FACTSHEET

EUROPEAN INTERNATIONAL CONTRACTORS

EU BLENDING 2.0

October 2016

POLICY CONTEXT

The European Union announced upon the adoption of the “Agenda for Change of EU Development Policy” in October 2011 to develop new ways of engaging with the private sector with a view to leveraging private sector activity and resources for delivering public goods. The EU further expressed its readiness to explore up-front grant funding and risk-sharing mechanisms to catalyse public-private partnerships (PPP) and private investment. At the same time, the EU announced to only invest in infrastructure, where the private sector is unable to do so on commercial terms. Until the end of 2014 more than €2 billion of EU grants have leveraged almost €20 billion of loans by finance institutions and regional development banks and lead to investments in EU partner countries of more than €44 billion. In view of the so-called “Post 2015 Sustainable Development Goals” the EU has announced to invest up to €8 billion as a key contribution the with the aim to generate over €40 billion from public finance institutions which should help mobilise over €100 billion by 2020.

EIC POSITION

EIC welcomes this new direction of EU development policy which aims at leveraging private sector capital and expertise for infrastructure investments in developing countries through EU regional blending facilities. As concerns Africa, however, the potential to develop PPP and private investments in the infrastructure sector is presently limited. Against that background, EIC considers the “mixed credit scheme”, i.e. financing packages in which concessional loans and market rate loans are combined, as a more appropriate option to attract non-developmental sources of finance for so-called “commercially non-viable” infrastructure investments in Africa.

EIC elaborated an innovative proposal that takes the conventional EU Blending (1.0) option of injecting EU grant money in the form of interest rate subsidies into concessional loans to African Governments one step further. EIC’s innovative “ITF Blending 2.0” concept suggests that eligible Development Finance Institutions, instead of disbursing the full amount of concessional loans on their own, could syndicate a certain tranche of the loan amongst commercial banks to the extent that such funds can be guaranteed by comprehensive insurance cover from export credit agencies (ECAs). This “Blending 2.0” model could catalyze additional private sector finance for typical public sector infrastructure projects that do not generate sufficient direct project income, but are critical for social and economic development of the country, including transport and water projects.

STATUS QUO

On EIC's initiative the European Commission's DG DEVCO hosted in July 2014 a Roundtable in order to assess the options and obstacles with regard to engaging ECAs more strongly into the EU's Blending activities with the European Development Finance Institutions (DFIs). The event gathered for the first time various units of the European Commission, of the EIB and the EBRD, as well as representatives from several ECAs, from the European Banking Federation and from EIC around one table for an expert discussion on a high technical level. DG DEVCO concurs that EIC's "Blending 2.0" proposal is generally compatible with the Blending Framework whereas DFIs, by contrast, are skeptical towards "Blending 2.0" as they have a vested interest to continue with current blending practices, given that they are the main beneficiaries of EU grants.

In September 2015, EIC President Dessoy had presented the EIC concept for a revised Blending Mechanism to EU Development Commissioner Neven Mimica. During the talks Commissioner Mimica recalled the importance of catalysing additional resources from the private sector in order for the global development community to deliver on its far-reaching post-2015 Development Agenda. In October 2015, EIC presented its "Blending 2.0" concept at a meeting of the Technical Group on Private Sector Participation of the EU Platform for Blending in External Cooperation (EUBEC). The EIC proposition was supported by the European export credit agencies from Belgium and Denmark. The European Banking Federation (EBF) added that the EIC concept would improve the competitive situation for European exporters, in particular in Africa, where their non-OECD competitors had easier access to subsidised financing

In September 2016, the EU Commission proposed an ambitious External Investment Plan (EIP) in order to support investment in EU partner countries in Africa and also EU Neighbourhood countries. With EU funds totalling €3.4 billion until 2020, the new "European Fund for Sustainable Development" is expected to mobilise up to €44 billion additional investment, and if EU Member States match this contribution fully, it may mobilise more than €88 billion of additional investment. The EIP targets socio-economic sectors and in particular infrastructure, including energy, water, transport, environmental and social infrastructure. The EFSD will also create a new guarantee instrument, which will provide partial guarantees to intermediary financing institutions, which in turn will provide support, via loans, guarantees, equity or similar products, to final beneficiaries. The objective is to leverage additional financing, in particular from the private sector, as the EFSD guarantee will reduce the risk for private investment and absorb potential losses incurred, e.g. by public financing institutions and private sector investors.

WHAT'S NEXT?

EIC's Working Group "Africa" will study the new External Investment Plan (EIP) and will submit its proposals for amendment so that the new EU financial risk mitigation instrument can also be applied for privately and publicly financed transport infrastructure projects in Africa and the Neighbourhood countries.

DID YOU KNOW …

With €58 billion in 2014 the EU collectively provides more Official Development Assistance (ODA) than all other donors combined and is committed to achieving the UN 0.70% ODA/Gross National Income target within the time frame of the post-2015 agenda.