Sida and EU blending

October 2016

WHAT IS BLENDING?

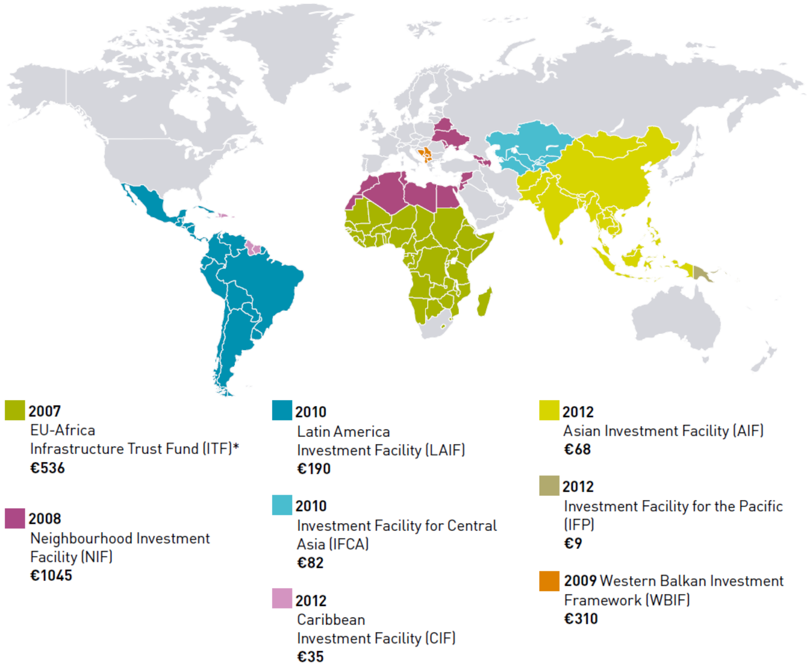
Blending combines grants with loans, guarantees and investment capital. It is recognized as an important vehicle for leveraging additional resources and increasing the impact of EU aid.

A large proportion of the EU aid budget is used for blending, and it is set to increase. The EU will during 2014-2020 allocate 5 billion euros in grants to blending.

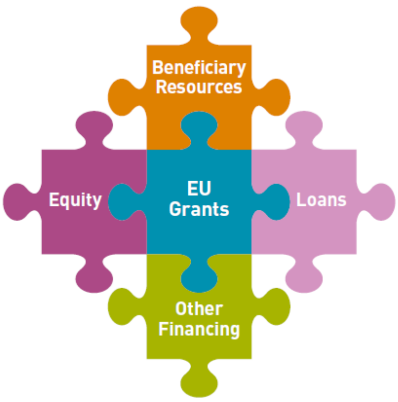
Blending refers to the combination of EU grants with loans or equity from public and/or private financiers. Beneficiary resources as well as other financing, such as guarantees, can also form part of the blending.

The grant element is normally provided by official development assistance, whereas the loans are provided from publicly owned institutions such as the International Financial Institutions or commercial lenders.

The grants can take different forms. Investment grants is the most common form (47%) followed by technical assistance (31%). Interest rate subsidies (11%), risk capital (6%), and guarantees (4%) are used to a lesser extent (DG DEVCO, 2015).



EU grant contributions approved by facility 2007-2014, million euros (EU, 2015).



HOW IT WORKS

There are eight regional investment facilities supporting projects contributing to the fulfilment of EU and partner country strategic development goals. The support is directed towards mainly public investment projects.

Projects

To date, more than half of the grants allocated to blending projects support energy and transport infrastructure initiatives. Around one fourth of the grants has been invested in social infrastructure related to access to clean water, waste treatment, housing, health, urban as well as the environment. One tenth of the grant funds support the local private sector in strengthening local production capacity and fostering job creation.

The projects range from small, starting at 0,3 million euro, to those of more than 1 billion euros. The regional investment facilities allocate funding to single investment projects, and in some cases to a separate facility or fund. In the case of sub-facilities, the financial institutions select and finance initiatives, which involve local financier partners.

Governance

Generally the governance structure and the decision making of each facility consist of a three tiered structure with a strategic body, an executive body and a technical body.

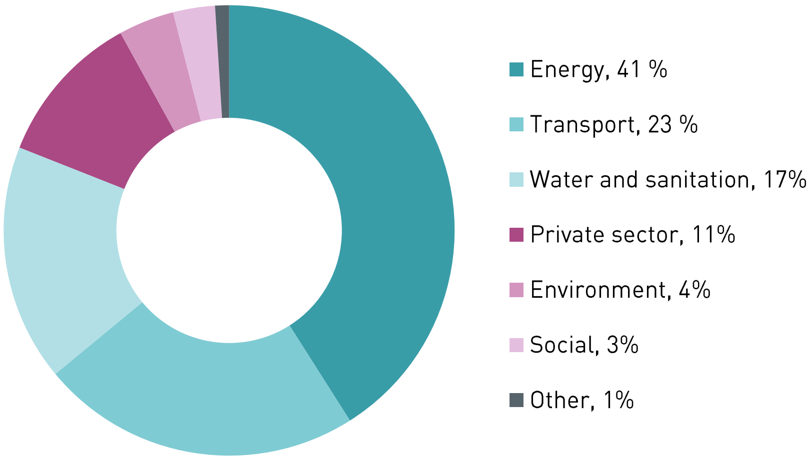
The strategic body (often referred to as the Strategic board or Steering committee) is responsible for setting the overall strategy of the financing facility. Strategic issues, orientations and priorities of the facility are discussed with partner countries and relevant regional organisations in specific dedicated strategic meetings.

The executive body (Operational board or Executive committee) is responsible for formulating opinions on project proposals and approving individual grants. The operational boards are chaired by the European Commission, and include the European External Action Service (EEAS) and EU member states as voting members. Financial institutions participate as observers.

The technical body (Project financiers group) establishes a common project pipeline and selects the projects to be presented to the executive body. The body consists of financial institutions and the European Commission.

Process

The financial institutions identify and select projects on the basis of their own financial assessment criteria and apply for a grant specifying the type and amount. The process of project development involves collaboration with the European Commission, notably within the technical bodies and at EU delegation level. The identification of projects builds on the programming process and on the approved policy priorities by the European Commission, EEAS and partner countries. It further builds on strategic discussions held within each blending facility in the context of the strategic board/steering committee. Discussions held on the analysis of the portfolio of approved projects and on the pipeline of projects are also taken into consideration.



Approval of grants by sector, excluding WBIF (EU, 2015).

In general the EU regional blending facilities accept project proposals from eligible financial institutions only. These are defined differently under each facility but usually consist of European multilateral and European bilateral financial institutions. According to EU regulations for financial instruments, financial instruments shall be implemented whenever possible under the lead of the European Investment Bank, a multilateral European financial institutions such as the European Bank for Reconstruction and Development, or a bilateral European financial institution.

The lead financial institution of a project monitors the implementation of the project, and reports on its progress. In many cases, more than one financial institution is involved.

Funding

The blending facilities are funded with financing from the EU financing instruments, direct contributions from EU member states, and loans from the European development finance institutions.

There are four EU financing instruments, namely the European Development Fund (EDF), European Neighbourhood Instrument (ENI), Development Cooperation Instrument (DCI) and Instrument for Pre-Accession Assistance (IPA).

SIDA AND EU BLENDING

Since April 2015, Sida has been operating the two year project Sida and EU blending. The aim of the project is to integrate environment and climate benefits, social inclusion and gender equality in investments financed through blending. A further goal is to increase leverage from Sida's co-financing with EU and European Financial Institutions through blending, and to mobilise additional financing.

CONTACT

For more information, please contact magdalena.svensson@sida.se, ingrid.hultquist@sida.se, or see the report *Mapping of EU blending:* http://www.sida.se/contentassets/9a39885e4ac2479493ef5af86ea3fd9b/309f3f20-7c1e-47e6-82a0-a92ff681733c.pdf.

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