check-list in Annex 1

12 main requirements: yes-no

1. Benefits eligible countries
2. Consistent with EU principles
3. ODA eligible
4. No duplication with other operations
5. Complementary to other ops
6. Fulfils Facility objectives
7. Explains use of grant
8. Technically & financially sound
9. Helps leverage loans
10. Avoids distortions or replacing private financing
11. Impacts poverty alleviation
12. Justifies grant size

Application form

Guidance notes

- 27 pages explaining each of the 40 sections
- 9 Annexes providing explanations as well
  - *Annex VIII: useful questions to guide assessment*

HOWEVER, NOTE THAT THE PROJECT FILE IS WITH THE PARTNER FI; the form remains 'an extract'

Internal EU review occurs in preparation to the technical meeting

- Delegation
- DEVCO Geographics
- DEVCO Thematics
- EEAS
- Line DGs: ECFIN, ENV, CLIMA, MOVE, ENER etc

Not a formal inter-service consultation, but similar.

Simplified quality assessment document, including guidance on what aspects of the application to focus on depending on expertise.

Participants at the technical assessment meeting (TAM) - screen projects

- review the application form
- request additional information from FI
- ‘push and probe’ lead FI
- pre-check compliance with Annex I AF
- *recommend* whether the project should go forward to the Operational Board

Positive opinion of the Board requires full compliance

a) Meets the 12 main requirements:

1. Benefits eligible countries
2. Consistent with EU principles
3. ODA eligible
4. No duplication with other operations
5. Complementary to other ops
6. Fulfils Facility objectives
7. Explains use of grant
8. Technically & financially sound
9. Helps leverage loans
10. Avoids distortions or replacing private financing
11. Impacts poverty alleviation
12. Justifies grant size

b) AND meets 'priority criteria'

Once the Board has delivered its opinion the second Commission Decision is prepared

Contracting is driven by rules and templates

- Rules of Financial Regulation (FR)
- Specific templates :
    - **PAGODA "Blend"** (Special conditions – Article VIII): Investment Grants, Technical Assistance, Interest Rate Subsidies;
    - **PAGODA "Financial Instruments"** (Special and General Conditions): Risk sharing operations (and autonomous Technical Assistance).

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Contract templates

TA and investment grants (non-reimbursable)

- Title VIII partial
- PAGoDA "Blend"
- EIB DA template Additional Tasks Window

Risk sharing mechanisms (risk capital & guarantees) (reimbursable)

- Title VIII
- PAGoDA "FI"
- EIB DA template Risk sharing Window

General Principle

IMPORTANCE OF THE APPLICATION FORM

Application form is the main source for the content of Annex I (No template)

Main elements must have been discussed and agreed at the level of the application form during the technical assessment process; (setting up, governance structure, contracting process, indicators, who does what, clear description of the action….)

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ANNEX I: STANDARD CONTENT

1. Background
2. Rationale
3. Objectives
4. Expected Results and Indicators
5. Scope of Work and Activities
6. Location and Duration
7. Implementation Arrangements
8. Additionality
9. Sustainability
10. Reporting, monitoring and Evaluation
11. Communication and Visibility

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Special Conditions

1. **WHAT IS BOTH IN PAGODA BLEND AND FI?**

- Target leverage effect – same
- Remuneration – same
- Added value of the EU contribution

2. **WHAT IS ONLY IN PAGODA FI?**

- Selection of Financial Intermediaries
- Fiduciary account
- Exit strategy /reflows
- Governance at project level
- Reporting requirements

Monitoring of projects is with the FI and the EC

MONITORING		
Unit/Entity	**Task**	**Output**
Delegation / Geo Reg.	▪ Receive and approve periodic reports from lead FI, ensure appropriate monitoring and progress. ▪ Initiates proposals for ROM projects	▪ Corrective actions ▪ Inclusion of results in Blending Facility annual reports)
DEVCO & NEAR geographicals	▪ Participates in the selection of projects to be proposed for the ROM	▪ ROM reports
Lead FI	▪ Primary responsibility for monitoring and reporting according to contractual obligations	▪ Regular monitoring and progress reports

Internal player External player

The External Investment Plan (EIP) and the European Fund for Sustainable Development (EFSD) Guarantee

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EIP> a 3 Pillar Structure

E I P

1 European Fund for Sustainable Development (EFSD)

- To mobilise investments and improve access to finance through the

Regional Investment Platforms

(Africa + EU Neighbourhood)
- Blending Facilities
- New EFSD Guarantee

2 Technical assistance

- To help developing bankable projects which could be financed under pillar 1
- To support activities aimed at enhancing business climate under pillar 3

3 Enhanced Investment Climate

- Political and policy dialogue for economic reforms
- Support legal, institutional and regulatory frameworks
- Engaging with the private sector

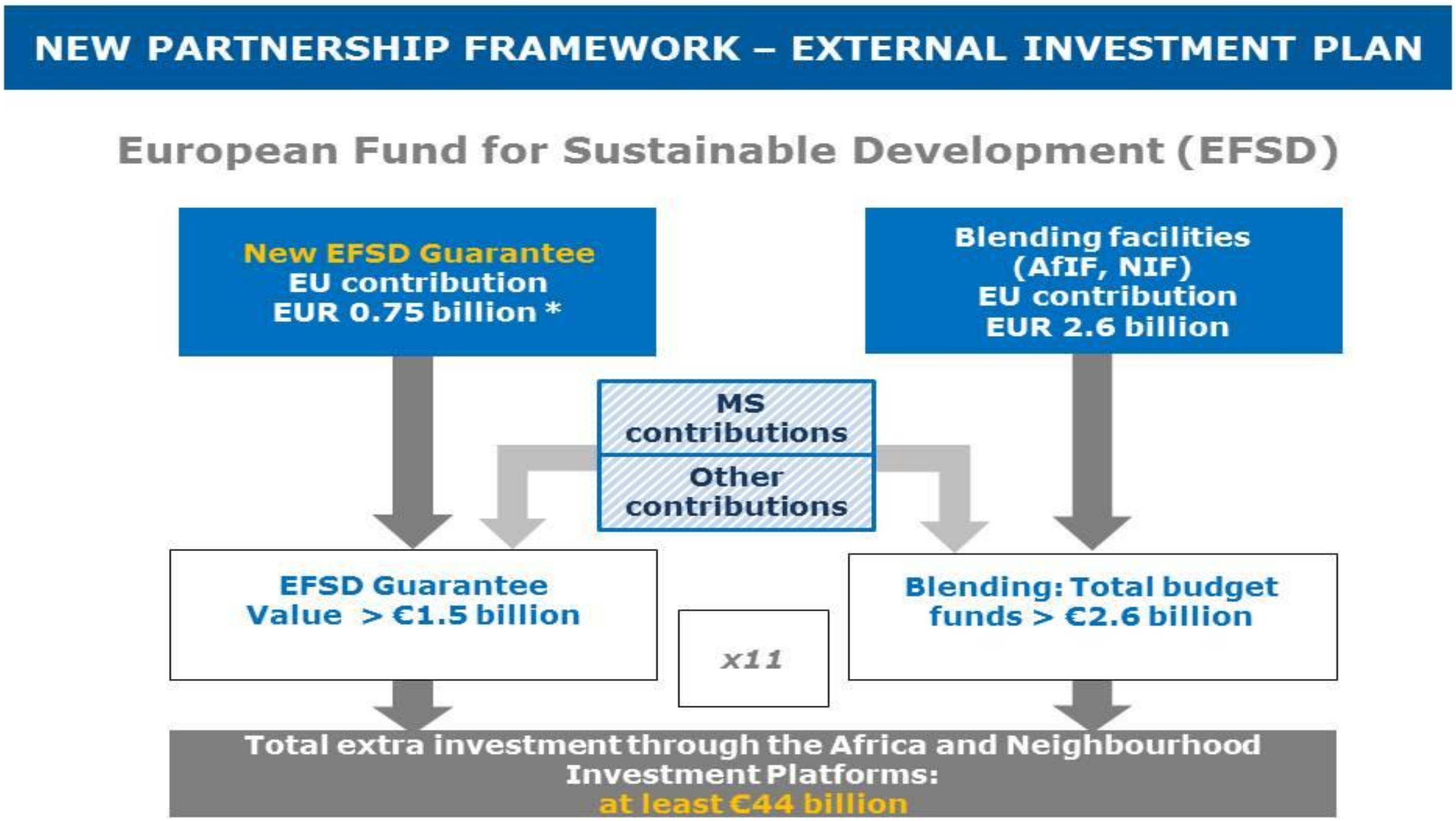
One-stop-shop / web portal

EIP> Pillar 1> EFSD> blending operations

- Africa Investment Platform
- Neighborhood Investment Platform

- ~~AfIF~~
- ~~NIF~~

EIP> Pillar 1> EFSD> resources from EU and leverage



* Plus a EUR 0.75 billion contingent liability.

EIP> Pillar 1> EFSD> EFSD Guarantee

- The **EFSD Guarantee** will be **an unconditional, irrevocable guarantee on first demand.**

- It serves as **a risk mitigation mechanism** to stimulate investments in Africa and the Neighbourhood.

- It provides **guarantee capacity for credit enhancement** - will ultimately benefit the final investments and allow risk sharing with other investors, notably private actors.

- Will leverage additional financing, in particular from the **private sector** *(crowding in),* by reducing the risk associated with specific operations.

- Will be cushioned by a **guarantee fund** (*cash liquidity*).

EIP> Pillar 1> EFSD> EFSD Guarantee> **eligibility criteria (EFSD Regulation Art. 3, 9, 10.1., 13.6.)**

Objectives, i.a.

- ✓ SDG and root causes of irregular migration for economic reasons
- ✓ Socio economic sectors
- ✓ Leverage private sector finance

Eligible instruments/risks covered, i.a.

- ✓ Loan (including local currency loans)
- ✓ Equity or quasi equity participations
- ✓ Guarantees or counter-guarantees
- ✓ Capital market instruments
- ✓ Any other form of funding/credit enhancement/insurance

Other criteria

- ✓ Additionality
- ✓ Economically and financially viable (with regard to specific circumstances)
- ✓ Technically viable
- ✓ Socially and environmentally sustainable

First proposed investment windows

1. **Sustainable Energy and Connectivity**
2. **Micro, Small and Medium Enterprises (MSMEs) Financing**
3. **Sustainable Agriculture, Rural Entrepreneurs and Agribusiness**
4. **Sustainable Cities**
5. **Digital for Development**

Cross-cutting objective: local currency financing, focus on fragile states

1. Sustainable Energy and Connectivity

- Guarantees covering off-take agreements
- Guarantees to support energy performance contracting
- Guarantees to promote the development of capital markets, such as green bonds
- Credit enhancement for investment funds

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2. Micro Small Medium Enterprises (MSMEs) Financing

Risk mitigation for local MSMEs Finance

Promoting start-ups and innovation

Financial inclusion to catalyse value- additive equity financing to young innovative enterprises and entrepreneurs

3. Sustainable Agriculture, Rural Entrepreneurs and Agribusiness

- Given the high risk profile of agriculture and agribusiness environment guarantees could be used to cover equity contributions or debt

- Enhancing long-term financing for commercial and non-banking financial institutions

- Structured funds for agribusiness finance could benefit from first loss guarantees to bring the risk profile to investment grade for private sector investors.

4. Sustainable Cities

- Guarantees to local service providers, to grant further access to private finance
- Credit enhancement for private actors investing in municipal infrastructure and services
- Guarantees to private sector operators to roll out climate-smart technologies

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5. Digital for Development

- Facilitating private sector investment in connecting African citizens, businesses and public institutions

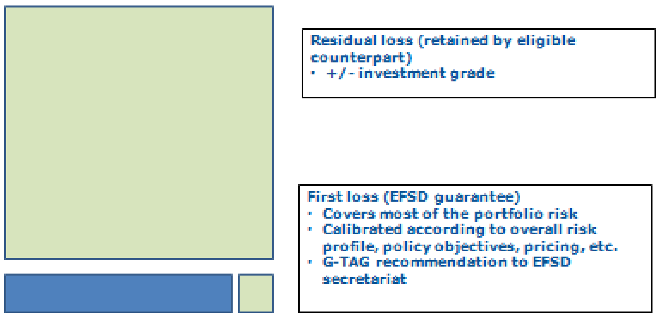
- Guarantees for digital service projects (i.e. e-Government services)

- Improving access to finance for African start-ups and African-EU start up partnerships

Typology of basic guarantee structures

Portfolio first-loss guarantee

Possible applications (examples):
- credit enhance partner FI's exposure to innovative guarantee products addressing bottlenecks to private investment
- backstop loan guarantees granted to local partner banks
- or similar

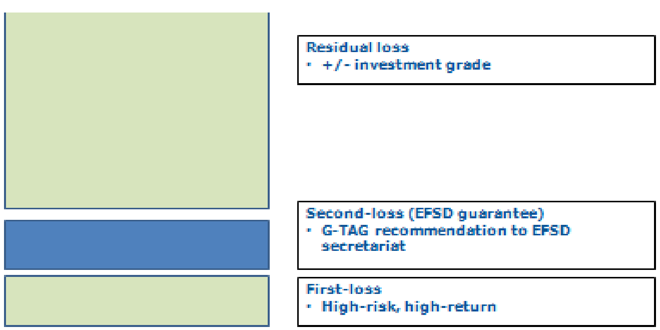


Pari-passu guarantee

Possible applications (examples):
- (partially) guaranteeing loan portfolios
- providing capital relief
- other

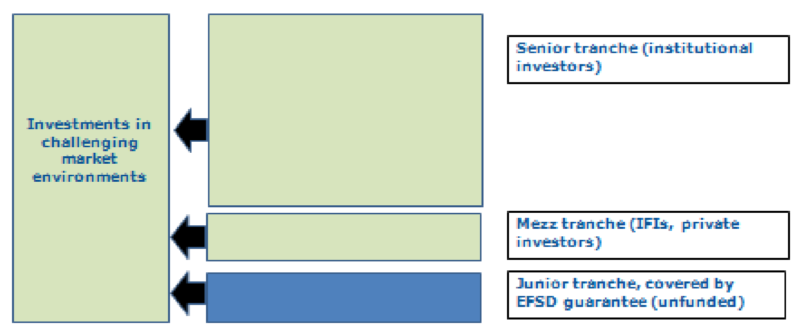
Second-loss guarantee

Possible applications (examples):
- Enhance risk-return profiles of first-loss and senior portfolio tranches (and thus attractiveness to investors)
- Enhance risk profile of an insurance portfolio (and thus affordability of premiums/ availability of insurance cover)
- other



Layered fund structures

Possible applications (examples):
- Investment funds attracting private investors into developing country markets
- Debt, equity, VC
- Other
- Funded solutions possible from "traditional" blending instruments



EIP> Pillar 1> EFSD> EFSD Guarantee>
Example 1: SME lending

EU COM

Guarantee Agreement

LEAD FINANCIAL INSTITUTION

Guarantee Agreement

PFI | PFI | PFI | PFI | PFI | PFI | PFI

X% guarantee provided to PFIs for their lending to SMEs (capped at X% of SME portfolio)

SME Borrowers

EIP> Pillar 1> EFSD> EFSD Guarantee> Example 2: Structured fund (Renewable Energy)

EU COM

Guarantee Agreement

LEAD FINANCIAL INSTITUTION

'A' SHARES
Private investors & lenders

'B' SHARES
Public Finance Institutions

'C' SHARES
First loss tranche

Renewable Energy Project 1

Renewable Energy Project 2

Renewable Energy Project 3

Renewable Energy Project 4

European Commission

EIP> Pillar 1> EFSD> EFSD Guarantee>
Example 3: Direct guarantees to beneficiaries

EU COM

Guarantee Agreement

LEAD FINANCIAL INSTITUTION

X% guarantee provided to beneficiary (capped at X% of investment)

Beneficiaries (e.g. agriculture business)

European Commission

The EFSD Guarantee Risk Policy Framework (GRPF): Purpose

- Sets out the **risk-taking capacity** and thus **the type of financing instruments** the EFSD Guarantee can support.
- Translates **political** guidance of EFSD Regulation into **technical** guidance for eligible financing institutions.
- Prepared by the Commission with the assistance of the EIB for banking-related calculations
- Forms the **basis for the work of the Guarantee Technical Assessment Group (G-TAG),**
- **Informs the Operational Board** about the **aggregate risk exposure** the EFSD Guarantee is set to take.

Main Elements

- Guarantee fund acts as **liquidity cushion** to ensure prompt payments in event of calls
- Under **no circumstances** can the total amount of guarantees granted exceed **the maximum level of the EFSD guarantee of EUR 1.5 billion**
- **Remuneration** of guarantee to reflect risk level, but
- **Concessional terms** can be given in fragile/ conflict affected countries, LDCs and HIPCs
- As a result, guarantee fund will **gradually deplete** over the life of the guarantee

European Commission

Main Elements

- The EFSD is a development cooperation instrument.
- The Commission will apply **zero cost of capital for the calculation of the risk premium** and it will generally **price only the expected loss,** reflecting the origin of the EFSD funds.
- A **mark-up** can be applied for large individual transactions, which can lead to **risk concentrations**.
- The Commission will thus **fully pass on to the recipients of the guarantee the benefits** the portfolio diversification expected across the different investment windows.
- For each PIP, **G-TAG will provide a recommendation** on the guarantee remuneration. This will include the need to **avoid market distortions**.

Main Elements

- Eligible counterparts will be required to **pass on the benefits** of the guarantee to the final beneficiaries.
- The duration of the guarantees are not foreseen to generally exceed **15 years**.
- **After 2020**, the high risks taken by the EFSD Guarantee are expected to lead to a gradual depletion of the guarantee fund.

EIP> Pillar 1> EFSD> EFSD governance

"shall ***ADVISE*** the Commission on the ***STRATEGIC*** orientations and priorities of the EFSD guarantee investments including indicative and thematic coverage for investment windows"... "shall also support overall ***COORDINATION, COMPLEMENTARITY*** and ***COHERENCE*** between the" regional investment platforms, the three pillars , the Union's efforts on migration and EIB's operations

STRATEGIC BOARD

European Commission, HRVP Representative, EU Member States, EIB

+ European Parliament , IFIs, partner countries as observers

"***SUPPORTS*** the Commission in defining regional and sectorial ***INVESTMENT GOALS***, regional, sectorial and thematic investment windows, formulates ***OPINION*** on the blending operation and discusses the use of the EFSD Guarantee in line with the investment windows to be defined"

OPERATIONAL BOARD

EU Commission, EEAS & EU Member States

SECRETARIAT

Web Portal
(one-stop-shop)

External Expertise

Commission Services

AFRICA INVESTMENT PLATFORM

NEIGHBORHOOD INVESTMENT PLATFORM

Regional investment platforms for investments and portfolios of investments in specific regions, countries or sectors

Cooperation
and

EIP> Pillar 1> EFSD> EFSD Guarantee>
Application process and assessment

STEP 1:
drafting a Proposed Investments Programs under a specific Investment Window

INVESTMENT WINDOW

- **IFI Proposal**
- **EDFI Proposal**
- **Priv. Sect. Proposal**

STEP 2:
Submission of the proposals

EFSD Secretariat – One Stop Shop
(Pre-screening)
G-TAG
(Financial Assessment)

STEP 3:
assessment

Operational Board of the RIP
(Opinion)

DECISION BY THE COMMISSION

STEP 3:
Signature of Guarantee Agreements

- **COM – IFI Guarantee Agreem.**
- **COM – EDFI Guarantee Agreem.**
- **COM – Priv. Sect.** *(Pillar Assessed)* **Guarantee Agrem.**

STEP 4:
Financing phase

Final Beneficiaries | **Final Beneficiaries** | **Final Beneficiaries** | **Final Beneficiaries** | **Final Beneficiaries** | **Final Beneficiaries**

Other (mainly private) investors

The proposed application template

- *Same structure as the template for blending*
- *Adapted to the particularities of the Guarantee:*

1. For requesting EU financial support under the form of a Guarantee through the EFSD

2. Referring to a portfolio of projects (not individual projects)

Adaptation to EFSD Guarantee:

Part 1 *Structure of the existing bending template*

Part 2 *New part added to gather information needed for the G-TAG risk assessment and to comply with Regulation / requests of European Parliament*

Annex 1 and TA requests

Annex I (requirements checklist):

- *Adapted to refer to the eligibility criteria and objectives established in the regulation.*

- *One single application form can be used, should some technical assistance be needed for the implementation of a portfolio being presented for the Guarantee.*

European Commission

Pillar 2: Technical Assistance in support of Pillars 1 and 3

Support Pillar 3

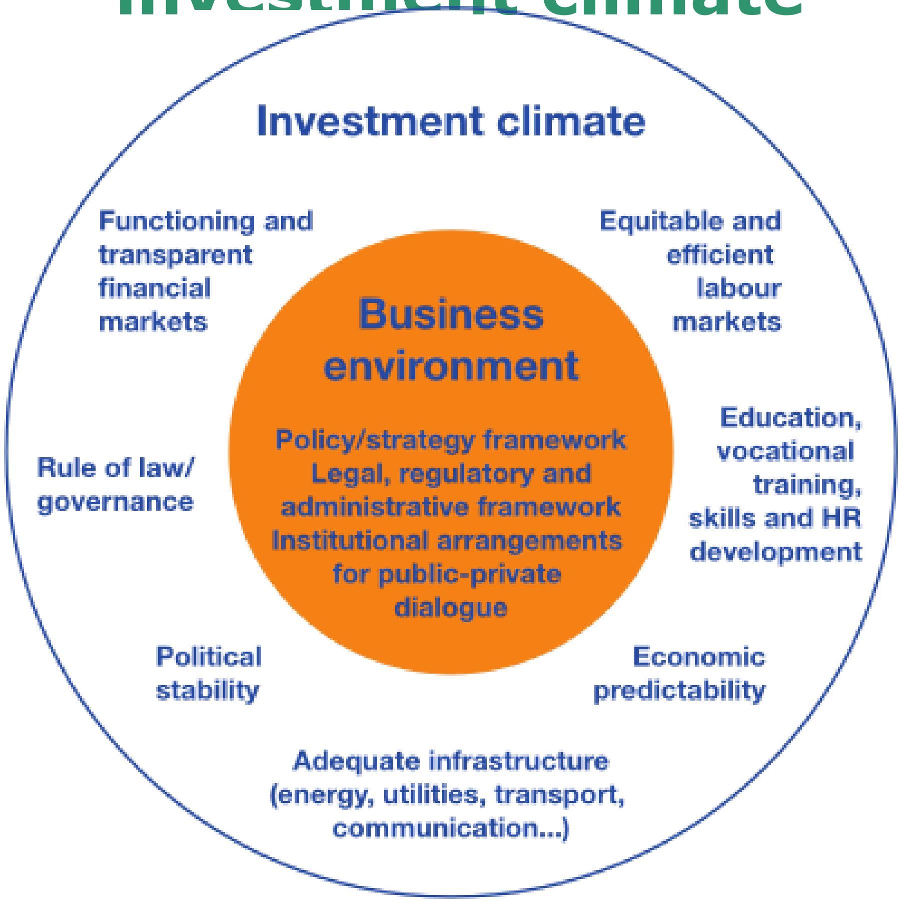
- Market intelligence, Investment Climate Analysis, Dialogue
- Government Reforms
- Capacity building and value chains upgrading

Pillar 2

- Investment pre-identification phase
- Investment preparation
- Investment phase

Support Pillar 1

Pillar 3: Promoting a conducive investment climate



Pillar 3: Promoting a conducive investment climate

Structured dialogue with business

Bring in private sector perspective on business constraints
(SB4A)

Country analysis: sector and value chains

Market intelligence, investment opportunities, in key sectors and value chains

Policy and political dialogue with partner countries

Governance, reforms, value chain upgrading, TA, budget support

Coherence and complementarity

Key role of EU Delegations

Pillar 3: Support to value chains development and upgrading

Identification of value chains with high potential

Increase local value added

Development and upgrading

Thematic priorities: economic empowerment of women and youth; decent work and living wages; transparency and traceability in the value chain

Pillar 3: Structured dialogue with private sector

THE SUSTAINABLE BUSINESS FOR AFRICA PLATFORM (SB4A)

African and EU Business perspective on addressing constraints in investment climate

Pillar 3: Sustainable Business for Africa Platform (SB4A) Structured Dialogue for Private and Public Sector

Building on existing work…

Bring in African and EU Business perspective on constraints and ideas for better investment climate

Launched at EU-Africa Business Forum, Abidjan 27/11/2017

European Commission

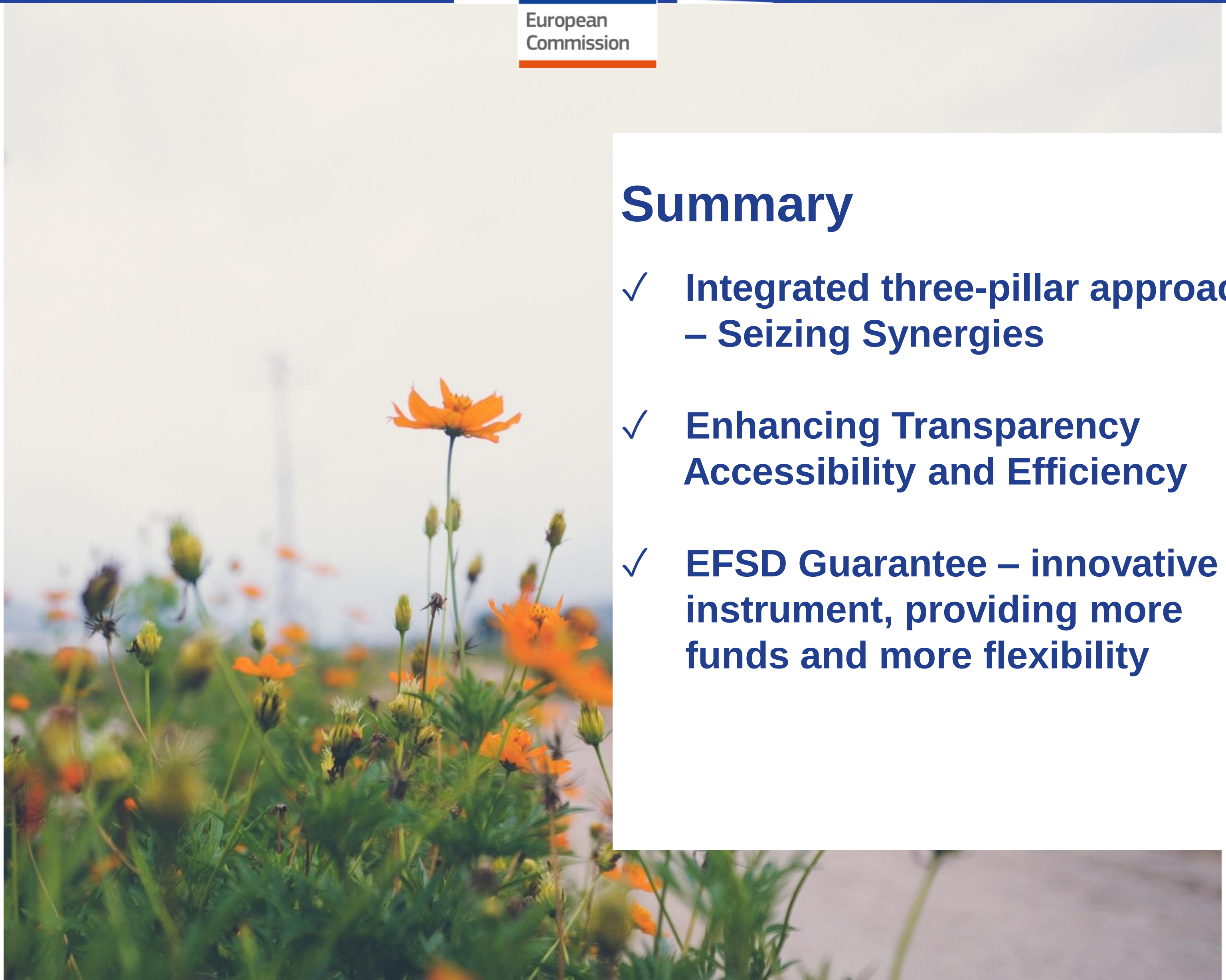
The EIP – Find your way and influence!

✓ One-stop-shop

- Single entry point for investors and partners
- Enhancing accessibility

✓ Structured Dialogue

- Identifying key constraints to investment
- Country, sector and strategic level - EU Delegations



Summary

- ✓ Integrated three-pillar approach – Seizing Synergies
- ✓ Enhancing Transparency Accessibility and Efficiency
- ✓ EFSD Guarantee – innovative instrument, providing more funds and more flexibility